



UNITED STATES GOVERNMENT PRINTING OFFICE
OFFICE OF THE INSPECTOR GENERAL

memorandum

DATE: September 30, 2003

REPLY TO

ATTN OF: Joseph Verch, Supervisory Auditor

SUBJECT: Report on Improving Controls over Printing Procurement Department's Contract Modifications at Central Office.

To: Managing Director, Customer Services

Attached is the report of an Office of Inspector General (OIG) performance audit on the internal controls over Printing Procurement Department's (PPD) contract modifications at Central Office from October 1, 2001, through September 30, 2002. We found that overall, adequate management controls were maintained over: (1) accounting for contract modifications in the Procurement Information Control System (PICS); (2) approval of contract modifications by Contracting Officers; and (3) certifying payments.

Internal controls in procurement and related contracting practices with contract modifications can be improved in the following four areas: (1) cost analyses; (2) automated systems; (3) bilateral agreements; and (4) internal control program. This OIG audit makes four recommendations to improve the current policies and procedures and strengthen internal controls over contract modifications in Central Office. The Managing Director deferred his comments until after the issuance of the audit report. (See Appendix II)

Mr. Joseph Verch, Supervisory Auditor, Mr. Harold Brown, Supervisory Auditor, Mr. Michael Ober, Auditor, and Ms. Michele Anderson, Auditor, conducted this audit.

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The cooperation and courtesies extended during the audit by the officials and staff of the Printing Procurement Department and the Comptroller are greatly appreciated.

MARC A. NICHOLS
INSPECTOR GENERAL

By: _____
Joseph J. Verch Jr., Supervisory Auditor

**REPORT ON IMPROVING CONTROLS OVER PRINTING PROCUREMENT
DEPARTMENT'S CONTRACT MODIFICATIONS AT CENTRAL OFFICE**

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**U.S. Government Printing Office
Office of the Inspector General
Office of Audits**

**REPORT ON IMPROVING CONTROLS OVER PRINTING PROCUREMENT
DEPARTMENT'S CONTRACT MODIFICATIONS AT CENTRAL OFFICE**

RESULTS IN BRIEF

The Government Printing Office (GPO) Office of Inspector General (OIG) has completed a performance audit on the internal controls over Printing Procurement Department's (PPD) contract modifications at Central Office from October 1, 2001, through September 30, 2002. The overall objectives of the audit were to determine whether PPD fulfilled its mission to control and account for contract modifications and ensured that contract modifications were properly completed and recorded within contractual and Printing Procurement Regulation guidelines at Central Office.

The OIG conducted the audit from November 2002 through February 2003, and found that PPD maintained adequate management controls over: (1) accounting for contract modifications in the Procurement Information Control System (PICS); (2) approval of contract modifications by Contracting Officers; and (3) certifying payments.

From a total of 1,392 contract modifications that were awarded in Fiscal Year 2002, we sampled 144 contract modifications with a combined award value of over \$430,000. The audit showed that opportunities exist for PPD officials to improve controls over compliance with procurement regulations and practices related to contract modifications. The OIG identified the following from our sample:

1. Sixty-one cost analyses, totaling over \$40,000, were not documented from the 144 contract modifications sampled to ensure that fair and reasonable prices were determined as required by GPO Publication 305.3 *Printing Procurement Regulation*;
2. Contract modification data was always entered twice on two automated systems (a stand alone and PICS), resulting in a duplication of effort, because the two systems were not interfaced;
3. Copies of bilateral agreements totaling over \$217,000 were not signed by both the Contracting Officer and the contractor, to ensure agreement on all changes, and filed on 68 of 144 contract modifications sampled as required by GPO Publication 305.3; and

4. An Internal Control Program has not been established in accordance with GPO Instruction 825.18A *Internal Control Program*.

To improve the internal controls over compliance in procurement and related contracting practices over contract modifications at Central Office, the Managing Director, Customer Services, should ensure that:

1. A cost analysis is performed and documented in the contract files on future contract modifications as required by the Printing Procurement Regulation (PPR);
2. An automatic interface with PICS be considered when future contract modifications data is initially entered into the stand-alone system;
3. Future bilateral agreements are signed by both the Contracting Officer and the contractor and filed appropriately in the contract files; and
4. An Internal Control Program within PPD's Central Office is established.

In addition, the OIG identified four "Other Matters" (See Appendix I) that were identified during the audit and discussed with management officials without any formal recommendations being made:

1. PICS did not always contain accurate procurement data on 8 of 144 contract modifications to be used as an effective management tool for GPO, contrary to Standard 7 of GPO Instruction 825.18A;
2. Three of 48 contract modifications on small purchase procurements totaling \$45 did not have any documented evidence in the contract files of conversations with the contractors as directed by Chapter XIII-2.4 of the PPR;
3. Two contract modifications were not found in the contract files, contrary to Chapter XIII-2.4 of the PPR; and
4. PPD printing specialists prepared 64 contract modifications after the effective shipping dates, contrary to Standard 7 of GPO Instruction 825.18A.

