



441 G St. N.W.
Washington, DC 20548

May 18, 2023

Accessible Version

The Honorable Martin J. Gruenberg
Chairman, Federal Deposit Insurance Corporation

Management Report: Continued Improvements Needed in FDIC’s Internal Control over Contract Documentation and Payment-Review Processes

Dear Mr. Gruenberg:

On February 16, 2023, we issued our report on the results of our audits of the 2022 and 2021 financial statements of the two funds that the Federal Deposit Insurance Corporation (FDIC) administers: the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation Resolution Fund (FRF).¹ As part of these audits, we audited FDIC’s financial reporting controls.

As we reported in connection with our audits, in our opinion, although FDIC could improve internal controls, it maintained, in all material respects, effective internal control over financial reporting relevant to the DIF and the FRF as of December 31, 2022, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers’ Financial Integrity Act. Those controls provided reasonable assurance that FDIC would prevent, or detect and correct, misstatements material to the DIF and the FRF on a timely basis.

However, we continued to identify deficiencies in FDIC’s controls over contract documentation and payment-review processes. These deficiencies collectively represent a significant deficiency in FDIC’s internal control over financial reporting that merits the attention of those charged with FDIC governance.² Although it did not affect our opinions on the 2022 financial statements of the DIF and the FRF, or on the effectiveness of FDIC’s internal control over financial reporting relevant to the DIF and the FRF, because of this significant deficiency, misstatements may have occurred in unaudited financial information FDIC reported internally and externally.

The purpose of this report is to present (1) the internal control deficiencies we identified during our audit testing of FDIC’s 2022 nonpayroll operating expenses and (2) the status of FDIC’s corrective actions to address recommendations related to internal control deficiencies identified

¹GAO, *Financial Audit: Federal Deposit Insurance Corporation Funds’ 2022 and 2021 Financial Statements*, [GAO-23-105570](#) (Washington, D.C.: Feb. 16, 2023).

²A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

in our prior-year reports that were open as of December 31, 2021.³ This report is intended for FDIC management's use.

Results in Brief

During our 2022 audits, we identified eight deficiencies related to contract documentation and payment-review processes that collectively represent a significant deficiency in FDIC's internal control over financial reporting. Specifically, FDIC management did not consistently execute existing controls, which increased the risks that FDIC could make improper payments and misstate the financial statements. While this significant deficiency did not affect our opinions on the effectiveness of FDIC's internal control over financial reporting relevant to the DIF and the FRF, it is important enough to merit the attention of those charged with FDIC governance.

In this report, we are making four new recommendations to address this significant deficiency. For the three prior open recommendations from our 2021 and 2022 management reports (for the calendar years 2020 and 2021 audits, respectively), we found that FDIC implemented corrective actions during 2022 to resolve one of these recommendations. As a result, we closed this recommendation. Therefore, FDIC currently has six open GAO financial audit recommendations intended to improve FDIC's internal controls over financial reporting as well as to bring FDIC into conformance with its own policies and *Standards for Internal Control in the Federal Government*.⁴

In commenting on a draft of this report, FDIC acknowledged our findings and provided planned actions to address our recommendations. FDIC's comments are reproduced in enclosure I.

Objectives, Scope, and Methodology

Our objectives of this report are to provide (1) any control deficiencies identified during our calendar year 2022 audits of the DIF and FRF and (2) the status of FDIC's corrective actions to address recommendations related to internal control deficiencies identified in our prior-year reports that were open as of December 31, 2021. We performed this work in connection with our audits of these funds' financial statements for the years ended December 31, 2022, and 2021, to support our opinion on whether effective internal control over financial reporting was maintained, in all material respects.

To accomplish these objectives, we reviewed FDIC policies and procedures; interviewed FDIC management and staff; observed controls in operation; and conducted tests of controls to determine whether controls were designed, implemented, and operating effectively. We also determined the status of corrective actions that FDIC had taken to address recommendations related to internal control deficiencies identified in our prior reports that remained open as of December 31, 2021.

In addition, in June 2022, FDIC began to implement a new procurement system, transitioning from the Automated Procurement System (APS) and the Contract Electronic File (CEFile) to the

³GAO, *Management Report: Improvements Needed in FDIC's Internal Control over Contract-Payment Review Processes*, [GAO-21-420R](#) (Washington, D.C.: May 13, 2021), and *Management Report: Improvements Needed in FDIC's Internal Control over Contract Documentation and Payment-Review Processes*, [GAO-22-105824](#) (Washington, D.C.: May 19, 2022).

