



Office of Inspector General
U.S. Government Accountability Office

Contract Closeout:

GAO has Taken Steps to Strengthen Contract Closeout Controls, but Additional Actions are Needed

August 2018
OIG-18-5



Office of Inspector General U.S. Government Accountability Office Report Highlights

August 27, 2018

CONTRACT CLOSEOUT

GAO has Taken Steps to Strengthen Contract Closeout Controls, but Additional Actions are Needed

Objective

This report addresses the extent to which GAO maintained effective contract closeout controls for reducing financial, operational, and compliance risks through fiscal year 2017.

What OIG Found

Contract closeout involves a number of tasks, such as verifying that goods or services were provided, making final payment to the contractor, and deobligating excess funds. As of September 2015, GAO identified over 1,800 of contracts awaiting closeout, worth more than half a billion dollars, which we attributed to weak controls in our 2016 contract management audit report. Following our report, GAO reduced its backlog of contracts awaiting closeout, and as of June 2017, had a closeout backlog of 390 contracts with a total obligated amount of \$330.8 million. GAO's success was due, in large part, to (1) the addition of staff assigned specifically to complete backlogged closeouts, and (2) management oversight and monitoring through periodic backlog contract closeout status reports. In addition, GAO developed and implemented a checklist to document the closeout of those contracts with award dates in or after fiscal year 2015. We found that steps taken by GAO to improve its contract closeout process had a positive effect on ensuring its compliance with federal and agency requirements.

However, we identified areas where additional actions are needed to further strengthen GAO's contract closeout controls and reduce contract risk consistent with the Federal Acquisition Regulation (FAR) and GAO policy. These actions pertain to three areas: records retention, accuracy of contract type information in GAO's procurement system, and risks that GAO's new contract closeout checklist does not fully cover key closeout requirements. In addition, we found that while GAO migrated to a new shared service provider and financial management/procurement system in fiscal year 2018, it has not fully updated its acquisition policies and procedures to reflect its processes and controls within the new system.

What OIG Recommends

OIG is making five recommendations intended to further strengthen GAO's closeout processes, controls, and related documentation to help ensure GAO's compliance with federal and agency requirements. Specifically, that GAO develop, document, and implement processes to ensure that records are maintained in accordance with agency record retention policy; contract type is clearly identified and accurately recorded; and flexibly-priced contracts are closely monitored. In addition, that GAO update its closeout checklist to ensure that required monitoring of flexibly-priced contracts is performed prior to closeout, and complete the update of its Standard Operating Procedures to fully reflect GAO's migration to its new shared service provider and system. GAO agreed with our recommendations and described actions taken in response to our report.



O I G

Office of Inspector General

United States Government Accountability Office

August 27, 2018

To: Gene L. Dodaro
Comptroller General of the United States

From: Adam R. Trzeciak
Inspector General

Subject: Transmittal of Office of Inspector General's (OIG) Audit Report

Attached for your information is our report, *Contract Closeout: GAO has Taken Steps to Strengthen Contract Closeout Controls, but Additional Actions are Needed* (OIG-18-5). The audit objective was to evaluate the extent to which GAO maintained effective contract closeout controls for reducing financial, operational, and compliance risks through fiscal year 2017.

The report contains five recommendations aimed at further strengthening GAO's closeout processes, controls, and related documentation to help ensure GAO's compliance with federal and agency requirements. GAO agreed with our recommendations and described actions taken in response to our report. Management comments are included in Appendix IV of our report.

We are sending copies of this report to the Executive Committee, GAO's Congressional Oversight Committees, Audit Advisory Committee, and select GAO managers, as appropriate. The report is also available on GAO's website at <http://www.gao.gov/about/workforce/ig.html>.

If you have questions about this report, please contact me at (202) 512-5748 or trzeciaka@gao.gov.

Attachment

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Abbreviations

AM	Acquisition Management
COR	Contracting Officer's Representative
FAR	Federal Acquisition Regulation
LBFMS	Legislative Branch Financial Management System
OIG	Office of Inspector General
PRISM	Portable Reusable Integrated Software Modules
SOP	Standard Operating Procedure

Introduction

GAO spends millions of dollars annually for goods and services obtained through contracts. At the end of a contract, federal agencies are required to close out the contract by concluding or resolving all contractual requirements. This process involves a number of tasks, such as verifying that goods or services were provided, making final payment to the contractor, and deobligating excess funds. It is generally the last opportunity for an agency to ensure the government received what it contracted for and to detect and recover erroneous payments. In 2016, we reported that while efforts were underway to address the issue, GAO had a large number of contracts, worth more than half a billion dollars, awaiting closeout due to weak controls for ensuring timely contract closeout.¹ Without well-designed and implemented contract closeout controls, GAO's ability to prevent, detect, and recover from acquisition risks, such as property loss, financial liability, and overpayments, resulting from its contracting activities is limited.

Objective, Scope, and Methodology

This report addresses the extent to which GAO maintained effective contract closeout controls for reducing financial, operational, and compliance risks through fiscal year 2017. GAO maintained closeout documentation electronically in the Portable Reusable Integrated Software Modules (PRISM) and utilized DELPHI as its accounting system. In fiscal year 2018, GAO migrated to a new shared service provider and financial management / procurement system, Legislative Branch Financial Management System (LBFMS)-Momentum (Momentum) and is in the process of updating, developing, and implementing controls for the new system. While our report is focused on PRISM, our findings should help inform GAO's efforts to transform its contract management policy and business processes and procedures as they relate to Momentum.