BACKGROUND

During Fiscal Year 2002, PPD at Central Office issued 1,392 contract modifications totaling over \$4.5 million.

Contract Modifications	Quantity	Amount
Large One-Time Procurements	258	\$2,448,539
Term Contracts	413	1,564,597
Small Purchase Procurements	721	505,969
Totals	1,392	\$4,519,105

PPD's Contract Administration Section, Purchase Division, and Term Contracts Division are responsible for the processing of printing procurement's contract modifications. GPO officials confer with the contractor and the customer agency on contract modifications and prepare a cost analysis to ensure a fair and reasonable price.

GPO Contracting Officers review, approve, and sign all contract modifications and the contract modification data is entered into PICS as an effective management tool for GPO personnel to maintain. The Comptroller's Examination and Billing Branch certifies all payments on contract modifications.

GPO Publication 305.3 *Printing Procurement Regulation* defines contract modifications as any changes to an existing contract, whether financial or non-financial. Contract modifications can be change orders or supplemental agreements, unilateral actions by the government (e.g. paper price adjustment), or bilateral agreements (modification agreements signed by both the Contract Officer and the contractor).

Contract modifications are controlled by a numbering system and maintained in PICS. Contract modifications may be subject to a review and approval process by the Contract Review Board.

As of September 2002, the staffing of PPD's offices who were involved in contract modifications at Central Office were:

- Contract Administration Section has four printing specialists and a Section Chief who has unlimited contract authority;
- Purchase Division's Contracts Branch has 13 printing specialists and a Branch Chief. The Supervisory Printing Specialist and the Branch Chief have unlimited contracting authority;

- Purchase Division's Small Purchase Branch has 11 printing specialists and a Branch Chief. The Supervisory Printing Specialist and the Branch Chief have unlimited contracting authority; and
- Term Contracts Division has 3 Section Chiefs and 22 printing specialists. The Section Chiefs and a Supervisory Printing Specialist have unlimited contract authority.

The Comptroller's Commercial Examination Branch has seven printing specialists and seven voucher examiners.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this OIG performance audit were to determine if PPD fulfilled its mission to control and account for contract modifications and ensured that contract modifications were properly completed and recorded within contractual and Printing Procurement Regulation guidelines at Central Office. In particular, this audit was conducted to evaluate PPD efficiency and effectiveness and compliance with applicable laws, regulations, standards, and policies pertaining to contract modifications at Central Office. Emphasis was placed on contract modifications with: (1) a financial impact on contracts; (2) involvement by the Contract Review Board; and (3) a major impact on contracts.

Audit fieldwork was conducted during the period of November 2002 through February 2003 in accordance with generally accepted Government auditing standards.

To meet the objectives of the audit, the OIG audit team:

- Interviewed PPD personnel to discuss the procedures and processes used on contract modifications;
- Interviewed appropriate management officials and staff of the Office of Comptroller, Office of Information Resources Management, and General Counsel;
- Randomly selected a sample size of 144 contract modifications issued at Central Office during Fiscal Year 2002¹ with a combined award value of over \$430,000 from 50 large one-time procurements, 48 small purchase procurements, and 46 term contracts;
- Examined PPD files maintained at the GPO Central Office in Washington, D.C. on the 144 contract modifications sampled; and
- Followed up on the recommendations from the prior OIG Audit Report No. 91-22 *Improvements Are Needed in Processing Central Office Printing Procurement Department Modifications*, dated March 15, 1991.

¹ The size of the audit sample was selected by using a confidence factor of 95 percent and a precision rate of ± 15 percent to ensure each modification had a chance of being selected.

In addition, we reviewed the following GPO publications, and instructions that contained procedures and policies that PPD personnel at Central Office followed:

1. GPO Publication 305.3 *Printing Procurement Regulation* to identify applicable policies and procedures governing contract modifications;
2. GPO Instruction 310.2 *Contract Terms* to identify relevant aspects of the procedures for extensions of shipping and delivery schedules; and
3. GPO Instruction 825.18A *Internal Control Program* to identify policies, standards, and responsibilities for conducting internal control reviews of GPO programs.

FINDINGS AND RECOMMENDATIONS

1. COST ANALYSES

FINDING

Cost analyses totaling \$43,832 were not documented on 61 of the 144 or 42 percent of the contract modifications sampled to ensure that fair and reasonable prices were determined as required by Chapter XIII-2.4 of GPO Publication 305.3 *Printing Procurement Regulation* (PPR) that states:

“The contract file shall contain:...(c) Evidence supporting costs which may be comprised of previous same or similar prices, GPO estimate, or other acceptable documentation.”