⁴GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

FDIC Acquisition Management System (FAMS).⁵ In October 2022, due to multiple usability challenges, FDIC made the decision to stop using FAMS, and on November 1, 2022, transitioned back to APS and CEFile for procurement processing. As part of our audits, we tested FDIC's transition of these systems.

During the course of our work, we communicated our findings to FDIC management. We performed our audits in accordance with U.S. generally accepted government auditing standards. We believe that our audits provide a reasonable basis for our findings and recommendations in this report.

Continued Significant Deficiency in FDIC Internal Control over Contract Documentation and Payment-Review Processes

FDIC has designed and established internal controls over its contract documentation and payment-review processes. For example, FDIC oversight managers are responsible for verifying that contractors deliver purchased goods or services and perform their work according to contract terms and delivery schedules. Oversight managers also monitor the expenditures of funds in relation to contract dollar ceilings and approve invoices for payment. FDIC contracting officers, acting within the scope of their authority to contract on behalf of FDIC, are responsible for entering into, administering, and terminating contracts; making related decisions; managing and maintaining contract documentation; and executing contract modifications. We identified eight deficiencies in FDIC's implementation of these internal controls.

Condition. During our 2022 audits, we identified eight deficiencies in contract documentation and payment-review processes that collectively represent a significant deficiency in FDIC's internal control over financial reporting. Specifically, as in prior years, FDIC management has properly designed and established policies, procedures, and guidance over contract documentation and payment-review processes. However, FDIC did not consistently execute existing controls over contract documentation and payment-review processes, which increased the risks that FDIC could make improper payments and misstate the financial statements.

- We found two deficiencies where an oversight manager approved a contractor invoice that did not agree with the terms of the contract pricing schedule, resulting in an improper payment and a misallocated payment. One instance was of an oversight manager who did not identify an incorrectly billed rate for a telecommunication expense. Specifically, the oversight manager used an incorrect billing rate from a pricing schedule that did not agree with the contract's pricing schedule. As a result, the oversight manager approved the telecommunication invoice for the improper payment. The second instance was of an oversight manager who incorrectly calculated a payment based on an outdated pricing schedule. Because the pricing schedule did not agree with the terms in the final contract pricing schedule, the oversight manager approved an invoice that resulted in a misallocated payment.⁶

⁵Prior to June 13, 2022, FDIC processed all its procurements through APS and stored associated critical supporting documents in CEFile. FDIC's CEFile is a centralized application where contracting officers must maintain contract documentation to provide a complete history of all procurement-related actions and the basis for informed decisions at each step in the acquisition and contract oversight process.

⁶While the misallocated error we identified was substantive in nature, an improper payment was not made to the contractor, as the total invoice amount paid for five different expenses agreed to the contract pricing schedule.

- We found one deficiency where an oversight manager approved a miscalculated contract-payment adjustment, resulting in a potential improper payment. We were unable to obtain adequate and sufficient evidence as to the completeness of the information FDIC used to recalculate the adjustment. In addition, we also identified other issues unrelated to the adjustment that we brought to management’s attention, including (1) incorrectly overcharged billed data-plan rates that did not agree with the terms of the contract pricing schedule, (2) a missing pricing schedule, and (3) unclear role responsibilities and controls in place for a separate contractor who was tasked to help the oversight manager review invoices for the contract.
- We found three deficiencies where FDIC did not properly maintain contract documentation in its CEFile and the assigned contracting officers did not sign documents, as FDIC’s *Acquisition Policy Manual* requires. These three instances involved six identified contract modifications that contracting officers did not sign. One contracting officer stored a total of 18 contract modification documents on a computer hard drive, five of which we identified in our testing. While the contracting officer had over a year to upload them into the CEFile, the contracting officer inadvertently deleted them before doing so, and did not maintain backup copies of the documents.
- We found two additional deficiencies in which FDIC employees stored contract documentation on their computer hard drives. Due to validation requirements while transitioning procurement systems from FAMS back to APS and CEFile, FDIC instructed employees to store contract documentation on individual computer hard drives during the 3-month transition period while CEFile was in read-only access status from November 1, 2022, through approximately January 29, 2023. Based on our testing results prior to the FAMS transition, we determined that this requirement increased the risk for loss of contract documentation, which could lead to inappropriate procurement decisions and approved improper payments.