To achieve our audit objective, we obtained an understanding of GAO policy, procedures, and guidance related to contract closeout and the Federal Acquisition Regulation (FAR). We also interviewed acquisition managers in GAO's Financial Management and Business Operations, Acquisition Management (AM) office responsible for contract closeout functions and activities, to further our understanding of GAO policy and procedures and their specific roles and responsibilities regarding contract closeout. Based on these discussions and documentation review, we identified a list of key controls applicable to GAO contract closeouts. Appendix II provides the list of key contract closeout controls.

To assess the operational effectiveness of GAO's closeout controls, we reviewed a June 2017 contract closeout report from PRISM that listed 2,312 contracts closed by GAO since implementing PRISM in fiscal year 2008. For sampling purposes, we focused on contracts with a value of \$150,000 and above. As a result, our test population consisted of 220 contracts with closure dates from March 2, 2011, through June 16, 2017.

We then selected a random sample of 20 closed contracts from our test population. Further, we supplemented our random sample with the 5 remaining closed contracts in our test population that were awarded in fiscal year 2015 or later to better assess the

¹ OIG, Contract Management: Improvements Would Strengthen Controls and Reduce Risk, [OIG-16-3](#) (Washington, D.C.: July 1, 2016).

effectiveness of a key control GAO implemented for contracts awarded during that timeframe. In total, we reviewed 25 closed contracts to evaluate GAO's closeout processes and controls. We assessed the reliability of our test population, and determined that the data were sufficiently reliable for the purposes of our review. Appendix I provides a full description of our scope and methodology.

We conducted this performance audit from May 2017 through August 2018 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.

Background

The FAR contains rules, standards, and requirements related to federal acquisition of goods and services with appropriated funds. As a legislative branch agency, GAO is not required to follow the FAR. However, as a matter of policy, GAO has indicated that it generally follows the FAR in conducting its acquisition and contract management activities. Within GAO, AM is the office responsible for administering GAO's contract management activities, including establishing, communicating, and monitoring compliance with agency policy and procedures. AM is divided into two procurement groups: Procurement Policy & Oversight Division and Procurement Operations.

GAO's contract closeout policy, processes, and procedures are outlined in several documents, including its Contracting Officer's Representative (COR) Handbook, and in two separate standard operating procedures (SOP). The Financial Management and Business Operations Acquisition Management Standard Operating Procedure (AM's SOP) contains a statement noting that contract files shall be closed in accordance with FAR Subpart 4.804-5, *Procedures for Closing Out Contract Files*. GAO's Contract Deobligation/Closeout Standard Operating Procedures provide specific guidance regarding the closeout process, including review and follow-up on outstanding open obligations following the end of contract performance or termination.

As described in GAO's policies and procedures, and confirmed through interviews with key acquisition directors and staff, GAO's contract closeout process includes a number of administrative actions that are performed by its contracting officers and CORs. These steps, among others, include procedures to ensure that all contract requirements have been satisfied, government property in the possession of the contractor was returned to GAO, and all administrative matters are complete, such as adjustments for any over-or-under-payments based on the final invoice and deobligation of excess funds. See appendix II for a list of key contract closeout controls.

As of September 2015, GAO had identified 1,878 contracts with a total obligated amount of over \$599 million that were pending contract closeout. In response to our prior work regarding GAO contract management controls, as of April 2016, an official indicated that the backlog was reduced to 1,183 contracts with a total obligated amount of \$515.6 million.²

² [OIG-16-3](#).

GAO has Taken Steps to Strengthen its Contract Closeout Controls, but Improvements are Needed

Following our July 2016 report, GAO continued work on reducing its backlog of contracts awaiting closeout, and as of June 2017, had a closeout backlog of 390 contracts with a total obligated amount of \$330.8 million. GAO's success was due, in large part, to:

- the addition of staff assigned specifically to complete backlogged closeouts; and
- management oversight and monitoring through periodic backlog contract closeout status reports.

In addition, GAO implemented a closeout checklist for those contracts with award dates in or after fiscal year 2015. We found that AM's use of the closeout checklist had an overall positive impact on the performance of its closeout procedures. Specifically the checklist provided a mechanism for AM's officials to document closeout steps that were not consistently documented by GAO for contracts that were not subject to the checklist. GAO applied the checklist to 9 of the 25 closed contracts in our sample, including 3 that were awarded prior to fiscal year 2015.³ See appendix III for a detailed list of our test results.

While the checklist had an overall positive impact on GAO's contract closeouts, our review identified areas where additional actions are needed to further strengthen GAO's contract closeout controls and reduce contract risk consistent with the FAR and GAO policy. These actions pertain to three issues: records retention, accuracy of contract type information, and risks that GAO's new contract closeout checklist does not fully cover key closeout requirements. Further, we found that while GAO migrated to a new financial management/procurement system (Momentum), it has not fully updated its acquisition policies and procedures to reflect its processes and controls within the new system.

Records retention - The FAR specifies that contract documentation must be maintained for a minimum of 6 years after the final payment,⁴ and requires that agencies prescribe procedures for the handling, storing, and disposing of contract files.⁵ AM's SOP states that the retention period for contract closeout documentation "shall be in accordance with GAO retention requirements, which is currently seven years." Specifically, GAO's record retention policy requires contract documentation to be maintained seven years after the activity is completed. In addition, the Standards for Internal Control in the Federal Government require agencies to maintain documentation for all transactions and significant events in a manner that allows the documentation to be readily available for examination.⁶

³ According to the Procurement Policy & Oversight Division director use of the closeout checklist was limited to those contracts that were awarded in or after fiscal year 2015 due to concerns that the responsible contract management officials may have separated from GAO and therefore would be unavailable to assist in completing the checklist. However, AM did complete a checklist for three of the older contracts in our sample because the director was aware that the CORs responsible for these contracts were still working at GAO and therefore available to assist with contract closeout.

