
May 1998

FOREST SERVICE

Weak Contracting Practices Increase Vulnerability to Fraud, Waste, and Abuse





**United States
General Accounting Office
Washington, D.C. 20548**

**Resources, Community, and
Economic Development Division**

B-279214

May 6, 1998

The Honorable Robert F. (Bob) Smith
Chairman, Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we evaluate whether the Forest Service manages its contracting activities to minimize fraud, waste, and abuse and maximize effectiveness. The report contains recommendations to the Secretary of Agriculture designed to strengthen internal control and make greater use of contracting best practices to improve the effectiveness of the Forest Service's contracting.

As agreed with your office, we plan no further distribution of this report for 30 days. At that time, we will send copies to the Secretary of Agriculture; the Chief, Forest Service; the Director, Office of Management and Budget; and interested congressional committees. Copies will be made available to others on request.

Please call me on (202) 512-5138 if you or your staff have any questions about this report. Major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in cursive script that reads 'Robert A. Robinson'.

Robert A. Robinson
Director, Food and
Agriculture Issues

Executive Summary

Purpose

To help carry out its mission, the Forest Service awards contracts for a wide variety of goods and services, such as building construction, tree planting, research studies, and aircraft and helicopters for suppressing fires. According to its records, the Forest Service spent \$443 million on 6,475 contract actions in fiscal year 1996.

The Chairman, House Committee on Agriculture, asked GAO to evaluate whether the Forest Service manages contracting activities in a manner that minimizes fraud, waste, and abuse and maximizes effectiveness. Specifically, GAO determined whether the Forest Service (1) maintains an appropriate system of internal control over contracting activities to minimize the agency's vulnerability to fraud, waste, and abuse and (2) manages contracting effectively by preparing adequate acquisition plans and by incorporating performance factors into the contracting process. In addition, GAO identified obstacles to improving the contracting system.

This report is based on work that GAO conducted at the Forest Service's headquarters, the regional offices for three of the agency's nine regions, and two national forest offices located in those regions. GAO selected the Northern Region, the Pacific Southwest Region, and the Pacific Northwest Region to test the effectiveness of the Forest Service's internal control system and to assess the agency's other efforts to maximize the effectiveness of its contracting. These three regions accounted for about 47 percent of the contracting dollars awarded by the Forest Service in fiscal year 1996.¹

Background

The Forest Service, an agency of the U.S. Department of Agriculture (USDA), manages the National Forest System, which includes 155 national forests and 20 national grasslands and covers more than 191 million acres in 44 states, Puerto Rico, and the Virgin Islands. Highly decentralized, the Forest Service includes a headquarters office located in Washington, D.C., and nine geographic regions. Each of these regions includes a regional office, national forest offices, and ranger districts. Contracting activity is conducted by about 250 contracting officers located in 149 offices spread across the country. The agency spends about 43 percent of USDA's contracting dollars (excluding commodity purchases); no other single agency in USDA accounts for more than 15 percent.

¹In making this calculation, GAO excluded the contracting done by the National Interagency Fire Center, which is not part of the regional and national forest office structure.

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires executive agencies to, among other things, establish and maintain systems of internal control. Internal control systems are intended to provide reasonable assurance that programs' goals and objectives are met; resources are adequately safeguarded and efficiently utilized; reliable data are obtained, maintained, and fairly disclosed in reports; and laws and regulations are complied with. To help program managers implement FMFIA, in 1983, GAO issued Standards for Internal Controls in the Federal Government. These standards define the minimum level of quality acceptable for internal control and establish the criteria for evaluating internal control.

The Federal Acquisition Regulation, which contains the procedures for federal government contracting, requires executive agencies to prepare acquisition plans as a way of reducing hurried and unnecessary procurements, enhancing competition, and reducing the costs of contracting. An acquisition plan lists the contracts that an office plans to award in the upcoming year and provides data on the type of work needed and its cost, timing, and special requirements. To improve the effectiveness and efficiency of federal contracting, various policies and laws have been established on the basis of the general principals of defining performance goals and measuring results. In 1991, the Office of Federal Procurement Policy established the policy that agencies use performance-based contracting methods to the maximum extent possible when acquiring services. This approach emphasizes objective, measurable performance requirements and quality standards to help improve contractors' performance and achieve cost savings. The Federal Acquisition Streamlining Act of 1994 established that a contractor's past performance should be considered when agencies evaluate whether that contractor should receive future work. In addition, in 1996, the Office of Management and Budget tasked federal agencies, including USDA, with establishing performance measures to assess and improve their procurement systems.

Results in Brief

The Forest Service is highly vulnerable to fraud, waste, and abuse because it does not have an effective system of internal control for its contracting activities. The agency's internal control system is lacking in two key respects. First, the Forest Service is not complying with many critical internal control standards. Namely, the agency (1) has no written plan defining control objectives and techniques, (2) lacks complete documentation in the contract files of critical contract award and

administration actions, (3) does not routinely supervise contracting staff, (4) inconsistently monitors contractors' progress, and (5) has significant errors and omissions in its management information system for contract actions. Second, the Forest Service's primary internal control techniques—the system that sets limits on contracting officers' authority, along with periodic field office reviews—are not effectively implemented. For example, some contracting officers may be exceeding their authority because of an unclear policy on how the dollar limits apply to different types of contracts. Likewise, the reviews of field offices, while useful, are too infrequent to be considered an effective internal control in the absence of routine supervision.

The Forest Service is not preparing adequate acquisition plans or incorporating performance factors into its contracting process—techniques that could increase its effectiveness and achieve cost savings. The Federal Acquisition Regulation requires agencies to prepare acquisition plans to enhance contracting's effectiveness and lower costs. The six Forest Service offices that GAO visited either had no acquisition plans for fiscal year 1996 or could not make effective use of the ones that they had because the plans were incomplete or not completed on time. Also, the Forest Service's contracts for services seldom require contractors to meet preestablished performance goals, a technique that other federal agencies have used to save costs. For example, using preestablished goals, payments on a reforestation contract could be based on the success, defined in measurable terms, of the tree planting and maintenance effort. Furthermore, the Forest Service does not routinely evaluate contractors' performance at the end of a contract or effectively store past performance information so it can be used in negotiating future contracts. Finally, although required by USDA, the Forest Service has not implemented procurement performance measures to evaluate and improve the procurement system.

Three primary obstacles stand in the way of improving the Forest Service's procurement system. First, Forest Service officials have not been aggressive in establishing an effective internal control system or implementing management initiatives that could improve their contracting's effectiveness. Second, when the Forest Service tries to improve its contracting practices, the organizational structure of the contracting function impedes these efforts by limiting direct accountability. Finally, the Forest Service's long-standing culture of local independence and autonomy appears to make contracting managers

hesitant to provide the close oversight of contracting activities needed to hold staff accountable for performance improvements.

Principal Findings

Internal Control Weaknesses Increase Vulnerability to Contracting Abuses

Effective internal control is necessary to ensure, among other things, that resources are adequately safeguarded and efficiently expended and that reliable financial and program data are obtained and disclosed in reports. The six Forest Service offices that GAO visited are not complying with many of the internal control standards that GAO and the Office of Management and Budget have established. In addition, implementation problems have limited the effectiveness of the agency's principal internal control techniques—the contracting officer warrant system² and periodic management reviews. Under these circumstances, contracting operations at the Forest Service run a high risk of fraud, waste, and abuse.

The Forest Service is not complying with many critical internal control standards. First, the agency lacks a written plan identifying how it will reduce its vulnerability to possible contracting abuses and communicate this strategy to its decentralized staff. Second, at some of the offices that GAO visited, the agency's contract files were missing key documents, such as a justification for awarding a contract to a particular contractor. Third, the agency's supervisors do not routinely review the work of contracting officers, whose actions can obligate the government for millions of dollars. Fourth, the Forest Service's contracting officers' representatives do not consistently monitor contractors' performance to ensure that the government receives a quality and timely product. Finally, the agency's contracting managers lack accurate summary information to track the flow of contracting dollars and help control operations.

Although the warrant system was designed to establish dollar limits beyond which contracting officers could not award contracts, the Forest Service has not established a clear policy on how to apply those dollar limits to various types of contracts. As a result, some contracting officers may be exceeding their authority to award contracts. In addition, 76 (about 66 percent) of 116 contracting officers in the three regions GAO visited lost their authority to award and administer contracts on

²The warrant system requires contracting officers to meet certain training and experience requirements before obtaining the authority to award and administer contracts above specified dollar thresholds.

November 17, 1997, because they did not meet the deadline to qualify under a new USDA warrant system. While some contracting officers may have been without authority only briefly, as of December 30, 1997, in one region GAO visited, 15 (50 percent) of 30 contracting officers were still without warrant authority.

Management reviews of field offices, designed to identify weaknesses in contract award and administration activities, occurred about once every 5 years in the three regions that GAO visited—too infrequently, in GAO’s view, to act as an effective internal control in the absence of routine supervision. In addition, the Forest Service lacks an effective mechanism for ensuring that review recommendations are implemented. Because local contracting staff do not report directly to regional or headquarters contracting managers, these managers do not have a direct mechanism for holding local staff accountable for implementing recommendations.

Opportunities Exist to Enhance Contracting’s Effectiveness and Save Costs Through Management Best Practices

The Forest Service is not availing itself of established management techniques that could improve contracting operations. Acquisition plans are not consistently prepared or promptly completed, and the planning process has not been effectively automated. In addition, the Forest Service has not adopted three required management practices that incorporate performance factors into the contracting process.

Acquisition planning, which helps ensure that the government meets its needs in the most effective, economical, and timely manner, has not been consistently implemented in the offices that GAO visited. Despite federal regulations requiring them, two of the six forest offices that GAO visited did not have acquisition plans for fiscal year 1996. In addition, the four offices that produced plans could not use them effectively to manage contracting activities throughout the year either because the acquisition plans omitted the contracting needs of some of the program offices or were compiled well past the beginning of the fiscal year deadline. The Forest Service’s acquisition regulations require that acquisition plans be completed before the fiscal year begins.

USDA’s automated system for advance acquisition planning was not designed to be, and is not being used as, an effective planning tool for the Forest Service. The automated system was established in 1994 to forecast USDA’s use of small and disadvantaged contractors as well as to inform minority and small businesses about procurement opportunities with USDA. Forest Service staff told us they could not use USDA’s automated system as

an effective planning tool because they were unable to easily and quickly access the system to produce reports or analyses.

The Forest Service has made limited progress in adopting three federally mandated practices that incorporate performance factors into the contracting process. These practices were designed to improve the contracting system by focusing less on processes and more on results. In the six offices that GAO visited, the Forest Service made very limited use of performance-based service contracts, which are designed to improve contractors' performance by requiring them to meet preestablished performance goals. For example, using preestablished goals, payments on a reforestation and maintenance contract could be made dependent on whether a contractor met a goal for the number of trees that are alive and healthy 1 year after planting. Furthermore, GAO found no evidence that contractors' performance is routinely evaluated at the end of service contracts and that performance information is compiled where it can be used effectively as part of the evaluation process for future negotiated procurements. Finally, the Forest Service had not met Department-wide requirements to establish performance measures to evaluate and improve the procurement system.

Aggressive Leadership and Enhanced Accountability Needed to Overcome Obstacles to Reform

Forest Service officials have not taken aggressive action to correct internal control deficiencies or implement management initiatives that could improve the effectiveness of the agency's contracting. The Forest Service's leadership has not provided its contracting staff with adequate direction and guidance on the concepts or importance of internal control. Without such guidance, it is difficult for contracting managers to design controls and provide an environment conducive to their successful implementation. Similarly, senior Forest Service officials have not provided the necessary direction and training to ensure the successful implementation of the performance-based service contracting and contractor evaluation initiatives. As a result, in the offices we visited, staff were making limited use of these tools.

When the Forest Service makes efforts to improve contracting practices, the organizational structure of the contracting function impedes these efforts by limiting direct accountability. For example, Forest Service contracting managers have had difficulty obtaining compliance with the requirements to (1) capture accurate summary information on contract actions and (2) prepare advance acquisition plans that are complete and on time. This lack of success occurs partly because, within the agency's

contracting function, there are no direct lines of authority or clear reporting relationships between headquarters, the regional offices, and the forests.