Criteria. FDIC established its *Acquisition Policy Manual (APM)* and *Acquisition Procedures Guidance and Information (PGI)*, which we determined it properly designed to include internal control for processing FDIC contractor-related payments. According to the APM, oversight managers are responsible for (1) verifying that contractors deliver purchased goods or services, (2) ensuring that contractors are performing their work according to contract terms and delivery schedules, (3) monitoring the expenditures of funds in relation to contract dollar ceilings, and (4) approving invoices for payment. Further, the PGI states that oversight managers are responsible for ensuring that all charges contained on each invoice are within the contract terms and conditions and documentation adequately supports the invoice.

FDIC’s APM states that contracting officers are responsible for entering into, administering, and terminating contracts, making related decisions, managing and maintaining contract documentation, and executing contract modifications. The APM further states that contracting officers and oversight managers must ensure that the contract file is maintained in CEFile and is current, accurate, and complete throughout the life of the contract. In addition, FDIC’s PGI states that the contracting officer must upload the contract into CEFile.

According to GAO’s *Standards for Internal Control in the Federal Government*, agency management should establish and operate monitoring activities to monitor the internal control system and evaluate results. This helps serve as the first line of defense in safeguarding assets

However, the allocation of the total invoiced amount among the five expense categories did not agree to the contract pricing schedule.

and preventing and detecting errors and fraud.⁷ Further, GAO's *Framework for Assessing the Acquisition Function for Federal Agencies* states that when financial data are not useful, relevant, timely, or reliable, the acquisition function is at risk of inefficient or wasteful business practices.⁸

Cause. While FDIC management has properly designed and established policies, procedures, and guidance over contract documentation and payment-review processes, we found that FDIC did not consistently implement them. FDIC has made some progress in establishing an effective process to monitor and reasonably assure that oversight managers and contracting officers sufficiently and accurately follow existing policies and procedures for contract documentation and payment-review processes. However, FDIC needs to make additional progress toward implementing corrective actions.

For example, FDIC's corrective actions to address related contract payment review issues include enhanced training for oversight managers and contracting officers. However, the corrective actions do not include a policy that (1) mandates the enhanced training for all existing oversight managers and contract officers and (2) includes an established process for tracking the completion of such training on a routine basis.

In addition, the FDIC Office of Risk Management and Internal Controls (ORMIC) Contract Review Work Plan states that ORMIC will track resolution efforts. However, according to ORMIC, its review strives to correct issues in real time, and it does not issue recommendations that would require tracking of implemented corrective actions (e.g., FDIC may refer to identified issues as considerations, observations, or takeaways in its results memo). As a result, ORMIC has not developed policies and procedures for tracking and communicating to management the status of corrective actions.

In addition, oversight managers and contracting officers are not using the established centralized location for storing and maintaining contract documentation (CEFile) for its intended internal control purpose, as FDIC policy requires. However, this policy does not explicitly restrict contracting officers and oversight managers from using hard drives to store and maintain critical contract documentation (i.e., documentation that oversight managers rely on to verify and approve contract payments). Because of this, oversight managers frequently rely on incorrect or outdated information without verifying the most recent contract terms and pricing schedule before approving payments.

FDIC's policy does not define acceptable time frames for uploading contract documentation to a centralized location. As a result, contracting officers have also lost contract documentation without proper backup. When contracting officers do not upload contract documentation to a centralized location in a timely manner, oversight managers may not have the most current and accurate information needed to properly approve contract payments.

Effect. Without properly maintaining adequate contract documentation, consistently following contract documentation and payment-review processes, and effectively monitoring the process and results, FDIC cannot reasonably assure that internal controls over contract payments are

⁷[GAO-14-704G](#).

⁸GAO, *Framework for Assessing the Acquisition Function at Federal Agencies*, [GAO-05-218G](#) (Washington, D.C.: September 2005).

operating effectively, which increases the risks of improper payments and misstatements in the financial statements.