⁴ FAR § 4.805, Table 4-1 – Retention Periods.

⁵ FAR § 4.805(a).

⁶ GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

Based on our review, we found that GAO did not retain all closeout documentation before the required record retention period had ended for 3 of the 25 closed contracts in our sample. For example, AM did not have documentation showing that it verified that GAO had received and satisfactorily accepted all required services or supplies prior to closing the contracts, received the contractor's final invoice, or completed a funds review.

The Procurement Policy & Oversight Division director indicated that AM followed its 2010 SOP to close out these contracts, which states that contract documentation must be maintained for 7 years after a contract is closed. The director added that the SOP did not require AM to upload the closeout documentation into PRISM and that the closeout documentation associated with the three contracts was destroyed. According to PRISM, the contract closure dates for these three contracts were: March 2011, January 2013, and February 2013, respectively. Therefore, the records retention period for these contracts had not expired and the documentation should have been available for audit at the time of our testing consistent with GAO policy and internal control standards for documentation. None of the 220 contracts in our test population of closed contracts had an expired record retention period at the time of our testing (June 2017).

Ensuring compliance with its record retention policy will be critical for GAO's migration to Momentum. To facilitate GAO's migration from PRISM into Momentum, GAO's controller directed AM to convert into Momentum only those contracts in PRISM with a performance period that had not yet ended at the time of the system migration (October 2017). The controller also instructed AM to mark as closed in PRISM all contracts that had an expired period of performance, and to track these contracts manually to document the required closeout steps to be performed at a later date. According to the Procurement Policy & Oversight Division director, GAO migrated a total of 456 contracts from PRISM into Momentum. However, 175 contracts were not closed in PRISM or migrated into Momentum, and will have to be manually tracked when closeout occurs. The director indicated that AM has efforts under way to manually close these contracts.

We found during our prior contract management audit that GAO's approach of managing contracts outside the system during its migration to PRISM contributed to issues with its contract closeout documentation.⁷ Specifically, we found that the agency did not maintain any documentation regarding contracts closed or pending closeout procedures from its former systems, or when or if contract closeout was completed. As a result, GAO could not be assured that it had complied with both its policy and the FAR, as appropriate, and properly closed these contracts.

We are concerned that GAO's reliance on a manual process to track contracts not migrated to Momentum reduces the visibility of these older contracts. This increases the risk that closeout procedures will not be properly performed or documented, as they will likely take a back seat to other "real time" procurement tasks. It also increases the likelihood that status reports regarding closeout backlogs will be understated or will cease entirely.

Accuracy of contract type information - Contract type is a key driver in not only the level of oversight necessary when a contract is active, but also in the complexity of the tasks involved and time required to complete the tasks in order to properly close a

⁷ [OIG-16-3](#).

completed contract. Contracts can be categorized as firm-fixed-price or flexibly-priced⁸ contracts. The process for closing firm-fixed-price contracts is typically straightforward because this contract type is generally not subject to price adjustments based on actual costs the contractor incurs. Flexibly-priced contracts are considered higher risk because they include contracts where the price may be adjusted based on actual costs or hours incurred. To address this risk, the FAR emphasizes the need for appropriate oversight by the government, including a detailed review of contractor invoices and supporting documentation, during contract performance.⁹

Because the closeout procedures may vary depending on the contract type, it is important for GAO to accurately record the contract type information in its procurement system. To assess the accuracy of the contract type information in PRISM, we reviewed written contract documentation for a total of 25 contracts. We determined that GAO accurately recorded the related contract type information in PRISM for 19 of the 25 contracts reviewed.

However, we could not confirm the contract type recorded in PRISM for 3 of the 25 closed contracts reviewed. Copies of the contracts and other documents uploaded by AM into PRISM for each of these three contracts lacked sufficient information to reliably confirm or determine contract type.

Further, we found that GAO did not accurately record the contract type information in PRISM for an additional 3 closed contracts. Two of these additional contracts were misclassified and closed in PRISM as firm-fixed-price contracts. In response to our inquiry, the Procurement Policy & Oversight Division director agreed that the contract type was not accurately classified in PRISM for one of these contracts but indicated for the other contract that the contracting officer had intended to award a firm-fixed-price contract, and as such identified the contract as firm-fixed-price in PRISM. Our review of the written contract documentation found that the contract included language that “estimated amounts not to be exceeded by the contractor for labor, subcontracts, and travel costs, and labor hourly rates to be billed by the contractor based on actual incurred hours by labor category.” These contract terms are commonly used in time-and-materials or flexibly-priced contracts, not firm-fixed price contracts.

Regarding the third additional contract, we found that AM had recorded an “N/A” in the contract type field in PRISM. In its response to our preliminary test results, AM stated that this contract was classified as “N/A” in PRISM (According to AM officials, N/A meant that contract designation does not apply to a particular contract) because it was awarded prior to the implementation of PRISM and was later migrated over into PRISM to pay for the last invoice. As such, we believe that the contract type information should have also been reflected in PRISM to provide the necessary information for the contracting officer to identify the closeout process that needed to be followed.

Lack of reliable contract type information in the procurement management system could lead to the failure to properly perform appropriate level of contract oversight and closeout

⁸ Flexibly-priced contracts include, among others, all cost-reimbursement contracts, orders issued under indefinite delivery contracts where final payment is based on actual costs incurred, and portions of time-and-material and labor hour contracts.