Contract Modifications	Quantity	Amount
Large One-Time Procurements	4	\$4,156
Term Contracts	15	13,258
Small Purchase Procurements	42	26,418
Totals	61	\$43,832

PPD personnel perform cost analyses before the contract modifications are signed to determine whether the costs are fair and reasonable. However, the contract files for small purchase procurements do not document that cost analyses were performed. The Chief, Small Purchase Branch, stated that cost analyses are not usually documented, because he considers his signature on the contract modification to indicate that the costs are fair and reasonable.

Without a cost analysis prepared and documented in the contract files, the possibility exists that contract modifications having excessive costs could be issued. The Superintendent, Purchase Division, issued a December 20, 2002, memorandum to printing specialists to remind them that contract modifications had to be justified as to how the price was fair and reasonable as required by the PPR.

RECOMMENDATION

The Managing Director, Customer Services, should ensure that the printing specialists at Central Office document that a cost analysis was performed in the contract files on future contract modifications as required by the Printing Procurement Regulation (0304-01).

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MANAGEMENT COMMENTS

The Managing Director deferred his comments until after the issuance of the audit report. (See Appendix II)

2. AUTOMATED SYSTEMS

FINDING

PPD printing specialists were always entering contract modification data twice on two automated systems (a stand-alone “Word” personal computer [PC] data base and the Procurement Information Control System [PICS]), because the two systems were not interfaced, contrary to Standard 1 of GPO Instruction 825.18A *Internal Control Program* that states:

“Resources should be efficiently and effectively allocated for duly authorized purposes.”

During the processing stage of the contract modifications, PPD printing specialists must first enter the contract modification data into the “Word” PC data base before the draft contract modification is given to the Contracting Officer for review and signature. After the Contracting Officer signs the contract modification, the printing specialist enters the same contract modification data into PICS. If the PC database had an automatic interface with PICS, the duplicate effort and time needed to process current contract modifications would be eliminated. The Superintendent, Purchase Division, stated that there had been some discussions in the past about a possible interface, but nothing was finalized.

RECOMMENDATION

The Managing Director, Customer Services, should consider an automatic interface between the PC database and the Procurement Information Control System on the entering of future contract modifications data (0304-02).

MANAGEMENT COMMENTS

The Managing Director deferred his comments until after the issuance of the audit report. (See Appendix II)

3. BILATERAL AGREEMENTS

FINDING

Copies of bilateral agreements totaling over \$217,000 were not signed by both the Contracting Officer and the contractor nor filed on 68 of 144 contract modifications sampled to ensure agreement on all changes² as required by Chapters XIII-2.1(c)(1) and XIII-2.4 of the PPR that states:

“...To consummate the bilateral agreement a *supplemental agreement* shall be issued requiring the signature of both the Contracting Officer and the contractor. A *supplemental agreement* shall include a description of the modified or additional requirement and the agreed upon consideration for its performance.”
(Chapter XIII-2.1[c][1])

“The contract file shall contain: (a) Copy of the *supplemental agreement* containing the signatures of the Contracting Officer and the contractor...”
(Chapter XIII-2.4)

Contract Modifications	Quantity	Amount
Large One-Time Procurements	17	\$183,253
Term Contracts	15	2,242
Small Purchase Procurements	36	31,929
Totals	68	\$217,424

PPD personnel stated that contractors did not always return contract modifications to GPO with signatures as required. However, the absence of written verifications increase the possibility of: (1) delays; (2) increased procurement costs; (3) misunderstandings of any oral agreements; and (4) denials by the contractor should a termination for convenience or other unforeseen circumstances occur.

RECOMMENDATION

The Managing Director, Customer Services, should ensure that the Contracting Officer and the contractor sign future bilateral agreements and are filed appropriately in the contract files (0304-03).

² This is a repeat finding from OIG Audit Report #91-22 *Improvements Are Needed in Processing Central Office Printing Procurement Department Modifications*, dated March 15, 1991.

MANAGEMENT COMMENTS

The Managing Director deferred his comments until after the issuance of the audit report. (See Appendix II)

4. INTERNAL CONTROL PROGRAM

FINDING

The Managing Director, Customer Services, did not establish an Internal Control Program on contract modifications within Central Office through the performance of vulnerability assessments and internal control reviews as prescribed by GPO Instruction 825.18A. A review needs to be conducted to identify specific programs, functions, and activities within PPD. Once the specific programs, functions, and activities are identified, then tests (vulnerability assessments) need to be performed to provide PPD officials reasonable assurance that the Department's programs, functions, and activities are:

- Achieving their intended results;
- Using resources consistently with agency mission;
- Protected from waste, fraud, and mismanagement;
- Following all laws and regulations; and
- Obtaining, maintaining, reporting, and using reliable and timely information for decision-making purposes, as stated in Paragraph 5.c. of GPO Instruction 825.18A.