Given this organizational structure, extra efforts are required to hold staff accountable for implementing reforms. However, instead of providing this support, the Forest Service's culture of local independence and autonomy hinders accountability for implementing reforms. The organizational culture appears to make contracting managers at all levels of the organization hesitant to provide the close oversight of contracting activities needed to hold staff accountable for improvements in their performance. Previous reviews by GAO and the Forest Service have also raised concerns about the Forest Service's ability to hold managers and staff accountable for their performance.³

Recommendations

To improve the Forest Service's compliance with the Federal Managers' Financial Integrity Act of 1982 and GAO's standards for internal control, GAO recommends that the Secretary of Agriculture direct the Chief of the Forest Service to

- prepare and implement a written internal control plan for contracting, which should include, among other things, methods for ensuring (1) the complete documentation of critical actions in contract files, (2) the routine supervisory review of contracting activities, (3) more consistent monitoring of contractors' progress on service contracts through the implementation of a training and certification program for contracting officers' representatives, (4) improved summary management information, and (5) clarification of how to determine adequate warrant authority for various types of contracts;
- establish a system to periodically monitor and assess the agency's compliance with internal control standards; and
- ensure that the Forest Service's internal control system for contracting is identified as a material weakness in the Department's Federal Managers' Financial Integrity Act report.

GAO is also making additional recommendations to improve the effectiveness and reduce the cost of contracting and to improve acquisition planning. (See ch. 3.)

³Forest Service Decision-Making: A Framework for Improving Performance (GAO/RCED-97-71, Apr. 29, 1997) and Individual and Organizational Accountability in the Forest Service: Successful Management of Work Agreements, USDA, Forest Service (Feb. 1994).

Agency Comments and GAO'S Evaluation

GAO provided USDA with a draft of this report for review and comment. USDA generally agreed with the information and recommendations contained in the draft report and identified actions that it is taking or will take to improve internal control and implement management reforms within the Forest Service. GAO believes that effectively implementing these actions will reduce the Forest Service's vulnerability to fraud, waste, and abuse; improve contracting's effectiveness; and lower costs.

USDA also noted one area of disagreement with the draft report—the characterization of the Forest Service's organizational structure for contracting as an impediment to contracting reforms. While acknowledging that GAO had not made a recommendation in this area, USDA said it did not agree with the suggestion that the existing organizational structure is somehow defective. USDA said that additional management emphasis and accountability can improve the acquisition process within the Forest Service's existing organizational framework. GAO is not suggesting in this report that the Forest Service change its organizational structure. Rather, GAO believes that the organizational structure, by lacking clear lines of authority or effective reporting relationships between contracting staff and managers, impedes direct accountability. In this organizational context, aggressive leadership and sustained oversight will be especially important to establishing and maintaining accountability for implementing contracting reforms.

The Department of Agriculture's comments on the report are presented fully in appendix I. GAO revised the report as appropriate on the basis of USDA's comments.

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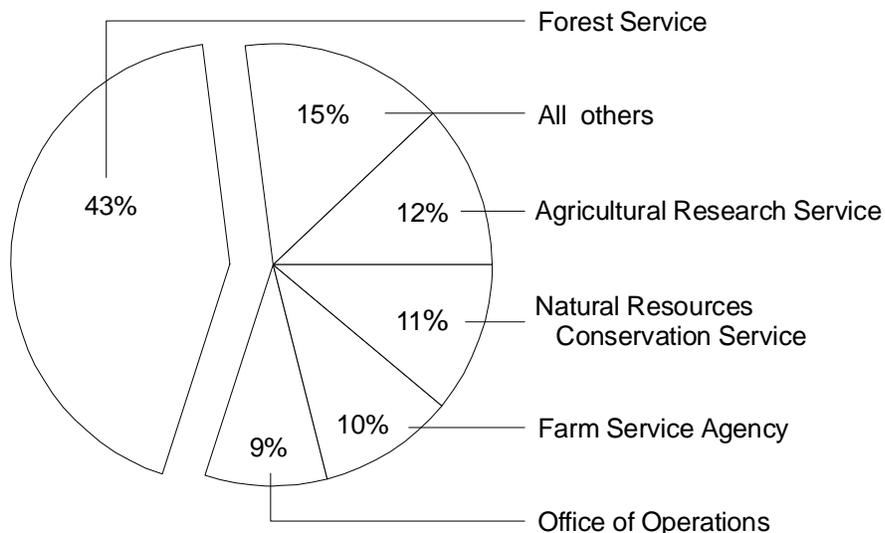
Abbreviations

COR	contracting officer’s representative
FAR	Federal Acquisition Regulation
FMFIA	Federal Managers’ Financial Integrity Act
GAO	General Accounting Office
GPRA	Government Performance and Results Act
IDIQ	indefinite delivery, indefinite quantity
OFPP	Office of Federal Procurement Policy
OMB	Office of Management and Budget
PBSC	performance-based service contract
USDA	U.S. Department of Agriculture

Introduction

The Forest Service, an agency of the U.S. Department of Agriculture (USDA), is responsible for managing and maintaining the National Forest System. This vast system covers 155 national forests and 20 national grasslands on more than 191 million acres. The Forest Service manages this system through a program of sustained multiple use for forage, fish and wildlife, water, wilderness, outdoor recreation, and the production of minerals, range, and timber. To support these diverse activities, the agency contracts for a wide variety of goods and services, including road and building construction, tree planting and other reforestation activities, research studies, and aircraft and helicopters for suppressing fires. In fiscal year 1996, the Forest Service obligated about \$443 million on contracts and contract modifications. The agency has by far the largest contracting activity at USDA, accounting for about 43 percent of the Department's contracting dollars (excluding commodity purchases) in fiscal years 1994 through 1996. (See fig. 1.1.)

Figure 1.1: Distribution of USDA's Contracting Activities



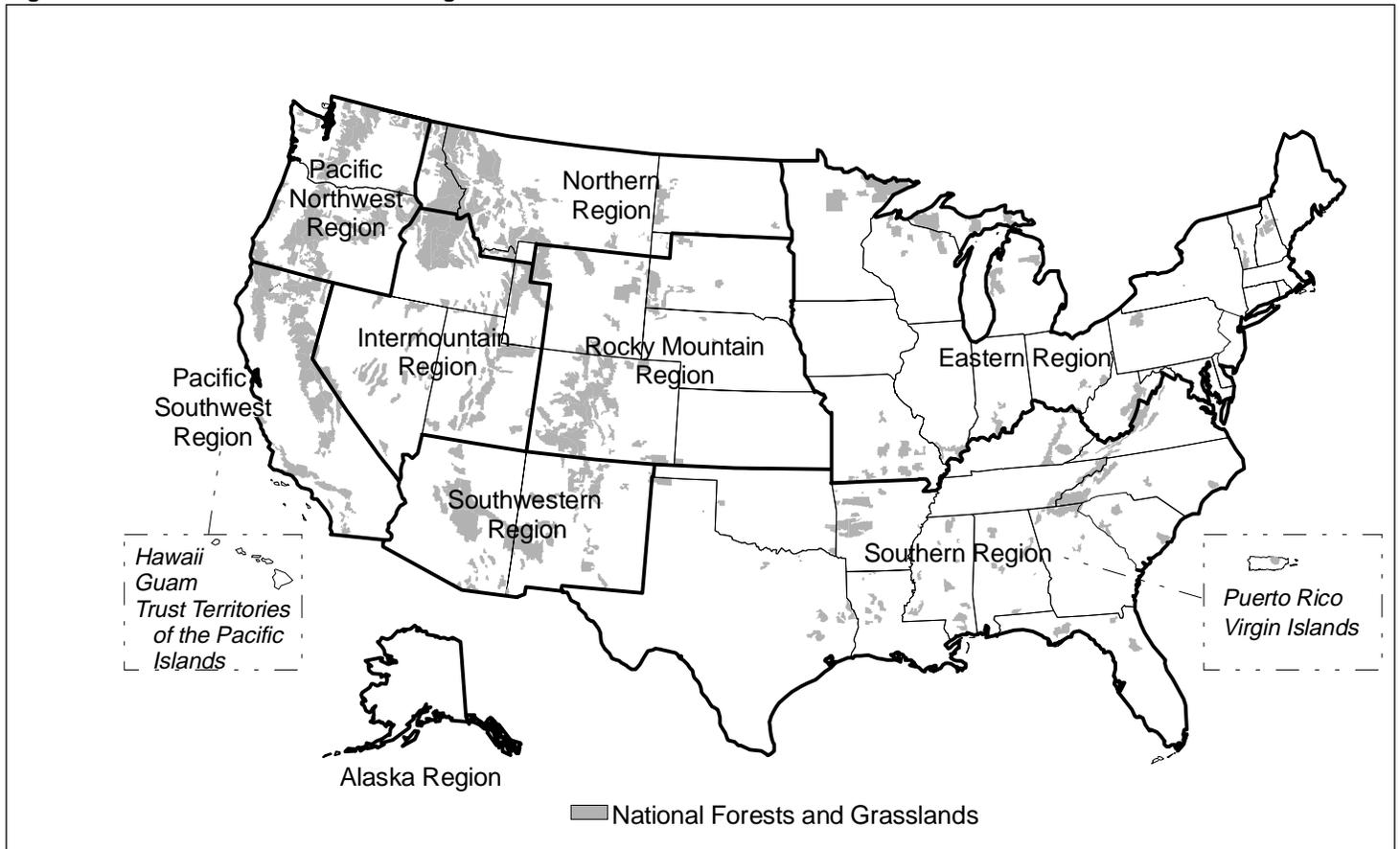
Note: Contracting activities = dollar obligations.

Source: GAO's presentation of USDA's data.

Contracting Organization, Reporting Relationships, and Authority

The Forest Service's program and contracting operations are conducted through a decentralized organizational structure. This structure includes headquarters offices located in the Washington, D.C., metropolitan area, as well as nine geographic regions. Each region contains a regional office, national forest offices, and ranger districts. (See fig. 1.2.)

Figure 1.2: Forest Service Lands and Regions



Source: GAO's presentation of the Forest Service's data.

The national headquarters office for contracting by the Forest Service, known as the Acquisition Management Staff, establishes and interprets

procurement policy for the Forest Service, reviews field contracting activities, and awards and administers some contracts.⁴ The regional offices provide policy guidance, review national forest office activities, and award and administer contracts. The contracting staff's responsibility in the national forest offices is to award and administer contracts. Contracting is conducted by about 250 contracting officers located in 149 offices dispersed throughout the United States.

In addition to being widely dispersed geographically, the Forest Service's local contracting staff are not organizationally aligned with the agency's regional and headquarters contracting staff in a single organizational unit with hierarchical reporting relationships and lines of authority. Although organizational arrangements vary, contracting supervisors in the national forests generally report to local administrative or program managers, not to the regional head of contracting. Regional heads of contracting report to the official in charge of regional operations, not to the head of contracting at headquarters.

Contracting authority within USDA is delegated from the Secretary of Agriculture through several organizational levels to the Director of the Acquisition Management Staff at the Forest Service. The Director delegates contracting authority to employees known as contracting officers⁵ in the regional offices, national forests, and ranger districts. Authority is delegated to each contracting officer through an official document known as a warrant. Contracting officers are required, under the USDA warrant system, to meet certain training and experience requirements before obtaining their contracting authority. Warrant holders are authorized to obligate the government for contract payments on the basis of the maximum amount stated on the warrant.

Applicable Contracting Regulations and Internal Control Standards

The Forest Service's contracting staff are required to comply with federal regulations and policies on contracting. The Federal Acquisition Regulation (FAR) contains the fundamental contracting procedures for all federal executive agencies. At the Forest Service, these regulations are supplemented by the Agriculture Acquisition Regulation and the Forest Service Acquisition Regulations. These regulations must conform to the FAR but can include agency-specific requirements as well. In addition, the

⁴The terms procurement and acquisition, as used in this report, are interchangeable and refer to any purchase of goods or services made with appropriated funds.