⁹ FAR § 16.301-3(a)(4)(ii), FAR § 16.601(c)(1), FAR § 42.803 and FAR 52.212-4 Alt I. (i) (D).

activities and to unreliable DATA Act reports.¹⁰ The Procurement Operations director indicated that the risk of contract type issues in Momentum should be minimal because its contract document template requires GAO to clearly identify the contract type.

Risks that GAO's closeout checklist does not fully address key closeout requirements - We found that the implementation of the closeout checklist has helped GAO improve documentation associated with the steps performed and decisions made during contract closeouts. For example, GAO's COR Handbook specifically requires the contracting officer to ensure during the closeout process that the contractor's performance evaluation was completed. For the 9 contracts reviewed that were subject to the closeout checklist, we found that a performance evaluation was either completed or determined not to be applicable. In contrast, we found that GAO did not document an evaluation of the contractor performance for the 16 contracts in our sample that were not subject to the closeout checklist.

Our review also identified at least three areas where the checklist could be enhanced to further reduce GAO contract risks. These areas include: flexibly-priced contracts, subcontractor settlements, and government-furnished property. In response to our work, as described below, AM took actions to address our findings regarding subcontractor settlements and government-furnished property.

- **Flexibly-Priced Contract Closeout Requirements:** Because flexibly-priced contracts allow a contractor's final payments to be adjusted based on actual cost incurred, the FAR requires agencies to maintain adequate government oversight during contract performance to provide reasonable assurance that efficient methods and effective cost controls are being used.¹¹ As part of these oversight activities, the FAR and GAO's COR Handbook require the review of documentation supporting a contractor's invoice prior to approving a contractor payment.

Depending on the level of oversight performed during the administration of the flexibly-priced contract, GAO can settle the contractor's final cost by either following a streamlined process in accordance with the quick-closeout requirements in the FAR or performing a contract audit. According to the FAR, quick-closeout procedures can only be used if the contracting officer performs a risk assessment to determine that their use is appropriate and determines that the amount of unsettled direct and indirect costs to be allocated to the contract do not exceed the lesser of \$1,000,000 or 10 percent of the total contract.¹² If a contract does not meet the conditions for a quick closeout, a contract audit may be needed to determine whether all costs billed by the contractor in flexibly-priced contracts are allowable, allocable, and reasonable—information that contracting officers need to close flexibly-priced contracts. The FAR¹³ and GAO's COR Handbook, sections 5.6.2 and 5.6.3, also require the contracting officer and COR respectively to ensure during closeout that the agency settled all

¹⁰ Pub. L. No. 113-101, 128 Stat. 1146 (May 9, 2014). The Digital Accountability and Transparency Act of 2014 (DATA Act), among other things, expanded the required federal spending information reported online by agencies; mandated that the information appear in a form that is both searchable and downloadable; and required the establishment of data standards to generate uniform, consistent, and comparable agency data.

¹¹ FAR § 16.301-3(a)(4)(ii) and FAR 16.601(c)(1).

¹² FAR § 42.708(a).

¹³ FAR § 4.804-5(a)(7),(10), and (12).

interim costs, determined final indirect rates, and resolved costs disallowed during invoice review or related contract audits.

Based on our review, we found that GAO's closeout checklist did not address these requirements for closing out flexibly-priced contracts. Specifically, the checklist did not include steps to ensure that documentation was maintained to support that (1) the contractor's invoices were reviewed in detail, (2) a quick-closeout or a contract audit was performed, (3) interim and final indirect costs were settled, and (4) any disallowed costs were resolved. Although we reviewed all contract closeout files in PRISM and provided by AM, and conducted follow-up work with the Procurement Policy & Oversight Division director and manager, we were unable to substantiate whether these required steps were performed for the six flexibly-priced contracts in our sample.

Without sufficient assurance that the closeout requirements—including determinations regarding the allowability, allocability, and reasonableness of the contractors' billed costs—are completed as required, GAO's risk of overpayments to contractors under flexibly-priced contracts is increased.

In response to our work, AM updated its SOP to require the use of the system generated Closeout Checklist and Contract Completion Statement when closing contracts in Momentum. In addition, the updated SOP requires the use of a Memorandum to File and Completion Statement Contractor Closeout form to document the closeout procedures for those contracts closed manually (i.e., outside the system). In implementing these new forms, AM included requirements for the officials responsible for the closeout to ensure that interim or disallowed costs and indirect rates are settled, and that a contract audit was completed. However, additional actions are needed to guide AM staff on the steps required to effectively monitor flexibly-priced contracts, such as the review of underlying support of contractor invoices, and the performance of quick-closeout procedures. These steps are key for GAO to determine whether the costs billed by the contractors are well supported and in compliance with the contract requirements. In addition, GAO's contracting officers are to use the results of these steps to determine whether a contract audit will be required.

- Settlement of Subcontracts: While the general rule is that subcontractors lack legal rights against the government because they do not have a contractual direct relationship, there are exceptions to this rule that could allow a subcontractor to enforce legal rights against an agency. To help reduce this risk, the FAR requires government agencies to ensure that prime contractors have settled with all subcontractors.

Although the contract closeout checklist provides a useful tool to help ensure GAO's compliance with federal requirements and to reduce risks, we found that the checklist did not include any steps regarding subcontractors, including determining whether (1) the contractor used subcontractors, and (2) all pertinent claims and disputes, if any, between the contractor and the sub-contractor were resolved.