In assessing the magnitude of potential misstatements related to these deficiencies to the financial statements as a whole, we considered the following: (1) materiality levels for the FDIC financial statements; (2) magnitude of contractor payments on the financial statements; (3) the number and type of deficiencies identified during the current year, similar to weaknesses reported in prior years, indicating recurring issues that relate to open recommendations; (4) the importance of such controls; and (5) additional FDIC compensating controls and implemented corrective actions that would help prevent a significant misstatement. Based on these considerations, in our judgment, these deficiencies do not individually or collectively constitute a material weakness, but are important enough to merit the attention of those charged with FDIC governance. Thus, these deficiencies represent a significant deficiency in FDIC's internal control over financial reporting as of December 31, 2022. Management commitment and attention will be essential to addressing these deficiencies and improving FDIC's controls over contract documentation and payment-review processes.

Status of Prior-Year Recommendations Related to Contract Documentation and Payment-Review Processes

After we completed our calendar year 2021 audits, three recommendations remained open from our prior reports regarding control deficiencies related to contract documentation and payment-review processes. During our calendar year 2022 FDIC audits, we found that FDIC implemented corrective actions that resolved one recommendation from our prior reports, and we closed the recommendation.

In May 2022, based on our fiscal year 2021 audits, we issued a management report that included two recommendations to FDIC related to contract documentation and payment-review processes.⁹ Our 2022 audits included following up on the status of FDIC's corrective actions to address them. We provide our recommendations and status summary below.

Recommendation: The Deputy Director of the Acquisition Services Branch of the Division of Administration should direct contracting officers to review and follow FDIC's existing policies and procedures for documenting and approving contract modifications to reasonably assure FDIC sufficiently documents and properly supports contracts. (Recommendation 1)

Status: Closed-Implemented. During calendar year 2022, FDIC notified contracting officers responsible for contract modification documentation of the deficiencies that we identified, and directed them to review and follow FDIC's existing policies and procedures for contract modification documentation. Based on our review of the notification, we determined that FDIC took sufficient corrective actions to close this recommendation.

Recommendation: The Deputy Director of the Acquisition Services Branch of the Division of Administration should establish a process to periodically monitor the operating effectiveness of existing policies and procedures to reasonably assure that

⁹[GAO-22-105824](#).

contracting officers sufficiently and accurately follow existing policies and procedures for contracts. (Recommendation 2)

Status: Open. During calendar year 2022, FDIC informed us of certain corrective actions planned to address recommendation 2, including hiring an individual for a quality assurance role who would lead and perform monitoring duties related to ensuring adherence to FDIC's policies and procedures for contracts. FDIC is continuing to implement corrective actions to address this recommendation. As a result, this recommendation remains open as of December 31, 2022.

In May 2021, we issued a management report that included two recommendations to FDIC related to its payment-review processes.¹⁰ In May 2022, we reported that FDIC took sufficient corrective actions to close recommendation 1. Our 2022 audits included following up on the status of FDIC's corrective actions to address recommendation 2 of the 2021 management report. We provide our recommendation and status summary for that recommendation below.

Recommendation: The Chief Risk Officer should establish a process to coordinate with the Division of Administration and the Division of Finance, as appropriate, to periodically train, monitor, and ensure that oversight managers and processing approvers sufficiently and accurately follow FDIC's existing policies and procedures for contract payments. (Recommendation 2)

Status: Open. During calendar year 2021, FDIC began implementing additional training and developing a monitoring process to conduct transaction testing of contract-related expense transactions. During calendar year 2022, FDIC continued conducting this transaction testing and began implementing a monitoring process, which includes vertical reviews of contract documentation. FDIC is continuing to implement corrective actions to address this recommendation. As a result, this recommendation remains open as of December 31, 2022.

Recommendations for Executive Action

We are making the following four recommendations to FDIC:

The Deputy Director of the Acquisition Services Branch of the Division of Administration should design and implement a policy that (1) requires all oversight managers and contracting officers from all divisions to routinely take mandatory training in order to review and enhance their awareness of the existing policies and procedures for contract documentation and payment-review processes and (2) includes an established process for routinely tracking the completion of such training. (Recommendation 1)

The Chief Risk Officer should design and implement procedures for tracking and communicating to management the status of corrective actions (e.g., for considerations, observations, or takeaways) for contract monitoring reviews and testing that the Office of Risk Management and Internal Controls performs until FDIC fully implements corrective actions. (Recommendation 2)

The Deputy Director of the Acquisition Services Branch of the Division of Administration should update FDIC's existing policies and procedures to prohibit contracting officers and oversight

¹⁰[GAO-21-420R](#).

managers from using hard drives to store and maintain contract documentation, in order to mitigate the risk of losing documentation and making improper payments.