⁵The term contracting officer, as used in this report, includes contract specialists who are authorized to handle high-dollar-value contracts and excludes purchasing agents who handle purchases of \$25,000 or less.

Office of Federal Procurement Policy (OFPP), in the Office of Management and Budget (OMB), establishes governmentwide procurement policies and guidance to promote economy, efficiency, and effectiveness in federal procurement.

In addition to the regulations governing specific contracting procedures, the Forest Service must comply with the Federal Managers' Financial Integrity Act (FMFIA) of 1982. This act requires executive agencies, among other things, to (1) establish and maintain systems of internal control, (2) periodically evaluate those systems, and (3) report annually on their status. Internal control is intended to provide reasonable assurance that a program's goals and objectives are met; resources are adequately safeguarded and efficiently utilized; reliable data are obtained, maintained, and fairly disclosed in reports; and laws and regulations are complied with.

To help program managers implement FMFIA's provisions, we issued Standards for Internal Controls in the Federal Government in 1983. These standards define the minimum level of quality acceptable for internal control and establish the criteria for evaluating internal control. Executive agencies are required to report annually to the President and the Congress on whether their systems of internal control comply with FMFIA and GAO standards.

Our standards for internal control consist of five general standards, six specific standards, and one audit resolution standard. The general internal control standards require, among other things, the establishment of control objectives and techniques. Internal control objectives are the goals or targets for control that an agency wants to achieve. Control techniques are the mechanisms that an agency uses to achieve its control objectives. The specific internal control standards require, among other things, (1) the complete and accurate documentation of significant actions, (2) the proper classification of actions in summary records, and (3) qualified and continuous supervision. The audit resolution standard requires managers to promptly resolve audit findings.

The Forest Service must also comply with the Government Performance and Results Act (GPRA) of 1993. GPRA was intended to improve the effectiveness and efficiency of federal programs by establishing a system to set goals for performance and to measure results. To help agencies implement aspects of GPRA, FMFIA, and other related laws, OMB issued Circular No. A-123, which provides guidance on improving accountability

and effectiveness through management control. OMB defines management control as the tools (organization, policies, and procedures) that program and financial managers use to help achieve results and safeguard the integrity of their programs. Circular No. A-123 recognizes the importance of internal control as one of the major elements of management control and incorporates our standards for their implementation. According to OMB, management control should be integrated into an agency's operations and should

“support the effectiveness and the integrity of every step of the process and provide continual feedback to management For instance, good management controls can assure that performance measures are complete and accurate.”

Contracting related management initiatives have been introduced by OFPP and the Congress has enacted laws that are consistent with GPRA's principles of establishing performance goals and measuring results. In Policy Letter 91-2, effective May 9, 1991, OFPP established the policy of using performance-based contracting methods to the maximum extent possible when acquiring services. This approach emphasizes objective, measurable performance requirements and quality standards to help improve contractors' performance and achieve cost savings. Also consistent with GPRA's principles, the Federal Acquisition Streamlining Act of 1994 established that a contractor's past performance should be considered in evaluating whether that contractor should receive future work. The FAR requires contracting officials to collect and maintain information on contractors' performance for evaluating contractors for future negotiated contract awards. Finally, in implementing GPRA, USDA established five Department-wide performance measures for the procurement system. These included OFPP's initiative to increase the use of performance-based service contracting and the Acquisition Streamlining Act's requirement to use past performance evaluations as factors in future contract awards.

Objectives, Scope, and Methodology

At the request of the Chairman, House Committee on Agriculture, we evaluated the Forest Service's internal control and management practices aimed at minimizing fraud, waste, and abuse and maximizing effectiveness in contracting activities. Specifically, we determined whether the Forest Service (1) maintains an appropriate system of internal control over contracting activities to minimize the agency's vulnerability to fraud, waste, and abuse and (2) manages contracting effectively by preparing adequate acquisition plans and by incorporating performance factors into

the contracting process. In addition, we identified obstacles to improving the contracting system.

We focused our review on contracting for goods and services within the Forest Service's National Forest System. Our work was conducted at the headquarters office for contracting in Rosslyn, Virginia; three regional offices; and two national forest offices. We reviewed contracts at the Northern Regional Office in Missoula, Montana; the Pacific Southwest Regional Office in San Francisco, California; and the Pacific Northwest Regional Office in Portland, Oregon. We also reviewed contracts at the Lolo National Forest Office in Missoula, Montana, and the Sierra National Forest Office in Clovis, California. The three regions we visited accounted for 47 percent of the contracting dollars awarded in fiscal year 1996.⁶ In total, we reviewed 52 contracts, whose contract actions exceeded \$20 million in fiscal year 1996.

We judgmentally selected the offices we visited and the contract files we reviewed at each location. We selected contracts from the Forest Service's records of actions reported during fiscal year 1996. This approach provided us with a cross section of contracts at different stages of the contracting cycle (e.g., recently awarded contracts, multiyear contracts with numerous contract actions, and completed contracts). We generally selected contracts with larger dollar values and multiple actions to review. Our sample included contracts for a variety of goods and services, including equipment related to suppressing fires, construction, tree planting, and environmental studies.

To determine whether the Forest Service maintained an appropriate system of internal control for contracting, we interviewed OFPP's, USDA's, and the Forest Service's procurement officials. We contacted the Forest Service's contracting managers at each of the offices we visited to discuss their policies and procedures for internal control. We also reviewed contract files to assess the adequacy of file documentation, the accuracy of management information being summarized and reported, the level of supervisory review of contracting officers, and the monitoring of contractors' performance. To supplement our file review, at each office, we also interviewed contracting officers, contracting officers' representatives, procurement analysts, and others involved in the contracting process to discuss internal control plans, supervision and contract monitoring.

⁶In making this calculation, we excluded the contracting done by the National Interagency Fire Center, which is not part of the regional and national forest office structure.

To assess whether the Forest Service manages contracting effectively, we determined if offices prepared advance acquisition plans and incorporated performance factors into the contracting process. We also reviewed relevant regulations, reports, policy circulars, and initiatives issued by OFPP, USDA, and the Forest Service. During our field visits, we reviewed advance acquisition plans prepared for fiscal year 1996 and interviewed contracting officials to determine how the plans were prepared and used. With headquarters procurement officials from USDA and the Forest Service, we discussed plans for implementing performance-based contracting and gathering data on contractor performance. We also reviewed completed contracts to determine if contractors' performance evaluations had been completed.

To identify obstacles to improving the contracting system, we reviewed information on the Forest Service's organizational structure and the reporting relationships for the agency's contracting. We also discussed organizational culture with headquarters and regional Forest Service officials. For identified contracting problems, we discussed efforts to make improvements and the potential obstacles to doing so with headquarters procurement officials from USDA and the Forest Service.

The Department of Agriculture provided us with written comments on a draft of this report. These comments are presented and evaluated in chapters 2, 3, and 4 and are reprinted in appendix I.

We conducted our work from March 1997 through February 1998 in accordance with generally accepted government auditing standards.

Internal Control Weaknesses Increase Vulnerability to Contracting Abuses

The lack of an effective internal control system for contracting leaves the Forest Service highly vulnerable to fraud, waste, and abuse. Internal control is intended to provide reasonable assurance that resources are adequately safeguarded and efficiently used and that reliable data are obtained and disclosed in reports, among others things. The Forest Service is not complying with many critical internal control standards. Moreover, the control techniques employed by the Forest Service—the contracting officer warrant system and periodic reviews by management—are not effectively implemented. In addition, while Forest Service procurement officials recognize some of these internal control weaknesses, they did not include them in the USDA’s most recent Federal Managers’ Financial Integrity Act (FMFIA) report. Forest Service officials attribute internal control weaknesses to various factors, such as a lack of staff, an organizational culture that encourages autonomy, and a lack of direct authority over contracting staff in field offices.

The Forest Service Is Not Complying With Many Critical Internal Control Standards

The Forest Service is not complying with many of the critical internal control standards that we established. These standards define the minimum level of quality acceptable for internal control and establish the criteria for evaluating internal control. Namely, the Forest Service (1) has no written plan defining the objectives of and techniques for control, (2) lacks complete documentation in contract files of critical contract award and administration actions, (3) does not routinely supervise contracting staff, (4) inconsistently monitors contractors’ progress, and (5) has significant errors and omissions in its management information systems for contract actions.

The Forest Service Lacks Internal Control Plan for Contracting

One critical element of internal control is a management plan that defines the organization’s internal control needs and explains how those needs will be met. The standards for internal control require written evidence of an agency’s internal control objectives, techniques, and accountability systems. However, neither the Forest Service’s headquarters nor regional offices that we visited had a documented internal control plan for contracting. Contracting officials told us they had not prepared a plan, in part, because internal controls for contracting are incorporated into various policy documents and federal regulations and they did not see the importance of summarizing this guidance in a single plan. However, with an internal control plan, Forest Service officials could more (1) clearly define their control objectives and how they will be achieved and

(2) effectively communicate the agency's control strategy to all contracting staff.

**Contract File
Documentation Is
Incomplete**

Internal control standards require that the documentation of transactions or other significant events should be complete and accurate and should facilitate tracing the transaction or event and related information from before it occurs to after it is completed. The Federal Acquisition Regulation requires that documentation in contract files be sufficient to constitute a complete history of the contract to provide (1) a basis for informed decisions, (2) support for actions taken, (3) information for reviews, and (4) essential facts in the event of litigation or congressional inquiries.⁷ The FAR, Forest Service regulations, and the Forest Service Contract Administration Handbook set forth additional standards for the organization and maintenance of the contract files.

In 31 of the 52 contract files we reviewed, we found inadequate contract file documentation in one or more of three critical areas—contract award, administration, and monitoring. With respect to contract award actions, we found the following examples:

- In one office, a file was missing that was supposed to contain information on (1) which contractors submitted proposals and (2) how the proposals were evaluated to determine the contract award. Without this information, we could not determine whether the four contracts awarded from this selection process, with work orders of over \$370,000, were awarded properly.
- When a contract for work being done primarily in California was modified to include a \$95,000 task for work to be done in Alaska, the contract file contained no cost comparison between this approach and the award of a separate contract by the Forest Service region covering work in Alaska. Without this documentation, there was no assurance that the modified contract was the most cost-effective way to acquire these services.

Important contract administration documentation was also lacking in the files we reviewed, as shown in the following examples:

- All 10 of the files we reviewed in one region were incomplete or so poorly organized that they did not meet the region's own standards. Many key contract administration documents were missing entirely, and other

⁷File documentation requirements contained in the FAR, subpart 4.8, are optional for contracts awarded under simplified acquisition procedures, which allow for greater flexibility and reduce procedural requirements for contract awards under \$100,000.

documents were filed incorrectly. For five closed contracts, two of which had been closed for more than a year, contract documents maintained at separate locations had not been consolidated into one official contract folder. As a result, some key contract documents, such as modifications, were missing from the official contract files.

- Documentation was inadequate for nine “indefinite delivery, indefinite quantity” (IDIQ) contracts we reviewed.⁸ According to the FAR, each segment of work ordered should be based on a written statement defining the work needed, known as a scope of work, prepared by the contracting officer. Four of the nine IDIQ contracts also required a written cost proposal from the contractor for that scope of work and a negotiation of the final price. On all nine contracts, there was either no written scope of work from the Forest Service or no documentation of negotiation over costs for each segment of work. Without this documentation, there is no assurance that the Forest Service made a reasonable effort to obtain the lowest cost for that segment of work.

Finally, contract monitoring by contracting officers’ representatives (CORS)⁹ was also poorly documented for some types of contracts. Although we found contract-monitoring documents for the construction contracts that we reviewed, most of the service or supply contracts did not contain contract file notes, records of telephone discussions, or other such documentation, as shown in the following examples:

- A COR told us that although she had frequent phone conversations to ensure that the contractor was on track in producing environmental cleanup studies, she had never documented these conversations because as a new COR, she was uncertain about the requirements for documentation.
- A COR for a computer systems support contract told us she had maintained several years of monitoring reports electronically but deleted them, without placing copies in the official contract file, when the contract closed.