The impact of this lack of procedural guidance was clear in our sample results. For example, for 21 of the 25 completed contracts reviewed, we were unable to determine whether the contract included subcontracts, and what steps, if any, AM took to

determine whether a subcontractor existed, and if all pertinent claims or disputes involving the subcontractor were appropriately resolved.¹⁴ Further, even when contract documentation clearly stated that the contract included subcontracts, as it did in 1 of the 25 contracts reviewed, there was no reference to or support available in GAO records substantiating steps taken, if any, to ensure that the prime contractor had settled with its subcontractors prior to closeout.

Without steps to ensure that subcontractors are identified and that prime contractors have settled with their subcontractors, GAO may be at increased risk of financial exposure to subcontractors. In response to our work, AM implemented the use of system generated Closeout Checklist and Contract Completion Statement for contracts to be closed in Momentum, and a Memorandum to File and Completion Statement Contractor Closeout form for the contracts to be closed manually. These new forms include a requirement for the officials responsible for the closeout to ensure that the subcontracts were settled by the prime contractors. We believe this action will strengthen GAO's controls over ensuring the settlement of subcontracts, and as such recommend no further action in this regard.

- Government-furnished Property: The FAR¹⁵ and GAO's COR Handbook require the contracting officer to ensure that any government property provided to the contractor is returned or disposed of by the contractor, as appropriate. However, we could not determine for 9 of the 25 contracts in our sample based on the documentation maintained by AM in the contract file whether the contracts included government property. In implementing its closeout checklist, AM included a step for the CORs to confirm whether the contractor returned all government-furnished property (such as computers, identification badges, software, manuals, keys, parking passes, etc.). Based on our review, we were able to confirm for 14 of the 25 contracts in our sample based on a completed closeout checklist or other documentation in the contract file that the contracts did not include government property; therefore, this closeout step did not apply. For the remaining 2 contracts in our sample, the COR recorded a checkmark in the closeout checklist indicating that the property was returned to GAO by the contractor; however, there were no references to documentation that would support the assertion and allow us to validate that property was indeed identified and returned to GAO.

While the closeout checklist contained a step for the COR to confirm whether the contractor returned all government-furnished property, it did not specify how or what documentation (such as a signed receipt) should be relied upon during this confirmation process. After we shared our preliminary test results with GAO, the Procurement Policy & Oversight Division director updated the checklist to add a requirement for the CORs to include with the closeout documentation a completed GAO Form 645, *Separation Checklist*, as evidence that the property was returned to GAO. This form must be signed by the administrative officer or designee as evidence that the contractors did return the property to GAO. We believe this action will strengthen GAO's controls over ensuring that government-furnished property is

¹⁴ Three of 25 contracts we reviewed were interagency agreements, and, therefore, were not subject to this requirement.

¹⁵ FAR § 4.804-5(a)(6).

returned upon contract completion, and as such recommend no further action in this regard.

Not All Procurement Policies and Procedures Have Been Updated for New System

As previously discussed, in fiscal year 2018, GAO migrated to Momentum—a new shared service provider and financial management/procurement system. In response to this system migration, AM updated some of its documented procurement procedures, including its COR Handbook and Contract Deobligation/Closeout Standard Operating Procedures. In addition, AM updated the closeout section of the AM's SOP to provide references to the new closeout checklist and completion statement in Momentum. However, we noted that the remaining sections of the SOP, intended to describe GAO's end-to-end procurement process and administration, was not updated to reflect GAO's new business system environment under Momentum. For example, the remaining sections of AM's SOP continue to describe the processes and controls GAO used with its former business systems (DELPHI and PRISM). Because the closeout process is the last step AM has to ensure that the contract administration was carried out based on GAO's required process, its SOP should reflect its environment under Momentum to help ensure that its current processes and controls are consistently performed in compliance with its policy and the FAR.

Conclusions

We found that steps GAO has taken to improve its contract closeout process had a positive effect on ensuring its compliance with federal and agency requirements. However, we believe that additional actions to improve GAO's closeout documentation and checklist would further strengthen its closeout process and the agency's compliance with federal and agency requirements. Without complete and sufficient documentation to support the performance of key contract closeout steps, GAO is at an increased risk of property loss, financial liability, and contractor overpayments.

While we tested those closeout procedures and controls in place during fiscal year 2017, GAO migrated in fiscal year 2018 to a new shared service provider and system, Momentum, which will now be used to support GAO's closeout procedures. Closeout is a process that is applicable regardless of the system in use. As such, our report identifies areas that should be considered as GAO modifies its established closeout processes and controls for Momentum.

Recommendations for Executive Action

To strengthen its contract closeout controls and related documentation, we recommend the Comptroller General direct the Controller/Deputy Chief Financial Officer to take the following actions:

1. Implement a process to ensure that records are maintained in accordance with GAO and AM record retention policy.
2. Develop, document, and implement a process to ensure that contract type information is clearly identified in the contract document and accurately recorded in Momentum.

3. Develop, document, and implement a process to efficiently monitor billed costs of flexibly-priced contracts, including the review of underlying support of contractor invoices, and the performance of quick-closeout procedures or contract audits.
4. Update AM's closeout checklist to ensure that required monitoring of flexibly-priced contracts is performed prior to closeout.
5. Update AM's SOP to fully reflect GAO's implementation of Momentum.

Agency Comments and Our Evaluation

The Inspector General provided GAO with a draft of this report for review and comment. In its written comments, reprinted in appendix IV, GAO agreed with our recommendations and described actions taken in response to our report.