The Deputy Director of the Acquisition Services Branch of the Division of Administration should update FDIC's existing policies and procedures to define acceptable time frames for uploading contract documentation to a centralized location in order to reasonably assure that contracting officers and oversight managers properly document and support contracts in a timely manner. (Recommendation 4)

Agency Comments and Our Evaluation

We provided a draft of this report for comment to FDIC. We received written comments from FDIC, which are reproduced in enclosure I. FDIC also provided technical comments, which we incorporated as appropriate.

In its written comments, FDIC acknowledged our findings and provided planned corrective actions to address our recommendations. We believe that the actions FDIC described, if implemented effectively, would address three of our four recommendations.

In regard to our fourth recommendation to update FDIC's existing policies and procedures to define acceptable time frames for uploading contract documentation to a centralized location, FDIC stated that it reviewed its policies and procedures and determined that the time frames were acceptable and appropriate.

However, our review of FDIC's policy found that it does not provide clear time frames for uploading contract documentation to a centralized location that would reasonably assure that correct and current information is available to oversight managers before they approve payments. A policy requiring that contract documentation be uploaded timely to facilitate effective review and approval of payments will help ensure that FDIC timely addresses contract documentation and payment review process issues, and will reduce the risk of improper payments and misstating the financial statements.

This report contains recommendations to FDIC. We would appreciate receiving a description and status of your corrective actions within 30 days of the date of this report. Please send your statement of corrective actions to me at padillah@gao.gov or Michael Hansen, Assistant Director, at hansenm@gao.gov.

We intend this report for the use of FDIC management, members of the FDIC Audit Committee, and the FDIC Inspector General. We are sending copies of this report to the Chairman of the FDIC Audit Committee, the Chairman of the Board of Governors of the Federal Reserve System, the Acting Comptroller of the Currency, the Secretary of the Treasury, the Director of the Office of Management and Budget, interested congressional committees and members, and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance FDIC officials and staff provided during our audits of FDIC funds' calendar years 2022 and 2021 financial statements. If you or your staff have any questions about this report, please contact me at (202) 512-5683 or padillah@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs

may be found on the last page of this report. GAO staff who made major contributions to this report are listed in enclosure II.

Sincerely yours,

A handwritten signature in black ink that reads "M. Hannah Padilla". The signature is written in a cursive, flowing style.

M. Hannah Padilla
Director
Financial Management and Assurance

Enclosures – 2

Enclosure I: Comments from the Federal Deposit Insurance Corporation



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Deputy to the Chairman and CFO

April 26, 2023

M. Hannah Padilla
Director
Financial Management and Assurance
U. S. Government Accountability Office
Washington, D.C. 20548

Dear Ms. Padilla:

Thank you for providing the U. S. Government Accountability Office (GAO) draft audit report titled: *Management Report: Continued Improvements Needed in FDIC's Internal Control over Contract Documentation and Payment-Review Processes* (GAO-23-106656). The report addresses the matters GAO identified during the audit of FDIC's 2022 and 2021 financial statements regarding improving internal controls over FDIC's contract-payment review processes. I appreciate GAO's findings and the opportunity to provide management comments.

The FDIC has taken a number of proactive steps to strengthen controls over contractor invoice payment-review processes and enhance our monitoring capabilities. These efforts have provided the FDIC with valuable information on where to focus our resources to address the remaining contracting payment control issues. Additionally, the resources added during 2022 are now in place and they have begun to implement additional preventive and detective controls that will focus on mitigating the remaining risk in the contracting payments area.

I look forward to continuing the positive working relationship with the GAO team during the upcoming 2023 financial statement audit engagement. Please direct any questions or comments on these matters to E. Marshall Gentry, Chief Risk Officer and Director, Office of Risk Management and Internal Controls, at (703) 562-6378.