Poor documentation has practical consequences. Incomplete files make it difficult to analyze key contract actions and put the Forest Service at risk in the event of a legal challenge. For example, in January 1997, the Forest

⁸IDIQ contracts provide for an indefinite quantity, within stated limits, of supplies or services to be furnished during a fixed period, and for deliveries or performance to be scheduled by placing orders with the contractor. Each order represents an independent segment of work.

⁹The COR is responsible for day-to-day contract administration activities, such as monitoring the work as it progresses, informing the contracting officer of work progress as well as problems, and documenting these activities.

Service lost a bid protest from a company alleging that the award of the contract was improper because the agency's evaluation of bids from competing companies was inconsistent with the criteria it had established.¹⁰ In the decision sustaining this protest, the Comptroller General of the United States stated that "Where . . . the agency has not adequately documented its evaluation process . . . we have no basis to conclude that the selection decision was reasonable." As a result, the Forest Service was required to reevaluate proposals, document its reevaluation, and make a new selection decision. In addition, the Comptroller General recommended that the Forest Service pay the costs incurred by the protesting company to pursue the bid protest.

Forest Service and USDA officials attributed poor contract file documentation, in part, to decreasing staff resources. They recognized the importance of complete file documentation but stated that with reduced numbers of contracting staff, the documentation of work has become a lower priority.

Contracting Staff Are Not Routinely Supervised

Internal control standards require qualified and continuous supervision to ensure that internal control objectives are achieved. According to the standards, supervisors must (1) clearly communicate the duties, responsibilities, and accountability assigned to each staff member; (2) systematically review each member's work to the extent necessary; and (3) approve work at critical points to ensure that work flows as intended. The lack of routine supervision creates an environment that can lead to mistakes in contracting procedures; allows problems to go unidentified for a long time, if they are identified at all; and leaves the agency extremely vulnerable to fraud, waste, and abuse.

The routine supervisory review of Forest Service contracting officers is nearly nonexistent, especially during contract administration, according to our evaluation of contract files and our discussions with contracting personnel, as shown in the following examples:

- A senior contracting officer had committed procedural errors in administering several of his contracts. Although some concerns about his work surfaced while he was still in the region, a Forest Service official told us that no one had been assigned to routinely review his work because he

¹⁰JW Associates Inc., B-275209, Jan. 30, 1997, 97-1 CPD ¶ 57. The Comptroller General of the United States, head of the General Accounting Office, is authorized by 31 U.S.C. § 3553 to resolve disputes concerning the awards of federal contracts by determining whether federal agencies have complied with statutes and regulations controlling government procurements.

was a senior officer. Only after he left the region and others assumed responsibility for his contracts, were problems with his administration of contracts fully identified. For one of his contracts, his successor discovered that procedures for ordering and tracking work had not been completed appropriately. On the basis of the contract file alone, the successor could not reconcile the contractor's billings to the specific work ordered. The eventual reconciliation of the billings required a significant amount of time and could be done only with the assistance of the contractor.

- A supervisory contracting officer told us that (1) all contracts must contain an "ordering clause" specifying how work will be ordered and (2) an oral order on contracts must be followed by a written order to obligate funds. However, our file review revealed contracts that did not contain ordering clauses and that used oral ordering without subsequent written orders to obligate funds. The supervisory contracting officer agreed that the ordering procedures used for these contracts were inappropriate; however, she had been unaware of the problem.
- A contracting officer made a sole-source award on two contracts totaling \$19 million. The market survey used to determine if other entities were capable of delivering the same services at similar or lower costs was deemed inadequate by USDA's competition advocate,¹¹ who reviewed the contract. The contract was approved by USDA with the stipulation that when option years were exercised, a more comprehensive market survey would be done. However, the Forest Service awarded the option years without conducting the required market survey and without supervisory review, despite the high-dollar value of the contract and the special stipulation by USDA procurement officials.

Despite the internal control standard for supervision, the Forest Service has not established a policy requiring the routine review of contracting officers' work by their direct supervisors. Moreover, contracting officials at all levels of the Forest Service told us that the routine supervision of experienced contracting officers was unnecessary, because the officers had been assigned contracts on the basis of their designated warrant authority and they could be trusted to do their job appropriately. Several officials told us that once assigned a contract, contracting officers are usually "on their own." A headquarters contracting official told us that the Forest Service's culture discourages routine supervision and that contracting officers who have the required training and warrant authority

¹¹To help promote competition, USDA's competition advocate reviews justifications for the use of other than full and open competition in contract awards.

would resent supervisors “looking over their shoulders” to review their work.

Supervisory contracting officers in both regional offices and forests viewed their supervisory responsibilities as primarily administrative in nature; they did not believe that they were primarily responsible for providing technical guidance or direction. These supervisors did not see their role as being responsible for routinely reviewing contracting staff’s work or periodically checking key contract actions. At two locations, we were told that supervisors learn of contract awards through informal discussions and occasionally review award documents. However, the only instances of supervisory review that we found during our file review involved the review of a trainee’s work and a contract involving unique circumstances during the award process.

Officials in USDA’s Office of Inspector General and the Forest Service’s Law Enforcement Office told us that the lack of supervision creates an environment that gives contracting officers or their representatives the opportunity to make costly procedural errors or commit illegal acts that go undetected. The Inspector General identified a case in which an inexperienced, unsupervised contracting officer’s representative paid a contractor over \$111,000 for work that was not performed.

Inconsistent Attention Is Paid to Contract Monitoring

The Forest Service’s Contract Administration Handbook states that contract monitoring is primarily the responsibility of contracting officers’ representatives. Contract duties delegated to CORS include day-to-day contract administration, such as inspecting the work as it progresses, informing the contracting officer of work progress and any problems, documenting the monitoring of the contractor, and initiating payments. CORS may also designate inspectors to carry out some of these same functions for some contracts. CORS and their designated inspectors are not contracting staff. They work in specific program areas and are assigned contracts to monitor on the basis of their technical expertise. For example, an ecologist might be assigned to administer a contract for ecological studies.

While all of the construction contracts that we reviewed appeared to be monitored, we identified service contracts for the preparation of environmental studies, tree planting, and the installation of telephone systems, among others, that had little or no monitoring. Inadequate

monitoring contributed to work that cost more than expected or was left incomplete, as shown in the following examples:

- On one computer systems support contract, the contractor did not submit progress reports as required by the contract and the COR did not insist that they be done. The contracting officer said that the COR's oversight of this contractor was not adequate. As a result, work originally priced at \$165,206 was completed only after the contractor requested extra time and an additional \$88,163—a 53-percent increase in costs.
- On another contract, the contractor provided faulty computer software, and Forest Service personnel had to complete the work. According to the COR, funds were wasted because work had to be redone and the work was delayed by at least 8 months. The contracting officer said that better monitoring and earlier intervention by the COR could have prevented some of these problems.

Some contracting officers said that because of staff shortages or a lack of understanding by CORS, contract monitoring is sometimes viewed as a low priority and therefore receives less attention from CORS than other work duties. For several of the architect and engineering contracts that we reviewed in one region, contracting officials did not consider monitoring a high priority. For example, the contracting officer had delegated monitoring responsibilities to the COR; however, the COR told us he did not monitor the contracts and had delegated that responsibility to inspectors. Both inspectors said that they too did not monitor all the contracts. We found that progress reports required by the contract provisions were not submitted by the contractor and that, for one of the contracts, work on some task orders was completed up to 2 years after the required completion dates.

Headquarters officials and several contracting officers and CORS told us that training is needed to emphasize the importance of monitoring and to improve monitoring skills. CORS who administer construction contracts are formally trained and certified and, according to Forest Service officials, generally have a clear understanding of monitoring and documentation requirements. On the other hand, CORS who administer service contracts sometimes are not trained, do not have to be certified, and are sometimes unclear about documentation and monitoring requirements. The Forest Service is considering a proposal to establish a structured training and certification program for all CORS similar to the existing program for construction, but this proposal has not yet been approved and implemented.

**Management Information
Is Inaccurate and
Inconsistent**

Internal control standards require that transactions and other significant events be promptly recorded and properly classified. Prompt and accurate records of transactions allow for the preparation of summary reports, which can be used by management in controlling operations. The only summary management information on the Forest Service's contracting is captured in a data system based on "Individual Contract Action Reports" (Standard Form 279) and commonly referred to as "279 data." These data are reported to the Federal Procurement Data System along with data from other government agencies. The data are used for reports to the Congress and executive branch agencies and

"to measure and assess the impact of federal procurement on the nation's economy, the extent to which small business firms and small disadvantaged business firms are sharing in federal procurement, the impact of full and open competition in the acquisition process, and other procurement policy purposes."¹²

The Forest Service's database for contracting activities, used both internally and externally, is so inaccurate that it is of little use in controlling contracting operations or assessing procurement policies. We identified errors in the Forest Service's 279 data on most of the contracts we reviewed, as shown in the following examples:

- In one region, we found that the dollar amounts entered into the 279 data system were inaccurate for seven of the eight contracts we reviewed. In one case, four contracts for hazardous waste cleanup services were shown in the 279 data as obligations of \$5 million each, for a total of \$20 million. According to the contracting officer for these contracts, the maximum obligation for each of these IDIQ contracts was only \$500,000. Therefore, the \$20 million reported overstated the actual obligations by at least \$18 million.
- Several forests had awarded contracts but had not entered any data on them into the 279 system. At one office we visited, which was the organizational center for three national forests, two of the forests had not reported any data and the third had significantly underreported its data. According to a local contracting official, the two forests that had not reported any contract actions had a total of about \$15 million to \$20 million in contracting activity in fiscal year 1996. During this period, the third forest had about \$15 million in contracting activity but reported only about \$3.2 million.

¹²Federal Procurement Data System Reporting Manual, General Services Administration (Oct. 1995), p. 3.

- Data entry practices did not always capture individual contract transactions as required by the Office of Federal Procurement Policy. At two offices, rather than enter individual actions, procurement assistants had been instructed to compile and enter 279 data on a quarterly basis for some contracts with numerous task orders. In another region, we were told that the procurement assistant was combining several modifications or task orders into single entries to reduce her work backlog. In addition, one contracting officer in another region said that he had his own system of 279 data entry that involved periodically entering “ballpark” summary information rather than entering each transaction.

Forest Service officials at all the offices we visited acknowledged that their 279 data were inaccurate. The senior contracting official in one region said that they have been unable to correct the situation, owing, in part, to a lack of direct authority over contracting staff in the regional and field offices.

The Forest Service Relies on Ineffective Internal Control Techniques

Problems in the implementation of the Forest Service’s main internal control techniques—the warrant system for contracting officers and periodic reviews by management—severely limit the effectiveness of these techniques as internal control. The Forest Service lacks the clear policy guidance needed to prevent warrant limits from being exceeded and did not meet the deadline to place all of its contracting officers under a new warrant system. In addition, the current schedule of management reviews of contracting offices is not frequent enough, in the absence of routine supervision, to act as an effective internal control.

The Effectiveness of the Warrant System as an Internal Control Is Weakened by Implementation Problems

Our review found problems with the implementation of the contracting officer warrant system, which Forest Service officials consider one of their primary internal controls. First, headquarters has not established a clear, consistent policy on the level of authority required to award and administer various types of contracts, and confusion exists on this subject among field staff. Because of this confusion, some contracting officers may be exceeding their warrant authority. Second, as of November 1997, warrant authority expired for a significant number of contracting officers who failed to meet new requirements, leaving these officers without authority to perform their duties. The primary purpose of the contracting officer warrant system is to (1) document the appointment of contracting officers and (2) set limits on their authority to award and administer contracts above specified dollar thresholds. To obtain a warrant, USDA

requires contracting officers to meet specified education, training, and experience requirements. To be in compliance with the warrant system and to be an effective internal control, contracting managers must assign work to contracting officers that falls within the limits of their warrant authority.