Appendix I: Objective, Scope, and Methodology

This report addresses the extent to which GAO maintained effective contract closeout controls for reducing financial, operational, and compliance risks. GAO maintained closeout documentation electronically in the Portable Reusable Integrated Software Modules (PRISM) and utilized DELPHI as its accounting system through fiscal year 2017. In fiscal year 2018, GAO migrated to a new shared service provider and financial management/procurement system, Momentum.

To achieve our audit objective, we obtained an understanding of GAO policy, procedures, and guidance related to contract closeout and the Federal Acquisition Regulation (FAR). We also interviewed GAO officials responsible for contract closeout functions and activities to obtain an understanding of GAO policy and procedures and their roles and responsibilities regarding contract closeout. Based on our understanding of GAO's policies, procedures, and the FAR, we identified and compiled a list of contract closeout controls.

To assess the operational effectiveness of GAO's contract closeout controls, we first obtained and reviewed a June 2017 contract closeout report from PRISM that contained a list of 2,312 contracts closed by GAO since the implementation of PRISM in fiscal 2008. For sampling purposes, we focused on those contracts with a contract value of \$150,000 and above. As a result, our test population consisted of 220 contracts in the PRISM closeout report that had a value of \$150,000 and above with closure dates from March 2, 2011 through June 16, 2017. As we reported in 2016, GAO had a significant backlog of contracts awaiting contract closeout.¹⁶ In response to our work, GAO closed most of these contracts between fiscal years 2016 and 2017 in an effort to reduce its contract closeout backlog.

We then selected a random sample of 20 closed contracts from our test population. We supplemented our random sample with all closed contracts in our test population that were awarded in fiscal year 2015 or later. Our test population included 6 contracts with a value of \$150,000 and above that were awarded in fiscal year 2015 or later. The remaining 214 contracts in the population were awarded prior to fiscal year 2015. Because only one of these six contracts was included in our random sample of 20, we decided to supplement our random sample with the remaining 5 closed contracts awarded in fiscal year 2015 or later with a contract value of \$150,000 and above. We supplemented our random sample to better assess the effectiveness of a key control implemented by GAO for contracts awarded in fiscal year 2015 or later. Specifically, we reviewed these six contracts to assess the effectiveness of the GAO's contract closeout checklist.

We reviewed closeout documentation maintained in PRISM for each of the 25 closed contracts reviewed. We communicated the preliminary test results to appropriate GAO personnel within the Acquisition Management (AM) office to provide GAO an opportunity to locate and timely provide us with pertinent documentation maintained by AM staff outside of PRISM that would support compliance with GAO policy and the FAR, as appropriate. Following receipt of additional documentation, we updated our results, as appropriate.

¹⁶ OIG, Contract Management: Improvements Would Strengthen Controls and Reduce Risk, [OIG-16-3](#) (Washington, D.C.: July 1, 2016).

We determined the data we obtained were sufficiently reliable for the purposes of our review. To ensure the reliability of GAO's acquisition data in PRISM for the purposes of our engagement, we interviewed GAO's Enterprise, Systems, and Integration director about PRISM and the related controls. We also reviewed the results of the latest Statement on Standards for Attestation Engagements (SSAE) No. 16 examination report on the service provider that hosts and operates PRISM to determine whether there were any reported deficiencies that may affect the reliability of the information in PRISM.¹⁷ In addition, we reviewed our test population for outliers or other obvious errors. Further, as part of our review of sampled contracts, we tested the reliability of key data elements in PRISM, such as contractor name, contract number, contract value, and contract type by comparing them to documentation maintained in the contract files, including copies of the contracts.

We conducted this performance audit from May 2017 through August 2018 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.

¹⁷ Department of Transportation Inspector General, *Quality Control Review of Controls Over the Enterprise Service Center*, QC-2016-096 (Aug. 31, 2016).

Appendix II: GAO's Key Contract Closeout Controls

Key contract closeout controls required by GAO's policies and procedures, and the FAR and tested during our audit are identified below.

1. **Accuracy of contract type information:** Contract type has a direct relationship on both the level of oversight performed while the contract was active and the complexity and length of the contract closeout process an agency must endure following contract completion. In addition, contract type is also an important data element in agency quarterly submissions under the Digital Accountability and Transparency Act of 2014 (DATA Act).¹ Contract type information is a data field in both GAO's PRISM legacy system and its new financial management and procurement system—Momentum to which it migrated in fiscal year 2018. The FAR generally requires firm-fixed price contracts to be closed within 6 months; contracts requiring the settlement of indirect costs rates, such as cost reimbursement contracts, to be closed within 36 months; and all other contracts to be closed within 20 months.² These time frames begin in the month in which the contracting officer receives evidence of physical completion of the contract.
2. **Receipt of Services, and/or Supplies:** FAR § 4.804-4 and GAO's Contracting Officer's Representative (COR) Handbook, section 5.6.2, require the contracting officer to ensure that all services or supplies were satisfactorily received and accepted prior to contract closeout.
3. **Government-furnished property:** FAR § 4.804-5(a)(6) and GAO's COR Handbook, sections 5.6.1 and 5.6.2, require the contracting officer to ensure that any government property provided to the contractor is returned or disposed of by the contractor, as appropriate.
4. **Contractor's Performance Evaluations:** FAR § 42.1502 require the evaluation and documentation of contractor performance for contracts with a value greater than the simplified acquisition threshold, at least annually, and when the work is completed to ensure compliance of the terms of the contracts. GAO's COR Handbook sections 5.6.1, 5.6.2 and 5.6.3 also require the contracting officer and the COR respectively to ensure, during the closeout process, that the contractor's performance evaluation was completed.
5. **Settlement of Subcontracts:** FAR § 4.804-5(a)(9) requires agencies to ensure prior to closing out a contract, that the prime contractor has settled with subcontractors on the contract. In addition, GAO's COR Handbook, section 5.6.3, requires the CORs to ensure, prior to completion of contract closeout, that the prime contractor has resolved any subcontracting issue.
6. **Closeout Letter to the Contractor:** GAO's Contract Deobligation/Closeout Standard Operating Procedures (SOP), section IV.B.3, requires the contracting

¹ Pub. L. No. 113-101, 128 Stat. 1146 (May 9, 2014). The DATA Act amended the Federal Funding Accountability and Transparency Act of 2006 (FFATA), Pub. L. No. 109-282, 120 Stat. 1186 (Sept. 26, 2006), codified at 31 U.S.C. § 6101 note.