Sincerely,

BRET EDWARDS

Digitally signed by BRET
EDWARDS
Date: 2023.04.26 16:13:50 -04'00'

Bret D. Edwards
Deputy to the Chairman and
Chief Financial Officer

Attachment

FDIC's Response to GAO 2022 Management Report

Recommendation 1:

The Deputy Director of the Acquisition Services Branch of the Division of Administration should design and implement a policy that (1) requires all oversight managers and contracting officers from all divisions to routinely take mandatory training in order to review and enhance their awareness of the existing policies and procedures for contract documentation and payment-review processes, and (2) includes an established process for tracking the completion of such training on a routine basis.

Management Response 1:

The Deputy Director of Acquisition Services Branch (ASB) will review and update existing policy related to mandatory training for Contracting Officers (CO) and Oversight Managers (OM) and require annual refresher training on contract documentation and payment-review processes. ASB will use automated capabilities available via MS TEAMS, FLX or other training sources, as applicable, to track completion of training on a routine basis.

Estimated Completion Date: August 1, 2023

Recommendation 2:

The Chief Risk Officer should design and implement procedures for tracking and communicating to management the status of corrective actions (e.g., for considerations, observations, or takeaways) for contract monitoring reviews and testing that the Office of Risk Management and Internal Controls performs until FDIC fully implements corrective actions.

Management Response 2:

The Chief Risk Officer will utilize the Audit Report Tracking System to track and periodically communicate to management the status of corrective actions for contract monitoring reviews and testing performed by the Office of Risk Management and Internal Controls until risks in this area are appropriately mitigated.

Estimated Completion Date: June 30, 2023

Recommendation 3:

The Deputy Director of the Acquisition Services Branch of the Division of Administration should update FDIC's existing policies and procedures to prohibit contracting officers and oversight managers from using hard drives to store and maintain contract documentation, in order to mitigate the risk of losing documentation and making improper payments.

Management Response 3:

The Deputy Director of ASB will update the existing policies and procedures to clarify final contractual documentation must be stored and maintained in the official contract file repository, the Consolidated Document Information System-Contract Electronic File (CDIS-CEFile).

Estimated Completion Date: June 30, 2023

Recommendation 4: The Deputy Director of the Acquisition Services Branch of the Division of Administration should update FDIC's existing policies and procedures to define acceptable timeframes for uploading contract documentation to a centralized location in order to reasonably assure that contracting officers and oversight managers properly document and support contracts in a timely manner.

Management Response 4:

The Deputy Director of ASB reviewed existing policies and procedures and determined the timeframes cited in Procedures, Guidance, Information (PGI) 6.203(e) are acceptable and appropriate, which requires: a) all contract documents to be filed before award; b) all contracts to be complete before closeout; and c) OM and technical monitor (TM) to maintain the official contract file. To ensure compliance with PGI 6.203(e), the ASB Deputy Director established a Quality Assurance/Internal Control Program on April 17, 2023, which implements more robust reviews of contract documentation and the timely storage of contract documentation in CDIS-CEFile. ASB will complete the 2nd quarter review and document findings by June 30, 2023.

Estimated Completion Date: June 30, 2023

Agency Comment Letter

Text of Enclosure I: Comments from the Federal Deposit Insurance Corporation

April 26, 2023

M. Hannah Padilla
Director
Financial Management and Assurance
U. S. Government Accountability Office
Washington, D.C. 20548

Dear Ms. Padilla:

Thank you for providing the U. S. Government Accountability Office (GAO) draft audit report titled: Management Report: Continued Improvements Needed in FDIC's Internal Control over Contract Documentation and Payment-Review Processes (GAO-23-106656). The report addresses the matters GAO identified during the audit of FDIC's 2022 and 2021 financial statements regarding improving internal controls over FDIC's contract-payment review processes. I appreciate GAO's findings and the opportunity to provide management comments.

The FDIC has taken a number of proactive steps to strengthen controls over contractor invoice payment-review processes and enhance our monitoring capabilities. These efforts have provided the FDIC with valuable information on where to focus our resources to address the remaining contracting payment control issues. Additionally, the resources added during 2022 are now in place and they have begun to implement additional preventive and detective controls that will focus on mitigating the remaining risk in the contracting payments area.

I look forward to continuing the positive working relationship with the GAO team during the upcoming 2023 financial statement audit engagement. Please direct any questions or comments on these matters to E. Marshall Gentry, Chief Risk Officer and Director, Office of Risk Management and Internal Controls, at (703) 562-6378.