Clear, Consistent Policies on Warrant Authority Have Not Been Established

The Forest Service has not established a clear policy regarding the levels of authority needed to award and administer either fixed-price or IDIQ contracts. As a result, for many of the contracts we reviewed, we were unable to determine if the contracting officers had adequate warrant authority. Given the lack of a clear Forest Service policy, in some cases, contracting officers may be exceeding their warrant authority.

For fixed-price contracts, the Forest Service has not clearly established whether the total contract dollar amount, including the amount for all option years, or just the first year's amount should be used as the basis for determining if a contracting officer has sufficient warrant authority. In addition, the agency does not have a clear policy to help managers determine if a contracting officer has adequate warrant authority to award and administer IDIQ contracts, for which the total dollar value is unknown upon award. For example, currently, a contracting officer with warrant authority of only \$100,000 can award and administer a highly complex contract that may eventually cost more than \$1 million. Headquarters officials agree that they need to clarify whether contracting officers must have authority to cover the total amount anticipated on these contracts or may use the award amount as the basis for work assignments.

In the absence of a clear policy, the Forest Service generally uses the contract award amount as the basis for determining if a contracting officer has adequate authority to award a contract, but this term is unclear for certain types of contracts. Senior Forest Service contracting officials acknowledged that the agency has no standard practice for establishing the contract award amount, even though this information is critical for correctly assigning contracts to contracting officers. For example, for IDIQ contracts, we found award amounts that were based on the (1) amount of only the first order on the contract, (2) amount estimated for the first year, (3) minimum amount allowed for a year, (4) maximum amount allowed for a year, and (5) estimated amount for the entire contract. In some cases, the award amount was described as "indefinite" or was not specified.

Finally, the Forest Service's policy regarding adequate warrant authority to take certain contract actions is not consistent with USDA's policy. USDA's

contracting officials told us that, for fixed-price contracts, the dollar value of each individual contract action, such as a contract modification, must be within a contracting officer's authority. However, the Forest Service's policy is that once a contracting officer makes a contract award that is within the officer's authority, subsequent contract modifications can exceed the officer's warrant authority. In one contract that we reviewed, a contracting officer with warrant authority of up to \$500,000 issued a contract modification for \$980,379. According to USDA, the officer's warrant authority had been exceeded in this case.

**Many Contracting Staff Failed
to Establish New Warrant
Authorities by Deadline**

In November 1997, warrant authority expired for 76 (about 66 percent) of 116 contracting officers in the three regions that we visited because the contracting officers failed to meet the deadline for obtaining warrants under USDA's new system. In 1995, USDA established its competency-based warrant system to comply with the Office of Federal Procurement Policy's 1992 policy letter requiring agencywide training standards and polices for performing contracting duties. USDA's regulations require that all contracting officers receive training and demonstrate competency in 78 basic contracting duties. Warrants issued prior to the establishment of this system expired on November 17, 1997, unless contracting officers could demonstrate their proficiency at performing these duties through education, training, or on-the-job experience.

Although USDA granted the Forest Service a 1-year extension to comply with the new competency-based warrant system, as of the November 17, 1997, extended deadline, headquarters officials estimated that about 20 percent of the contracting officers agencywide had not completed the process. A headquarters official said that, for the most part, this would not have a serious impact on any one region. However, at each of the three regions we visited, over 50 percent of the contracting officers were without warrant authority as of November 17, 1997 according to regional officials. In one region, 56 percent (14 of 25) of the contracting officers lost their warrant authority in November; in the second region, 77 percent (23 of 30) lost their authority; and in the third region, 64 percent (39 of 61) lost their authority.

As a result of losing their warrant authority, for 2 months or more, many contracting officers could not perform their essential functions. For example, in one region, a contracting official told us that 11 of 21 forests were without a warranted contracting officer as of November 1997. This resulted in a highly disruptive process of delegating responsibility for contract administration to other contracting officers in a nearby forest or

the regional office. In addition, as of December 30, 1997, in one region we visited, 15 (50 percent) of 30 contracting officers were still without their new authority. A headquarters official told us that as of January 1998, about 10 to 15 percent of the contracting officers agencywide still did not have their new authority.

Internal Reviews Are Not Frequent Enough to Serve as an Adequate Internal Control

The Forest Service periodically reviews contracting activities at both the regional and forest levels. These reviews assess the effectiveness and efficiency of contracting operations by, among other things, (1) evaluating the performance of contracting staff; (2) examining the adequacy of staffing and skill levels, delegated authority, and organizational configuration; and (3) checking compliance with laws, regulations, and policies. However, these reviews are too infrequent, in our view, to serve as an effective internal control, given the absence of more routine supervision. Headquarters conducts reviews of each region once every 5 years, on average. Regional officials told us they conducted reviews of each of their forests an average of about once every 4 to 5 years; however, in one region, no reviews of forests had been done since 1991. In another region, officials told us that the number of reviews they conduct has decreased in recent years because of downsizing.

Furthermore, the Forest Service lacks an effective mechanism for ensuring that offices implement operational improvements contained in review recommendations. Headquarters officials told us that their review recommendations are generally accepted and adopted but acknowledged that if an office chooses not to adopt review recommendations, they can do little. Because local contracting staff do not report directly to regional or headquarters contracting managers, these managers do not have a direct mechanism for holding local staff accountable for implementing recommendations.

Internal Control Weaknesses Are Not Reported in Federal Managers' Financial Integrity Act Report

In addition to the standards for the operational components of internal control, such as adequate documentation and routine supervision, standards exist for evaluating and reporting on internal control. The Federal Managers' Financial Integrity Act of 1982 requires agencies annually to evaluate their internal controls, using guidance from OMB, and report to the President and the Congress on how they comply with our internal control standards. OMB's guidance states that continuous monitoring and other periodic evaluations are needed to assess and improve internal control.

This ongoing monitoring of internal control is not occurring for contracting at the Forest Service. While our review found serious weaknesses in the Forest Service's internal control, these deficiencies were not identified by Forest Service officials and reported as a material weakness in USDA's fiscal year 1997 FMFIA report. This report, the most recent available, identified six uncorrected material internal control weaknesses at the Forest Service, but none of these related to contracting. The lack of internal control for contracting at the Forest Service constitutes a reportable material weakness.

Conclusions

The lack of an adequate system of internal control for contracting at the Forest Service makes the agency extremely vulnerable to fraud, waste, and abuse, as shown in the following examples:

- Without proper file documentation, the Forest Service (1) has no assurance that contracts are awarded or administered in accordance with applicable laws and regulations and (2) is at risk in the event of a legal challenge, such as a bid protest.
- Unless CORS are trained on the importance of contract monitoring, it is likely that inconsistent monitoring practices will continue and that the Forest Service will continue to have no assurance that its contractors are providing the highest-quality services at the lowest cost.
- Until it improves its data reporting, the Forest Service will continue to provide the Congress and other external users with erroneous contracting information and to make management decisions that are based on inaccurate information.

As such, the Forest Service must make a serious, concerted effort to develop and implement a sound system of internal control and periodically review its operations to ensure that controls are being followed.

Recommendations

Effective internal control is essential to safeguarding government assets and to conducting government business with full accountability. To improve compliance with FMFIA and our standards for internal control, we recommend that the Secretary of Agriculture direct the Chief of the Forest Service to

- prepare and implement a written internal control plan for contracting that includes methods for ensuring (1) the complete documentation of critical actions in contract files, (2) the routine supervisory review of contracting

activities, (3) more consistent monitoring of contractors' progress on service contracts through the implementation of a training and certification program for contracting officers' representatives, (4) improved summary management information, and (5) clarification of how to determine adequate warrant authority for various types of contracts;

- establish a system to periodically monitor and assess compliance with internal control standards; and
- ensure that the Forest Service's internal control system for contracting is identified as a material weakness in the Department's FMFIA report.

Agency Comments and Our Evaluation

In commenting on our draft report, USDA agreed with all of our recommendations for improving internal control. USDA said the Forest Service will develop an internal control plan that addresses the need to improve contract file documentation, supervisory review of contracting activities, and contract management information. USDA also stated that the Forest Service will ensure COR training and certification and issue guidance to the acquisition workforce, clarifying the limits of contracting officer warrant authority. In addition, USDA said that the Forest Service, in consultation with USDA's Office of Procurement and Property Management, will develop a system to periodically monitor and assess compliance with internal control standards and will cite the internal control problems we identified as material weaknesses in USDA's FMFIA report. We believe that effectively implementing these actions will help reduce the Forest Service's vulnerability to fraud, waste, and abuse.

Opportunities Exist to Enhance Effectiveness and Reduce Contracting Costs Through Best Management Practices

The Forest Service has not effectively implemented four established management practices that could increase the effectiveness and lower the costs of contracting: acquisition planning, performance-based service contracting, contractor evaluations, and performance measures for the procurement system. In the offices we visited, acquisition plans were not consistently prepared or promptly completed; furthermore, the acquisition-planning process was not effectively automated. Similarly, these offices made infrequent use of performance-based service contracts and had no system for evaluating and recording contractors' performance after service contracts were completed. Finally, despite a USDA requirement, the Forest Service has no means of assessing the effectiveness of its procurement system.

Advance Acquisition Planning Does Not Comply With Requirements and Is Not Effectively Automated

The Federal Acquisition Regulation requires agencies to prepare plans for conducting needed procurement activities as a way of enhancing the effectiveness and lowering the costs of contracting. In the Forest Service offices we visited, however, contracting staff either did not prepare acquisition plans at all or prepared them in an incomplete or untimely fashion. This occurred in part because contracting managers are not held accountable for designing and conducting an effective planning process. In addition, the acquisition planning process has not been effectively automated.

The FAR Requires Planning to Ensure Effective Contracting

An acquisition plan lists the contracts that an office plans to award in the upcoming year and provides data on the type of work needed, its cost, timing, and special requirements. An effective acquisition planning process can help contracting staff to (1) promote and provide for full and open competition, (2) reduce wasteful practices resulting from hurried and unnecessary procurements, and (3) apply innovative acquisition methods to meet a program's needs. A lack of planning, on the other hand, can be costly, as noted in a 1994 report by a USDA task force reviewing the Department's procurement practices.¹³ Workload imbalances at unexpected times during the year can lead to poorly written contracts, which may, in turn, result in post-award disputes. Contract prices may also be higher than would be the case if contracting officers had a sufficient opportunity to thoroughly analyze costs and conduct meaningful negotiations. For these reasons, the FAR has, for many years, required acquisition planning by federal agencies. USDA's and the Forest Service's

¹³USDA Procurement Review Task Force, USDA (Aug. 1994), pp. 107-108.

acquisition regulations prescribe specific procedures and requirements for acquisition planning at the Forest Service.

**The Forest Service's
Offices Are Not Complying
With Acquisition Planning
Requirements**

Two of the six offices we visited did not have acquisition plans for fiscal year 1996. In another office, the plan that was prepared was incomplete because not all program staff had provided contracting personnel with information on their planned procurements. Forest Service contracting officials told us that the program staff do not understand the importance of acquisition planning and find the reporting requirements burdensome. However, without comprehensive contracting information, the plan has limited use as a management tool. Given incomplete information, contracting staff are hindered in (1) making informed decisions regarding their expected workload, (2) identifying opportunities for consolidating procurement requests that may lead to operational efficiencies and cost savings, or (3) determining if innovative techniques, such as performance-based contracting, can be used.

Even in the three offices that had complete plans, the plans' usefulness was limited because they were not completed on time. The Forest Service acquisition regulations require that acquisition plans be completed before the fiscal year begins. In two of the offices, plans were prepared during the first quarter of the fiscal year. In the third office, the plan was completed in the second quarter; thus, this plan could be used for only about half the year. Program staff responsible for planning stated that the lag was primarily due to delays in receiving final program budget figures from the Forest Service's headquarters. However, contracting managers we spoke to said that, even with these delays, preliminary planning could be done much earlier and final budget figures included when they became available.