² FAR § 4.804-1(2), (3), and (4).

officer to send a contract closeout letter to the contractor. This letter is intended to confirm that all the contractual activities have been completed; the contractor has received and accepted payment for all the work performed under the contract; and that GAO has closed the related contract.

7. **Final Invoice:** FAR § 4.804-5(a)(14) requires the contracting officer to ensure that the final invoice has been submitted by the contractor. GAO's COR Handbook, section 5.6.3, requires the COR to review the contractor's final invoice for payment during the closeout process. To ensure that all the contractor's invoices were paid, GAO's closeout checklist requires the COR to review a listing, obtained from GAO's accounting system, of all the invoices that were paid under each contract and whether there were any remaining obligations.
8. **Funds Review and Deobligation:** FAR § 4.804-5(a)(15) requires the contracting officer to review the contract funding and deobligate any excess funds. GAO's Contract Deobligation/Closeout SOP, section IV.A.1, requires the COR to review a report generated from its accounting system to determine whether there is any excess of funds that need to be deobligated.
9. **Contract Modification:** GAO's Contract Deobligation/Closeout SOP, section IV.B.4, requires the contracting officer to process a contract modification to finalize the contract closeout process in PRISM.
10. **Flexibly-Priced Contracts Closeout Requirements:** Contracts can be categorized as firm-fixed-price or flexibly-priced³ contracts. Unlike, firm-fixed-price contracts which are generally not subject to any adjustment on the basis of costs incurred by the contractor, flexibly-priced contracts include contracts where the price may be adjusted based on actual costs incurred. Because the contractor's final payments may be adjusted based on actual cost incurred, flexibly-priced contracts typically do not provide incentives to the contractor for cost control or labor efficiency. Due to these inherent risks, the FAR emphasizes the need for appropriate oversight by the government, including a detailed review of contractor invoices and supporting documentation, during contract performance.⁴ Consistent and effective surveillance and oversight during contract performance may reduce the level of closeout work required. According to the FAR, quick closeout procedures can only be used if the contracting officer determines by performing a risk assessment that their use is appropriate, and that the amount of unsettled direct and indirect costs to be allocated to the contract do not exceed the lesser of \$1,000,000 or 10 percent of the total contract.⁵ If the contract meets this criteria, the COR may perform quick closeout procedures; if not, a contract audit may be needed of the remaining costs to determine whether the costs billed by the contractors were supported and in compliance with the contract requirements. At closeout, FAR § 4.804-5(a)(7),(10), and (12) and GAO's COR Handbook, sections 5.6.2 and 5.6.3, require the contracting officer and COR respectively to ensure that

³ Flexibly-priced contracts include, among others, all cost-reimbursement contracts, orders issued under indefinite delivery contracts where final payment is based on actual costs incurred, and portions of time-and-material and labor hour contracts.

⁴ FAR § 16.301-3(a)(4)(ii), FAR § 16.601(c)(1), FAR § 42.803 and FAR 52.212-4 Alt I. (i) (D).

⁵ FAR § 42.708(a).

the agency settled all interim costs, final indirect rates, and costs disallowed identified during invoice review or related contract audits.

- 11. Closeout Completion Statement / Closeout Checklist:** – FAR § 4.804-5(b) requires the contracting officer to prepare a contract completion statement certifying that all the required contractual actions and administrative closeout procedures were completed. GAO's COR Handbook, section 5.6.3, requires the COR to complete a contract closeout checklist and ensure that the checklist is signed by the appropriate individuals. The checklist contains a list of the steps GAO's CORs are required to follow to complete the closeout process.

Appendix III: Test Results of GAO’s Contract Closeout Documentation

The following table summarizes the extent to which contract closeout documentation for the 25 closed contracts reviewed was maintained by GAO to support performance of key contract closeout control activities.^a

We determined whether AM maintained documentation to support that it ensured during closeout that:	YES	Partial	NO	N/A	Unable to Determined
1. The Contract Type field in PRISM was accurate.	19		3		3
2. All services or supplies were satisfactorily received and accepted.	22		3		
3. The contractor returned all government property.		2		14	9
4. The contractor's performance was evaluated.	6		16	3	
5. Subcontracts were settled by the prime contractor.			1	3	21
6. A contract closeout letter was sent to the contractor.	22		3		
7. Contractor's final invoice was received and reviewed.	22		3		
8. Contract funds were reviewed and excess funds deobligated.	22	2	1		
9. A contract modification was issued to convert the contract to a closed status.	23		2		
10. Flexibly-priced Contracts Closeout Requirements					
a. Evidence that adequate surveillance/oversight was performed: detailed review of invoices' supporting documentation, contract audit was performed or Quick Closeout Procedures were documented.			6	16	3
b. All interim costs or costs disallowed during invoice review or related audits were settled.			6	16	3
c. For Cost Reimbursable and Time-and-Material contracts: Any applicable indirect cost rates were settled.			5 ^b	17	3
11. A closeout completion statement or closeout checklist was completed.	9		16		

^a Two contracts in our sample were related to utilities and the transit benefit program. We found that GAO performed limited closeout procedures related to these contracts. According to the Procurement Policy & Oversight Division director, the contracts were “shell contracts” that were processed through PRISM only to facilitate payment, and, as such, not all closeout steps were applicable. However, we found no documentation in the contract file or in GAO policy and procedures to support that only limited procedures were required.