Sincerely,

Bret D. Edwards
Deputy to the Chairman and
Chief Financial Officer

Attachment

FDIC's Response to GAO 2022 Management Report

Recommendation 1:

The Deputy Director of the Acquisition Services Branch of the Division of Administration should design and implement a policy that (1) requires all oversight managers and contracting officers from all divisions to routinely take mandatory training in order to review

and enhance their awareness of the existing policies and procedures for contract documentation and payment-review processes, and (2) includes an established process for tracking the completion of such training on a routine basis.

Management Response 1:

The Deputy Director of Acquisition Services Branch (ASB) will review and update existing policy related to mandatory training for Contracting Officers (CO) and Oversight Managers (OM) and require annual refresher training on contract documentation and payment-review processes. ASB will use automated capabilities available via MS TEAMS, FLX or other training sources, as applicable, to track completion of training on a routine basis.

Estimated Completion Date: August 1, 2023

Recommendation 2:

The Chief Risk Officer should design and implement procedures for tracking and communicating to management the status of corrective actions (e.g., for considerations, observations, or takeaways) for contract monitoring reviews and testing that the Office of Risk Management and Internal Controls performs until FDIC fully implements corrective actions.

Management Response 2:

The Chief Risk Officer will utilize the Audit Report Tracking System to track and periodically communicate to management the status of corrective actions for contract monitoring reviews and testing performed by the Office of Risk Management and Internal Controls until risks in this area are appropriately mitigated.

Estimated Completion Date: June 30, 2023

Recommendation 3:

The Deputy Director of the Acquisition Services Branch of the Division of Administration should update FDIC's existing policies and procedures to prohibit contracting officers and oversight managers from using hard drives to store and maintain contract documentation, in order to mitigate the risk of losing documentation and making improper payments.

Management Response 3:

The Deputy Director of ASB will update the existing policies and procedures to clarify final contractual documentation must be stored and maintained in the official contract file repository, the Consolidated Document Information System-Contract Electronic File (CDIS-CEFile).

Estimated Completion Date: June 30, 2023

Recommendation 4: The Deputy Director of the Acquisition Services Branch of the Division of Administration should update FDIC's existing policies and procedures to define acceptable timeframes for uploading contract documentation to a centralized location in order to reasonably assure that contracting officers and oversight managers properly document and support contracts in a timely manner.

Management Response 4:

The Deputy Director of ASB reviewed existing policies and procedures and determined the timeframes cited in Procedures, Guidance, Information (PGI) 6.203(e) are acceptable and appropriate, which requires: a) all contract documents to be filed before award; b) all contracts to be complete before closeout; and c) OM and technical monitor (TM) to maintain the official contract file. To ensure compliance with PGI 6.203(e), the ASB Deputy Director established a Quality Assurance/Internal Control Program on April 17, 2023, which implements more robust reviews of contract documentation and the timely storage of contract documentation in CDIS-CEFile. ASB will complete the 2nd quarter review and document findings by June 30, 2023.

Estimated Completion Date: June 30, 2023

Enclosure II: GAO Contact and Staff Acknowledgments
GAO Contact

M. Hannah Padilla, (202) 512-5683 or padillah@gao.gov

Staff Acknowledgments

In addition to the contact named above, the following individuals made major contributions to this report: Michael D. Hansen (Assistant Director), Lisa M. Galvan-Treviño, and Fabiola Torres Aleman.

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through our website. Each weekday afternoon, GAO posts on its [website](#) newly released reports, testimony, and correspondence. You can also [subscribe](#) to GAO's email updates to receive notification of newly posted products.

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <https://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#).
Subscribe to our [RSS Feeds](#) or [Email Updates](#). Listen to our [Podcasts](#).
Visit GAO on the web at <https://www.gao.gov>.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact FraudNet:

Website: <https://www.gao.gov/about/what-gao-does/fraudnet>

Automated answering system: (800) 424-5454 or (202) 512-7700

Congressional Relations

Angela Nicole Clowers, Managing Director, ClowersA@gao.gov, (202)-512-4010, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

Strategic Planning and External Liaison

Stephen J. Sanford, Managing Director, spel@gao.gov, (202) 512-4707
U.S. Government Accountability Office, 441 G Street NW, Room 7814,
Washington, DC 20548