**Managers Are Not Held
Accountable for
Acquisition Planning**

Planning is inconsistent and ineffective in part because managers are not held accountable for preparing and using advance acquisition plans. Whether the plans are prepared and used effectively is left to each forest. One regional office we visited did not know whether the national forests in the region produced acquisition plans. Similarly, headquarters only knows whether the regions are planning effectively if they cover this subject during their management reviews, which occur about once every 5 years. To improve acquisition planning, in 1994, the USDA procurement task force recommended that, among other things, managers be held accountable for

effective planning to the maximum extent possible.¹⁴ We found no evidence that this recommendation has been implemented. In our view, part of the explanation for this lack of success is that contracting managers in headquarters and the regional offices lack direct authority over contracting staff in the field offices.

**Acquisition Planning Has
Not Been Effectively
Automated**

Also contributing to the Forest Service's ineffective acquisition planning effort is its lack of an effective automated system to compile and manage planning information. Although, in the regions we visited, the Forest Service's program staff have automated systems to prepare their annual work plans, contracting staff generally have been unable to generate acquisition plans from the program's existing planning database. Instead, program staff must separately report which planned work will require contracts to contracting staff. The contracting staff must then compile this information manually or enter it into their own local planning database, if they have one. This process is inefficient and burdensome to staff.

Although USDA established an Automated Advance Acquisition Planning System, it was not designed to be, and is not being used as, an effective planning tool for the Forest Service. The automated system was established in 1994 to forecast USDA's use of small and disadvantaged contractors as well as to inform minority and small businesses about procurement opportunities with USDA. Contracting staff are required to separately enter data on planned procurements into the automated system in addition to the data entry required to create their local acquisition plans. In the offices we visited, contracting staff found the additional data entry requirements burdensome. Moreover, they could not use USDA's automated system as an effective planning tool because they were unable to easily and quickly access the system to produce reports or analyses.

Because USDA's automated system does not meet their needs, two of the regional offices we visited are independently attempting to adopt an automated process that was developed in another Forest Service regional office. The process is designed to allow contracting staff to develop acquisition plans from existing program-planning databases, thereby avoiding burdensome reporting requirements and duplicate data entry. However, neither region has been widely successful in implementing the automated process in its forests.

¹⁴USDA Procurement Review Task Force, USDA (Aug. 1994), p. 109.

To improve advance acquisition planning, the USDA task force recommended in 1994 that the submission of advance acquisition plans be automated. A standard, automated acquisition planning system, linked to an automated program-planning system, would enhance planning by (1) reducing burdensome reporting requirements, (2) eliminating duplicate data entry, and (3) facilitating revisions and the production of summary reports. USDA is currently in the midst of an effort to modernize its procurement systems. A USDA official told us that the Department plans to incorporate automated acquisition planning into the new procurement system and is currently assessing the availability of software for this and other procurement system requirements. USDA expects the new system to be available in 1999, at the earliest.

Performance-Based Service Contracts Are Not Widely Used

Despite governmentwide efforts to lower costs and improve contractors' performance through the greater use of performance-based service contracting, the Forest Service has only recently taken the first steps in this direction. Performance-based contracts make payments contingent on whether the contractor meets the performance goals. For example, under performance-based contracts, the payments on a reforestation and maintenance contract could be based on whether the contractor met a goal for the number of trees that are alive and healthy 1 year after planting. The agency has made very limited progress in adopting performance-based contracting, in part because it has not provided its regional and national forest offices with adequate training or direction to aid them in identifying contracts that could be awarded using performance-based techniques. By failing to aggressively implement performance-based service contracting, the Forest Service is likely missing opportunities to lower costs and improve contractors' performance.

In Policy Letter 91-2, effective May 9, 1991, the Office of Federal Procurement Policy established the policy of using performance-based contracting methods to the maximum extent possible when acquiring services. To be a true performance-based service contract (PBSC), the contract must include (1) a performance work statement, which describes the work in objective, measurable, performance standards; (2) a quality assurance plan, which measures the contractor's performance in meeting the standards; and (3) positive or negative performance incentives. According to OFPP, performance-based contracting will help to correct problems commonly associated with service contracts and identified in

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numerous audits, including cost overruns, schedule delays, failure to achieve specified results, and other performance problems.¹⁵

OMB assessed federal agencies' implementation of the performance contracting policy in 1996 and found only limited use of performance-based service contracting at USDA. In early 1997, USDA promised to OFPP that it would "embark on a stronger initiative than in the past to capture the potential savings from the use of PBSC." As of January 1998, the Forest Service's headquarters identified one contract that it planned to award in fiscal year 1998 using performance-based techniques. This contract—to operate the system used to make recreation reservations in national forests—is expected to be worth about \$12.6 million over 5 years. In a January 1998 meeting with headquarters officials, the regional offices identified 11 contracts they planned to award as performance-based contracts in fiscal year 1998, with an expected total value of about \$2 million.

In our view, progress in adopting performance-based service contracting has been hampered by a lack of adequate direction from headquarters and of in-depth training on performance-based techniques. According to OFPP, two keys to the success of PBSC are (1) direction to staff from the highest agency levels and (2) training for contracting and program staff that covers how to write performance work statements, how to formulate quality assurance plans, and other aspects of PBSC. The offices we visited were generally familiar with the concept of a performance-based contract. However, they had not received explicit direction from headquarters stressing the significance of this initiative or in-depth training on how to develop a performance-based contract. A senior Forest Service contracting official told us that the type of services that the Forest Service contracts for do not lend themselves easily to being done as performance-based contracts and that the time and resources required to develop performance-based contracts has further limited their use.

The Forest Service
Lacks a System for
Evaluating
Contractors'
Performance

The Forest Service does not have a system in place for routinely evaluating contractors' performance at the end of service contracts and compiling such evaluations in a central location. As a result, contracting officials cannot easily consider contractors' past performance in making award decisions for negotiated contracts.

¹⁵A Guide to Best Practices for Performance-Based Service Contracting, Office of Federal Procurement Policy (Apr. 1996), p. 6.

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The FAR required agencies to evaluate a contractor's performance and establish manual or automated past performance reporting systems by July 1, 1995, for service contracts in excess of \$1 million. As of January 1, 1998, the FAR requirement to evaluate past performance applies to service contracts in excess of \$100,000. The FAR, and the USDA regulations that supplement them, require the Forest Service to establish the content and format of performance evaluations. According to OFPP, the essential objective of the FAR provisions is to have a clear and concise evaluation of a contractor's past performance that is readily available and can be shared with a requesting contracting officer with a minimum of delay. Information on a contractor's performance on every contract is critical to negotiated contract awards because the award decision is based on "best value" to the government. In this environment, factors such as the ability to deliver quality work are being considered in addition to price. If past performance data are not captured or are captured but not readily available for review, they cannot be used effectively in award decisions on negotiated contracts.

In the offices we visited, the Forest Service seldom awards service contracts large enough to require an evaluation under the FAR requirements that were in effect during our review—that is, contracts exceeding \$1 million in value. Our sample of contract files included only two service contracts that exceeded this threshold; the performance evaluations were not completed on either of these contracts.

Since January 1, 1998, however, performance evaluations have been required for service contracts exceeding \$100,000, which are more common at the Forest Service. For example, of the 25 service contracts we examined, the award amounts of 7 exceeded \$100,000. Yet, the agency has not issued guidance for these evaluations nor established a database for maintaining the results. As a result, contracting staff do not know what aspects of past performance should be evaluated for service contracts and do not have a form to use to structure their evaluations. In addition, staff do not know where to store evaluation data so they can easily be retrieved and used in award decisions on future negotiated procurements. A regional official told us that despite this limitation, some information on contractors' performance is captured and shared informally, though not systematically, among contracting officers.

Without direction from the Forest Service's headquarters on both the format and content of past performance evaluations and the system for capturing past performance data, contracting staff cannot consistently

gather this information. Without consistent data on past performance, contracting officers find it difficult to effectively consider quality factors in awarding negotiated contracts, and consequently, contractors whose previous performance has been unsatisfactory could win future contracts. In addition, unless it begins to systematically gather data on contractors' performance, the Forest Service may not be in a position to meet the FAR requirement that past performance be considered in all negotiated award decisions made on or after January 1, 1999, for acquisitions expected to exceed \$100,000.

Procurement System's Performance Measures Are Not Yet Implemented

The Forest Service did not meet USDA's May 1997 deadline for developing a plan for implementing performance measures for its procurement system. Because the Forest Service did not complete its plan on time or implement any performance measures, it was unable to report on its progress in meeting procurement performance goals in fiscal year 1997. Moreover, the plan that the agency eventually submitted in February 1998 does not provide an adequate basis for effectively implementing procurement performance measures. Without performance measures and good data on actual performance, the agency does not have an effective mechanism for improving its contracting performance.

In May 1996, OMB issued a memorandum to the heads of executive departments and agencies regarding the use of procurement performance measures to help improve the federal acquisition system. OMB required each agency to develop a plan for assessing the performance of its procurement system by October 1996 and to implement the plan during fiscal year 1997. Using procurement performance measures to assess contracting activities constitutes one aspect of an agency's implementation of the Government Performance and Results Act.

As part of its implementation of GPRA, USDA established five procurement performance measures to be implemented Department-wide. Two of these measures are (1) achieving cost savings through the increased use of performance-based service contracting and (2) increasing the use of past performance as an evaluation factor for awards. USDA issued a departmental notice in March 1997 "to establish the procurement performance measures which will be used USDA-wide to measure progress in improving performance relating to quality, timeliness, productivity and price." The notice required that by May 1, 1997, the head of contracting at the Forest Service submit to USDA the Forest Service's plan for implementing the required measures, including the methodology for data

collection and the approach to analyzing data for establishing goals for future years. In addition, the Forest Service was required to submit by November 14, 1997, a report on the agency's progress in meeting the performance goals. The Forest Service did not submit the implementation plan or the progress report by the specified deadlines.

On February 10, 1998, the agency submitted its procurement performance measures implementation plan to USDA. The plan did not contain (1) baseline data on current performance or (2) specific performance goals for four of the five measures. According to a USDA official, without, at a minimum, baseline data and specific performance goals, the Forest Service does not yet have an adequate plan to effectively implement procurement performance measures.

Conclusions

Without the effective implementation of acquisition planning, performance-based service contracts, and contractor evaluations, as well as periodic assessments of its procurement system's performance, the Forest Service has little assurance that it is receiving the highest-quality services at the lowest cost. If the Forest Service is to improve its procurement planning, it must hold staff accountable for preparing and using acquisition plans. Moreover, the effective automation of the planning system would facilitate the production of plans by reducing burdensome data entry requirements. Although the need for accountability and automation for acquisition planning was recognized in 1994 by USDA's procurement task force, needed improvements have not yet been made. Furthermore, making progress in implementing performance-related management initiatives will require a much greater management commitment to providing staff with policy direction and training. Finally, once staff are provided with the necessary tools—such as appropriate policy direction, training, and systems support—managers must provide sufficient oversight to hold staff accountable for adopting the desired procurement reforms. Without this management direction and oversight, the likelihood that staff will increasingly use these techniques—or that the overall system will improve—is limited.

Recommendations

To improve acquisition planning, we recommend that the Secretary of Agriculture continue the Department's efforts to develop and implement a more effective Department-wide automated advance acquisition planning process.

To improve the effectiveness and reduce the cost of contracting, we also recommend that the Secretary of Agriculture direct the Chief of the Forest Service to

- hold regional contracting managers responsible for ensuring that regional and national forest offices prepare advance acquisition plans that are on time and contain complete information on contracting needs;
- increase the use of performance-based service contracts by providing all contracting staff with training and direction on the mechanics of developing and awarding performance-based contracts, establishing annual goals for their use, and periodically monitoring actual usage;
- develop a format for capturing data on contractors' past performance for service contracts and a strategy for effectively maintaining these data; and
- implement the performance measures for the procurement system established by USDA by, at a minimum, collecting baseline data on current performance and defining annual, measurable goals for improvement for each measure.