Any findings associated from the testing of the internal controls over specific programs, functions, and activities should be followed up by a detailed examination (internal control review), as required by Paragraph 5.b. of GPO Instruction 825.18A.

For example, reviewing internal controls within the following two functions/activities would be a good beginning for PPD's Internal Control Program on contract modifications, as directed by Paragraph 7.d. of GPO Instruction 825.18A:

“Department, Service, Staff, and Office heads are responsible for the development and maintenance of internal controls within their respective programs, functions, and activities, to prevent or deter the loss or abuse of public assets. The compliance with and effectiveness of internal controls must be regularly monitored. Supervisors must be knowledgeable of the internal controls of their units, and as part of their routine duties, must insure that the controls are operating as designed and are achieving their intended purpose.”

1. Monitoring Cost Analyses – PPD procurement personnel at Central Office do not appear to maintain an adequate internal control structure on the monitoring of cost analyses on contract modifications. PPD officials do not perform a periodic review on the cost analyses (evidence supporting costs which may be comprised of previous same or similar prices, GPO estimate, or other acceptable documentation) to ensure compliance with the PPR. By not “...performing actual control tests to ensure events are handled properly...” as prescribed in paragraph 9.b. of GPO

Instruction 825.18A, there are no assurances that the existing internal controls ensure competition to the maximum extent practical in accordance with Standard 2 of GPO Instruction 825.18A:

“Management controls must provide reasonable assurance and safeguards to protect assets against waste, loss, unauthorized use, and misappropriation.”

2. Monitoring Bilateral Agreements – PPD procurement personnel at Central Office do not appear to maintain an adequate internal control structure on monitoring bilateral agreements to ensure the agreements are signed and returned. By not “...performing actual control tests to ensure events are handled properly...” as prescribed in paragraph 9.b. of GPO Instruction 825.18A, there are no assurances that the existing internal controls over bilateral agreements on contract modifications provide reasonable assurance and safeguards to protect assets against waste, loss, unauthorized use, and misappropriation in accordance with Standard 2 of GPO Instruction 825.18A.

RECOMMENDATION

The Managing Director, Customer Services, should ensure that the PPD officials at Central Office establish an Internal Control Program on contract modifications through the performance of vulnerability assessments and internal control reviews as prescribed by GPO Instruction 825.18A (0304-04).

MANAGEMENT COMMENTS

The Managing Director deferred his comments until after the issuance of the audit report. (See Appendix II)

OTHER MATTERS DISCUSSED WITH MANAGEMENT

- PICS did not always contain accurate procurement data on 8 of 144 contract modifications to be used as an effective management tool for GPO, contrary to Standard 7 of GPO Instruction 825.18A that states:

“Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports.”

A total of \$16,056 of \$431,838 sampled was not entered into PICS as detailed below:

No.	Jacket	Amt. Entered Into PICS	Correct Amount	Difference
1	99-047	\$0	\$7,129	\$7,129
2	472-538	0	780	780
3	491-401	0	533	533
4	489-325	0	3,850	3,850
5	474-540	0	3,669	3,669
6	491-886	0	95	95
	Total	\$0	\$16,056	\$16,056

A total of \$212 was entered incorrectly into PICS as detailed below:

No.	Jacket	Amt. Entered Into PICS	Correct Amount	Difference
7	488-576	\$97	-\$97	\$194
8	491-453	786	768	18
	Total	\$883	\$671	\$212

- Three of 48 contract modifications on small purchase procurements totaling \$45 did not have any documented evidence in the contract files of conversations with the contractors as directed by Chapter XIII-2.4 of the PPR that states:

“The contract file shall contain:... (d) Copy of GPO Forms 714 or 914, documenting all conversations with the contractor regarding the change.”

- Two contract modifications were not found in the contract files, contrary to Chapter XIII-2.4 of the PPR that states:

“The contract file shall contain: (a) Copy of the *supplemental agreement* containing the signatures of the Contracting Officer and the contractor or a copy of the *change order* containing the Contracting Officer’s signature.”

- PPD printing specialists prepared 64 contract modifications after the effective shipping dates, contrary to Standard 7 of GPO Instruction 825.18A that states:

“Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports.”

PPD officials and the Office of General Counsel indicated that there were no legal concerns or problems with preparing contract modifications after the effective shipping dates.

MANAGEMENT'S COMMENTS