^b One of the 6 flexibly-priced contracts in our sample was a labor hour contract. Usually, this type of contract does not include indirect rates to be billed by the contractor. Therefore, we determined that this contract was not subject to the settlement of indirect rates requirements.

Appendix IV: Comments from the U.S. Government Accountability Office



Memorandum

Date: August 23, 2018

To: Inspector General – Adam Trzeciak

From: Controller – William Anderson

Subject: Draft Report on GAO's Contract Closeout Process (OIG-18-5)

Thank you for the opportunity to comment on your draft report on GAO's contract closeout process. The report notes the significant progress the Office of Acquisition Management made in improving its closeout procedures and virtually eliminating its backlog of closeout contracts. At the time of draft report, OIG noted that there was a backlog of 175 contracts waiting closeout that were not migrated to the new financial management system. The Director, Procurement Policy and Oversight Division, has been assigned the task of closing the 175 contracts by the end of the calendar year and to periodically report on PPOD's progress to me.

The draft report made five recommendations for GAO to improve its contract closeout process. Subsequent to the exit conference with OIG, Acquisition Management completed the following actions to close the five recommendations.

Recommendation 1

Implement a process for ensuring that records are destroyed in accordance with GAO and AM record retention policy.

Management Response

The Acquisition Management/Procurement Operations Division (AMPO) follows GAO records management program (GAO Order 410.1) to determine retention periods for contract files. To facilitate the disposition process, AMPO has segregated closed contract files in the file room by year, using the date of the last contract action marked on the outside of the contract file. AMPO also updated its Standard Operating Procedures (SOP) to address the proper disposition of closed contract files (see *Chapter 6, Contract Management and Administration; Section L.6 – Disposition of Contract Files*).

Recommendation 2

Develop, document, and implement a process to ensure that contract type information is clearly identified in the contract document, and accurately recorded in Momentum.

Management Response

AMPO updated its SOP to better distinguish the use of various contract types (i.e. fixed-fee, cost plus fixed-fee, labor hour, time & materials) and the mandatory review by the Contracting Officer. For contracts where the Contracting Officer initiated the action (rather than a Contract Specialist), the Contracting Officer review must be performed by another Contracting Officer with the same warrant level or higher (see *Chapter 3, Contracting Methods and Contract Types, Section H – Selecting the Appropriate Contract Type*). In addition, each Contracting Officer and Contract Specialist received refresher training on the use of “Contract Types.”

To ensure proper implementation in the new financial management system, the Procurement Policy and Oversight Division updated its quality control audit checklist for review of contract files to verify that the correct contract type was selected in Momentum.

Recommendation 3

Develop, document, and implement a process to efficiently monitor billed costs of flexibly-priced contracts, including the review of underlying support of contractor invoices, and the performance of quick closeout procedures or contract audits.

Management Response

AMPO updated its SOP to require that all invoices certified, whether in hard copy or by electronic means, must be supported with sufficient documentation to enable the audit of the transaction (see *Chapter 6, Contract Management and Administration, Section L.4e – Certification of Invoices*). The documentation must include, but is not limited to:

- Contractor’s proper invoice;
- Adequate supporting cost documentation, including source documentation as appropriate (i.e., receipts, logs, time sheets, payroll records, etc.); and
- Monthly Letter Status Report (MLSR), if required.

Recommendation 4

Update AM's closeout checklist to ensure that required monitoring of flexibly-priced contracts is performed prior to closeout.

Management Response

The Director, AMPO, issued Acquisition Memorandum 18-01 on Contract Closeouts and updated AMPO's closeout checklist to document performance of required monitoring of flexibly-priced contracts prior to closeout. In addition, the Procurement Policy and Oversight Division updated its quality control audit checklist for review of contract files to verify that contract monitoring is adequate.

Recommendation 5

Update AM's SOP to fully reflect GAO's implementation of LBFMS-Momentum.

Management Response

Acquisition Management updated and implemented changes to its SOPs for the Acquisition Management/Procurement Operations Division and the Procurement Policy and Oversight Division to reflect the implementation of the new financial management system (Momentum Financials). The updated SOPs also include revisions to address and close the five recommendations made in OIG's draft report. Copies of the revised SOPs were provided to OIG.

In closing, we appreciate your work on this issue and believe our actions in response to your recommendations will assist us in managing contract closeouts going forward in the LBFMS-Momentum financial system.

cc: Karl Maschino, Chief Administrative Officer/Chief Financial Officer
Roderick Gaither, Director, AMPO
Carmencita Jones, Director, PPOD
Jacqueline Johnson, PPOD
Adebisi Adesina, FMBO
Evelyn Logue, OIG
Omar Torres, OIG

Appendix V: OIG Contact and Staff Acknowledgments

OIG Contact

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Staff Acknowledgments

Evelyn Logue (Assistant Inspector General for Audit), Omar V. Torres (Engagement Manager), and Adriana Pukalski (Legal Counsel) made major contributions to this report. Other key contributors include Louise DiBenedetto, Melanie H. P. Fallow, and Cynthia Taylor.

Appendix VI: Report Distribution

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