Agency Comments and Our Evaluation

In commenting on our draft report, USDA said that it agreed with all of our recommendations for improving the effectiveness and reducing the cost of contracting. USDA said that it is working to improve its advance acquisition planning process and that the Forest Service will comply fully with acquisition planning requirements that are forthcoming from USDA's Office of Small and Disadvantaged Business Utilization. However, USDA did not specify the actions that the Forest Service will take to hold contracting managers accountable for preparing acquisition plans that are complete and on time. We believe that establishing better accountability for planning is key to improving the effectiveness of the planning process.

USDA said that Forest Service's regional offices have been holding training in performance-based service contracting and that USDA will continue to work with the Forest Service to increase the use of this contracting tool. In addition, USDA said that during the third quarter of fiscal year 1998, it will make available to the Forest Service and USDA's other agencies an automated past performance system currently in use at the National Institutes of Health—an agency of the Department of Health and Human Services—as well as four other agencies. USDA expects the Forest Service to implement this past performance system in time to meet the FAR requirement that by January 1, 1999, past performance information be considered in negotiating service contracts valued in excess of \$100,000. Finally, USDA said that the Forest Service, in coordination with USDA's

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Office of Procurement and Property Management, will develop an approach to implementing procurement performance measures, including relevant baseline data. We believe that effectively implementing these actions will help improve the effectiveness and lower the costs of contracting at the Forest Service.

Aggressive Leadership and Enhanced Accountability Are Needed to Overcome Obstacles to Reform

Three fundamental obstacles stand in the way of correcting the weaknesses in the Forest Service's procurement system: (1) the lack of aggressive leadership to implement internal control and contracting reforms, (2) an organizational structure that impedes direct accountability within the contracting function, and (3) a long-standing culture of local independence and autonomy. Overcoming these obstacles to contracting reform will take aggressive leadership, enhanced accountability, and sustained oversight at all levels of the Forest Service.

Managers Have Not Acted Aggressively to Implement Internal Control and Contracting Reforms

The senior contracting officials whom we interviewed at the Forest Service's headquarters recognized that a number of the problems we discussed in chapters 2 and 3 needed correcting. Yet, they have not aggressively taken corrective actions, such as providing the necessary direction, training, and emphasis needed to ensure that improvements are implemented.

The Forest Service's leadership has not provided its contracting staff with adequate direction and guidance on the concepts or importance of internal control. Without such guidance, it is difficult for contracting managers to design controls and provide an environment conducive to their successful implementation. For example, many managers saw no need to routinely supervise contracting officers who obligate the government to pay hundreds of thousands of dollars to private contractors.

Similarly, senior Forest Service officials have not provided the necessary direction and training to ensure that the performance-based service contracting and contractor evaluation initiatives are successfully implemented. As a result, in the offices we visited, staff were making limited use of these tools. For example, senior officials acknowledged that staff do not fully understand what a performance-based contract is and thus may erroneously believe they are already using these contracts. Yet, Forest Service leaders have not taken steps to provide training or guidance in the requirements of performance-based contracting.

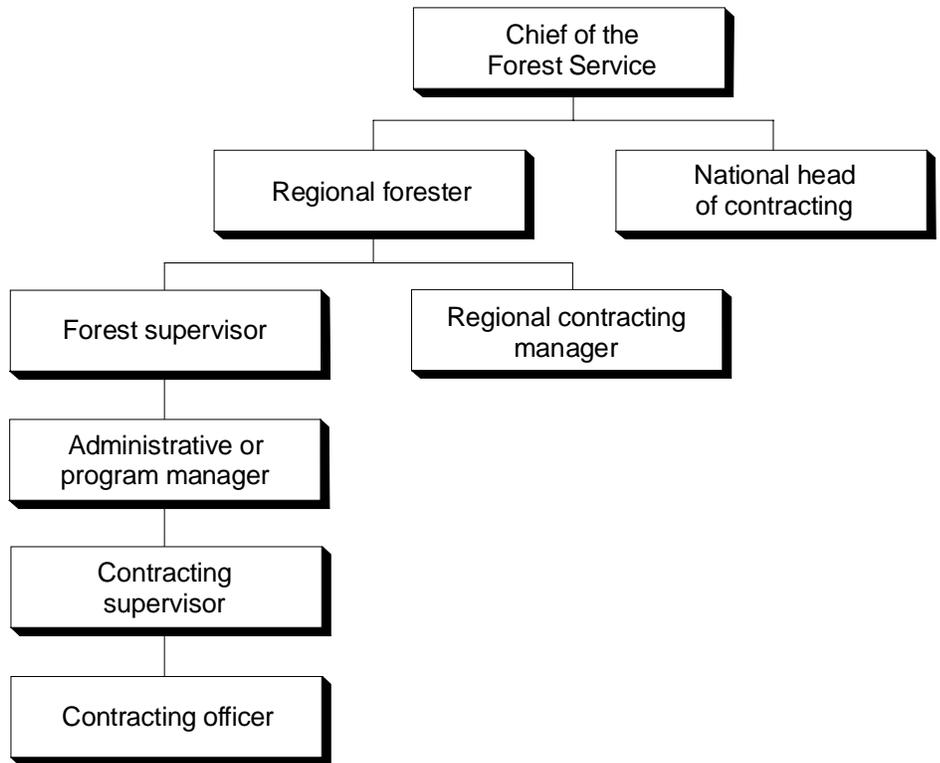
Organizational Structure Impedes Contracting Reforms by Limiting Direct Accountability

Even if the Forest Service's leadership were to take aggressive action to implement internal control or contract management reforms, these efforts would be constrained by the organizational structure for contracting. This structure provides no clear lines of authority or effective reporting relationships, thereby impeding direct accountability.

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Obstacles to Reform

Contracting supervisors in forests generally report to local administrative or program managers, not to the regional head of contracting. Regional contracting managers report to the Regional Forester, not to the national head of contracting. In effect, regional and headquarters contracting managers have no direct authority over contracting staff in the field. (See fig. 4.1.) Thus, although contracting initiatives are communicated from headquarters to field staff, it is essentially the responsibility of local administrative or program managers, who have no technical contracting expertise and may not fully understand the importance of these initiatives, to hold local contracting staff accountable for implementing them.

Figure 4.1: the Forest Service's Reporting Relationships



Note: This chart has been condensed to illustrate reporting relationships and does not include all of the organizational levels between contracting officers and the Chief of the Forest Service.

Without clear lines of authority and responsibility and appropriate reporting relationships, contracting managers have difficulty ensuring the implementation of internal control and other management initiatives. The lack of direct authority over field staff explains, in part, why Forest Service officials have not been successful in holding staff accountable for entering accurate data on contracting activity into the Federal Procurement Data System, for example. Several field offices in California failed to enter any data regarding their contracting activities into this system for fiscal year 1996. A regional official told us that she had requested these offices' compliance with the data entry requirement. However, because she did not have direct authority over them, the forest offices could take no action on the request, and the regional office could not enforce compliance.

Organizational Culture Contributes to Difficulties in Implementing Reforms

In the absence of clear lines of authority or effective reporting relationships, extra attention and efforts are required to hold staff accountable for implementing reforms. However, the Forest Service's culture of local independence and autonomy, rather than providing this extra support, hinders accountability and poses an additional barrier to improving contracting practices. The Forest Service is a decentralized organization. Decentralization has fostered an independent organizational culture in which contracting staff have become accustomed to operating autonomously. This organizational culture appears to make contracting managers at all levels within the organization hesitant to provide close oversight of contracting activities—an attitude that impairs accountability for implementing internal control and contracting reforms.

Forest Service officials said that the agency's culture puts a premium on independence and discourages close supervision. In response to our observations about the lack of routine supervision, senior Forest Service officials told us that contracting officers have limits on their spending authority that are based on education and experience and that they are trusted to perform competently and ethically. Furthermore, they believed that attempts to more closely oversee staff or to change reporting relationships within the organizational structure to give the regional or headquarters offices more direct authority would likely be met with significant resistance.

The high value placed on independence has led to a history of problems in enforcing accountability. Reporting on agencywide accountability issues in 1994, an internal Forest Service task force found that the need for

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increased accountability was “compelling.”¹⁶ One of the task force’s recommendations was to accelerate cultural change. A 1994 USDA procurement review recognized the need to strengthen acquisition planning and recommended that managers be held accountable for producing and using acquisition plans to the maximum extent possible.¹⁷ In discussing this recommendation, the report noted that implementing it would result in a major cultural change. We found no evidence that the cultural change that these reports identified as critical to improving accountability had occurred at the Forest Service.

In another recent review, we raised serious concerns about the Forest Service’s ability to hold managers accountable for their performance.¹⁸ Our review of the decision-making process at the Forest Service found an organizational culture of indifference toward accountability. We cited problems with, among other things, the Forest Service’s accounting and financial management systems and its performance measurement and concluded that the agency’s historically decentralized management and recently increased flexibility in fiscal decision-making have not been accompanied by sufficient accountability for expenditures and performance.

Also recently, the Forest Service itself recognized the need for increased accountability. In a 1997 year-end address to headquarters staff, the Chief of the Forest Service commented that there is “a common concern that the Forest Service is not demanding enough in the critical area of accountability. I am committed to improving accountability . . . [which is] a big challenge for this agency.”

In our 1992 report on the techniques that companies use to change organizational culture,¹⁹ we cited two keys to successful cultural change: (1) top management must be totally committed to the change in both words and actions and (2) organizations must provide training that promotes and develops skills related to their desired values and beliefs.

¹⁶Individual and Organizational Accountability in the Forest Service: Successful Management of Work Agreements, USDA, Forest Service (Feb. 1994).

¹⁷USDA Procurement Review Task Force, USDA (Aug. 1994), p. 109.

¹⁸The Results Act: Observations on the Forest Service’s May 1997 Draft Plan (GAO/T-RCED-97-223, July 31, 1997), p. 1, which was testimony based on our report entitled Forest Service Decision-Making: A Framework for Improving Performance (GAO/RCED-97-71, Apr. 29, 1997).

¹⁹Organizational Culture: Techniques Companies Use to Perpetuate or Change Beliefs and Values (GAO/NSIAD-92-105, Feb. 27, 1992).

Conclusions

Despite its knowledge of many of the shortcomings in the contracting process discussed in this report, the Forest Service has not moved aggressively to make improvements. It is critical that the Forest Service establish effective internal control over contracting activities to give the agency reasonable assurance that resources are safeguarded and expended judiciously. In addition, procurement reforms that hold the promise of lowering costs and improving quality, such as performance-based service contracting, need to be more effectively implemented. The current organizational structure of the contracting function, which limits direct accountability, as well as the culture of local autonomy, appear to have resulted in an inertia that frustrates the implementation of effective internal control and important procurement reforms. Given these obstacles and the agency's history of problems with enforcing accountability, committed, aggressive leadership and sustained oversight will be required to effect significant improvements.

Agency Comments and Our Evaluation

In commenting on our draft report, USDA disagreed with our identification of the organizational structure for contracting as an impediment to reform. While acknowledging that we had not made a recommendation in this area, USDA said it did not agree with the suggestion that the existing organizational structure is somehow defective. USDA said that additional management emphasis and accountability can improve the acquisition process within the existing organizational framework.

We are not suggesting in this report that the organizational structure should change. Rather, we believe that the organizational structure for contracting at the Forest Service does not provide clear lines of authority or effective reporting relationships between contracting staff and managers and thus impedes direct accountability. In this organizational context, aggressive leadership and sustained oversight will be especially important to establishing and maintaining accountability for implementing contracting reforms.

Comments From the Department of Agriculture

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



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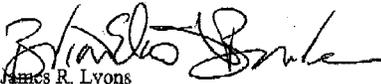
Date:

Subject: General Accounting Office Draft Report, Forest Service: Weak Contracting Practices Increase Vulnerability to Fraud, Waste, and Abuse

To: Robert A. Robinson, GAO/RCED
Director of Food/Agriculture Issues
General Accounting Office

We have completed our review of the General Accounting Office (GAO) Official Draft Audit Report entitled, Forest Service: Weak Contracting Practices Increase Vulnerability to Waste, Fraud, and Abuse, GAO/RCED 98-88, issued March 25, 1997. We appreciate the opportunity to make comments on this draft report and look forward to a better understanding of issues concerning this report.

Enclosed is our response to the GAO report. If you have any questions, please contact our Acting Agency External Audit Liaison E. Lynn Burkett, on (202) 205-1315.


James R. Lyons
Under Secretary, NRE

Enclosure

**Appendix I
Comments From the Department of
Agriculture**



United States
Department of
Agriculture

Forest
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INFORMATIONAL MEMORANDUM FOR JAMES R. LYONS, UNDER SECRETARY, NRE

TO: Robert A. Robinson, GAO/RCED - Director of Food/
Agriculture Issues

FROM: *for* Robert L. Lewis *Ronald E. Stewart*
Acting Associate Chief

ATTN: Keith Oleson
Assistant Director, RCED/Food and Agriculture

SUBJECT: Response to a General Accounting Office Draft Report

ISSUE:

The U.S. Department of Agriculture is submitting a departmental response on the recommendations contained in the General Accounting Office (GAO) Draft Report entitled, "Forest Service Weak Contracting Practices Increase Vulnerability to Fraud, Waste, and Abuse," March 25, 1997 (GAO/RCED 98-88).

DISCUSSION:

The GAO has cited concerns about the award and administration of Forest Service (FS) contracts. The GAO noted that the FS internal control is lacking in two respects; **First**, the FS "is not complying with many critical internal control standards. Namely, the FS (1) has no written plan defining control objectives and techniques, (2) lacks complete documentation in the contract files of critical contract award and administrative actions, (3) does not routinely supervise contracting staff, (4) inconsistently monitors contractors' progress, and (5) has significant errors and omissions in its management information system for contract actions. **Second**, the primary internal control techniques used by the FS, the system that sets limits on contracting officers' authority, along with periodic field office reviews, are not effectively implemented.

On pages 10 and 39 of the draft report, GAO recommends that the Secretary of Agriculture direct the Chief of the FS to

A. Prepare and implement a written internal control plan for contracting, which should include, among other things, methods for ensuring (1) complete documentation of critical actions in contract files, (2) routine supervisory review of contracting activities, (3) improved summary management information, (4) more consistent monitoring of contractors' progress on service contracts through the implementation of training and certification program for contracting officers' representatives, and (5) clarification of how to determine adequate warrant authority for various types of contracts.

Now on pp. 8, 31 and 32.

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Now on pp. 40 and 41.

B. Establish a system to periodically monitor and assess compliance with internal control standards.

C. Assure that the FS internal control system for contracting is identified as a material weakness in the Department's Federal Managers' Financial Integrity Act report.

To improve the effectiveness and reduce the cost of contracting, on page 50 of the draft report, GAO recommends that the Secretary of Agriculture direct the Chief of the FS to

A. Hold regional contracting managers responsible for ensuring that regional and national forest offices prepare advance acquisition plans that are on time and contain complete information on contracting needs.

B. Increase the use of performance-based service contracts by providing training and direction to all contracting staff on the mechanics of developing and awarding performance-based contract, establishing annual goals for their use and periodically monitoring actual usage,

C. Develop a format for capturing data on contractor's past performance for service contracts and a strategy for effectively maintaining usage.

D. Implement the performance measures for the procurement system established by USDA by, at a minimum, collecting baseline data on current performance and defining annual, measureable goals for improvement for each measure.

SUMMARY:

Enclosed is the Departmental response to the draft report entitled, Forest Service: Weak Contracting Practices Increase Vulnerability to Fraud, Waste, and Abuse, GAO/RCED 98-88, job code 150722, issued March 25, 1997.

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Comments From the Department of
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Robert A. Robinson
Director, Food and Agriculture Issues
Resources, Community, and Economic Development Division
General Accounting Office
Washington, DC 20548

We are responding on behalf of the Secretary to your letter of February 27, 1998, and the General Accounting Office (GAO) draft report entitled: "Forest Service: Weak Contracting Practices Increase Vulnerability to Fraud, Waste, and Abuse," GAO/RCED 98-88," dated February 27, 1998. The GAO draft report recommendations, and the Department of Agriculture (USDA) responses, are provided below.

GAO Recommendation 1: To improve compliance with the Federal Managers' Financial Integrity Act (FMFIA) of 1982 and GAO standards for internal control, GAO recommends that the Secretary of Agriculture direct the Chief of the Forest Service (FS) to:

- a. Prepare and implement a written internal control plan for contracting, which should include, among other things, methods for ensuring (1) complete documentation of critical actions in contract files, (2) routine supervisory review of contracting activities, (3) improved summary management information, (4) more consistent monitoring of contractors' progress on service contracts through the implementation of a training and certification program for contracting officers' representatives, and (5) clarification of how to determine adequate warrant authority for various type [sic] of contracts.
- b. Establish a system to periodically monitor and assess compliance with internal control standards, and
- c. Assure that the FS internal control system for contracting is identified as a material weakness in the Department's Federal Managers' Financial Integrity Act report.

USDA Response to Recommendations 1(a)(1) through 1(a)(3): USDA concurs. The FS will develop an internal control plan by September 30, 1998, which addresses needed improvements in the areas of contract file documentation, routine supervisory review of contracting activities, and contract management information.

USDA Response to Recommendations 1(a)(4): USDA concurs. The FS was already aware of this problem and continues to participate in the USDA Procurement Modernization effort. One of the "modernization opportunities" under this program addresses the training and certification of Contracting Officer Representatives (CORs). The FS will apply the results of the USDA Procurement Modernization effort to their COR program when they are completed. In addition, the FS Human Resource Staff has instituted a major initiative related to improving the Corporate Training of the FS. The FS Acquisition Management has met with the Human Resource Staff, and will ensure COR training and certification, in accordance with existing and upcoming USDA Departmental policy, is addressed as part of the Contract Administration Training initiative. Although the GAO recommendation is limited to service contracts, this training will be aimed at COR activities on all types of contracts.

USDA Response to Recommendations 1(a)(5): USDA concurs. We agree that a Contracting Officer cannot obligate the Government beyond his/her level of delegated authority. We further agree that the FS, with the assistance of the USDA Office of Procurement and Property Management, will issue clarifying

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policy by June 1, 1998 to its acquisition work force regarding the limits of Contracting Officer warrant authority.

USDA further notes that pages 7 and 33 of the draft report criticize the FS because not all Contracting Officers fulfilled their new warrant requirements in accordance with Departmental Regulation (DR) 5001-1, the *USDA Competency Based Contracting Officer Warrant System* in a timely manner. This problem should be essentially solved by the time this report is issued in final form. As of March 27, 1998, less than eight percent of the total FS contracting specialist (GS-1102 series) work force who require warrants remain to be recertified under DR 5001-1. Most of these warrants are in the final review process and will be completed by April 17, 1998.

USDA Response to Recommendations 1(b): USDA conditionally concurs. The FS, in consultation with the USDA Office of Procurement and Property Management, will develop a system to periodically monitor and assess compliance with the internal control standards established pursuant to GAO recommendation 1(a). The USDA's Procurement Modernization effort will result in the mechanism necessary to provide appropriate oversight as recommended by the GAO.

USDA Response to Recommendations 1(c): USDA concurs. The 1400 section of the FS Manual already identifies contracting and small purchasing management as an area of very high risk and that is an important part of the basis for Agency reviews. As addressed above, the FS will identify the material weaknesses described above in its FY 98 FMFIA report.

GAO Recommendation 2: To improve the effectiveness and reduce the cost of contracting, we also recommend the Secretary of Agriculture to direct the Chief of the FS to:

- a. Hold regional contracting managers more responsible for ensuring that regional and national forest offices prepare advance acquisition plans that are on time and contain complete information on contracting needs;
- b. Increase the use of performance-based service contracts by providing training and direction to all contracting staff on the mechanics of developing and awarding performance-based contracts, by establishing annual goals for their use and periodically monitoring actual usage;
- c. Develop a format for capturing data on contractors' past performance for service contracts and a strategy for effectively maintaining these data; and
- d. Implement the performance measures for the procurement system established by USDA, at a minimum, collecting baseline data on current performance and defining annual, measurable goals for improvement for measure.

USDA Response to Recommendations 2(a): USDA concurs. Developing useful advance procurement plans is not a challenge unique to the FS. Typically, the main problem lies in the timing of budget finalization and issuance to the field. This situation forces acquisition plans to be developed in a vacuum, often reducing them to nothing more than elaborate "wish lists" of little genuine management value. Additionally, the variability of environmental conditions (flood, fires, etc.) can greatly impact existing advance procurement plans. Despite these challenges, USDA is working to improve its advance acquisition planning process. We understand the USDA Office of Small and Disadvantaged Business Utilization is developing a new directive on acquisition planning. The FS is currently reviewing a draft of this directive and will fully comply with any new acquisition planning requirements. Note that the

Now on pp. 5, 6, 29 and 30.

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new USDA procurement automation system will address advance acquisition planning, but not in its first releases.

USDA Response to Recommendations 2(b): USDA concurs. As discussed with GAO on March 10, 1998, applying Performance Based Service Contracting (PBSC) techniques to tree planting contracts poses a unique set of problems. However, there are other FS acquisitions to which PBSC can be more readily applied. FS regional offices have been holding training classes in PBSC and, as noted in the report, the FS will award approximately 11 PBSC actions totalling approximately \$2 million in fiscal year 1998. USDA will continue to work with the FS to increase utilization of this tool.

USDA Response to Recommendations 2(c): USDA concurs. As part of its procurement modernization efforts, USDA, during the third quarter of fiscal year 1998, will make available on a USDA-wide basis the National Institutes of Health (NIH is a component of the Department of Health and Human Service's Public Health Service) automated past performance system. The FS is aware of the requirements for preparation of evaluations and will implement the contractor past performance system in conjunction with Departmental implementation. This system, and the implementing guidance will identify the past performance data necessary for input into the system. In addition, USDA contracting personnel will have the capability to access information on past performance input, not only by USDA agencies, but by all Federal agencies utilizing the NIH past performance system. There are currently five of these. This system will facilitate preparation and maintenance of contractor performance information and also the use of past performance as a source selection evaluation factor. Implementation of this system will address the concerns and recommendation in the GAO report.

Even though a formal USDA data collection system on past performance is not in place (nor does the Federal Acquisition Regulation mandate such a system), the FS does often consider contractor past performance when awarding negotiated contracts. Moreover, as noted above, USDA will commence deployment of the NIH past performance information system much earlier than the 1999 timeframe cited in the GAO report. Earlier deployment of this system will aid the FS in complying with the new Federal Acquisition Regulation requirement for past performance information to be considered in contracts valued in excess of \$100,000.

USDA Response to Recommendations 2(d): USDA concurs. The FS responded to Departmental Notice 5000-27, Procurement Performance Measures, on February 10, 1998, and copy of this response was furnished to GAO. After discussions with the Office of Procurement and Property Management, further work in this area is needed. The FS, in coordination with the Office of Procurement and Property Management, will develop by September 30, 1998, an approach to implement the performance measures, including relevant baseline data.

While USDA agrees with the draft GAO findings as noted above, there is one significant area of disagreement in regard to the FS's acquisition chain of command. The draft report does not make a specific recommendation regarding this issue, instead categorizing it as an "obstacle to reform." The report draws this conclusion without assessing the overall success of the FS acquisition work force in supporting accomplishment of the FS mission. We do agree that actions can be taken to improve our acquisition activities. We also believe holding acquisition personnel accountable to program personnel has been and continues to be a critical success factor. Our acquisition work force exists to support program delivery. USDA therefore, rejects the suggestion that the existing organizational structure is somehow defective. Instead, we believe that given additional management emphasis and accountability within the existing organizational framework, the acquisition process will be improved.

See comment 1.

GAO's Comments

The following are GAO's comments on the U.S. Department of Agriculture's letter of March 30, 1998.

1. In this report, we do not suggest that the Forest Service's organizational structure is defective. We continue to believe, however, that the organizational structure, by lacking clear lines of authority or effective reporting relationships between contracting staff and managers, impedes direct accountability. In this organizational context, aggressive leadership and sustained oversight will be especially important to establishing and maintaining accountability for implementing contracting reforms.

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