



Smithsonian  
Institution

**Acquisition Management:  
Oversight and Monitoring Would  
Improve Compliance with Policies  
for Sole-Source Purchases**

**Office of the Inspector General  
OIG-A-16-10  
September 28, 2016**



## In Brief

### **Acquisition Management: Oversight and Monitoring Would Improve Compliance with Policies for Sole-Source Purchases** *Report Number OIG-A-16-10, September 28, 2016*

#### **What OIG Did**

The objective of this audit was to assess the extent to which the Smithsonian's controls over purchase orders are effective in ensuring compliance with key Smithsonian policies and procedures. The audit focused on policies and procedures governing sole-source purchase orders, which are awarded without competition; training of procurement personnel; and segregation of duties related to purchasing.

#### **Background**

The Smithsonian uses purchase orders as a way to acquire goods and services needed to achieve its mission. For example, purchase orders can be used for engaging contractors to transport artwork, to plan and execute events, and to buy supplies. The Smithsonian's purchase orders in fiscal year 2014 totaled nearly \$177 million. Competition is recognized as a way to pay a fair and reasonable price for goods and services. With limited exceptions, Smithsonian policy requires competition for purchase orders exceeding \$10,000.

The Office of the Inspector General (OIG) conducted this audit because the Smithsonian's procurement process is decentralized, and there is minimal centralized oversight.

#### **What OIG Found**

According to officials at the Smithsonian Institution's (Smithsonian) Office of Contracting and Personal Property Management (contracting office), sole-source purchasing should be the exception, not the norm, for purchase orders that exceed \$10,000. Nevertheless, based on a sample of fiscal year 2014 purchase orders, OIG estimated that half of those exceeding \$10,000 were sole-source awards. In addition, 38 percent of the sole-source purchase orders had missing or inadequate documentation or approvals to justify their award without competition.

As part of the Smithsonian's internal controls, the contracting office is required to conduct compliance reviews of units' purchase order processes every 3 to 5 years. The Smithsonian Astrophysical Observatory (SAO) also is required to conduct compliance reviews every 3 to 4 years. However, OIG found that neither the contracting office nor SAO has conducted compliance reviews since the requirement was established in 2011. The contracting office also did not ensure that sole-source purchase orders awarded to former employees or other related parties (e.g., advisory board members) received proper legal review and approval to avoid potential conflicts of interest. And the contracting office did not have effective procedures in place to ensure that contract specialists and unit procurement delegates involved with processing purchase orders in fiscal year 2014 met their training requirements.

Segregating – or separating – responsibilities related to the purchase order process reduces the risk of fraud. When duties cannot be fully segregated due to circumstances such as limited staff, unit management officials are required to obtain a waiver and implement alternative controls to ensure proper oversight of purchase order processing. OIG did not find evidence of fraud but identified 11 individuals in seven Smithsonian units who performed all three purchasing roles. For 7 of the 11 individuals performing all three purchasing duties, unit management implemented the alternative controls documented in their approved waivers. However, for 3 of the 11 individuals, unit managers did not implement the alternative controls, and another individual did not have a waiver. OIG also found that the Office of Finance and Accounting did not follow its procedures to ensure that individuals with segregation of duty waivers continued to need them or that alternative controls were in place.

#### **What OIG Recommended**

OIG made 11 recommendations to enhance monitoring and oversight for the purchase order process. Management agreed with all 11 recommendations.

**For additional information or a copy of the full report, contact OIG at (202) 633-7050 or visit <http://www.si.edu/oig>.**

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## ABBREVIATIONS

Accounting office	Office of Finance and Accounting
Contracting office	Office of Contracting and Personal Property Management
OCIO	Office of the Chief Information Officer
OIG	Office of the Inspector General
SAO	Smithsonian Astrophysical Observatory
SD	Smithsonian Directive
Smithsonian	Smithsonian Institution

## INTRODUCTION

The Smithsonian Institution (Smithsonian) uses purchase orders as a way to acquire the goods and services needed to achieve its mission. A purchase order is a document or electronic action that authorizes a purchase and specifies the description, quantity, price, payment terms, and dates of performance or shipment of the goods or services being acquired. For example, purchase orders can be used for engaging contractors to transport artwork, to plan and execute events, and to buy supplies. In fiscal year 2014, the Smithsonian's purchase orders totaled nearly \$177 million.

The Smithsonian generally uses purchase orders for noncommercial items or services that cost up to \$100,000 and commercial items or services that cost up to \$5 million. With limited exceptions, Smithsonian policy requires competition for purchase orders in excess of \$10,000. Purchase orders awarded without competition are called sole-source purchase orders.

The objective of this audit was to assess the extent to which the Smithsonian's controls over purchase orders are effective in ensuring compliance with key Smithsonian policies and procedures. The audit focused on compliance with Smithsonian policies and procedures governing sole-source purchase orders, training of procurement personnel, and segregation—or separation—of duties. The Office of the Inspector General (OIG) conducted this audit because the Smithsonian's procurement process is decentralized, and there is minimal centralized oversight.

For this audit, OIG reviewed the 14,832 purchase orders processed in fiscal year 2014. Those purchase orders represented 56 percent of the Smithsonian's 26,710 transactions that year, excluding purchase cards.<sup>1</sup> To estimate the number of sole-source purchases and to assess compliance with Smithsonian policies, OIG reviewed the file documentation for a sample of 188 purchase orders exceeding the Smithsonian's competition threshold of \$10,000. OIG also reviewed the waiver process for reducing fraud risk when purchase orders are issued by a single individual and examined records to determine whether the individuals involved in the sampled purchase orders met training requirements. A detailed description of OIG's objective, scope, and methodology is presented in appendix I.

OIG conducted this performance audit from October 2014 through September 2016 in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on its audit objective.

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<sup>1</sup> In fiscal year 2014, the Smithsonian used purchase cards to make 66,119 transactions, totaling \$14.7 million. The use of purchase cards reduces administrative costs and time for purchases under \$3,000; this amount was increased to \$3,500 on October 1, 2015.

## BACKGROUND

### **Policies, Requirements, and Exceptions Related to Soliciting Purchase Orders**

Competition in purchasing is recognized as a way for entities to pay a fair and reasonable price for goods and services, to improve contractor performance, to curb fraud, and to promote accountability for results. The Smithsonian has written key principles about competition into its contracting policy and accompanying procurement procedures manual.<sup>2</sup> Specifically, the Smithsonian aims to obtain a fair and reasonable price by requiring solicitation of at least three competitive quotes for purchases greater than \$10,000, with limited exceptions.

The exceptions to the competition requirement are: (1) the products have special features available only from one source; (2) an unusual and compelling urgency exists where only one source can meet the time requirements; (3) a follow-on purchase requires the use of the previous source for compatibility with the previous purchase; and (4) the services require special knowledge and experience, such as for scientific research or performances.

If competitive quotes are not obtained, Smithsonian policy requires a valid justification for using a sole-source purchase order and an explanation of why the purchase represents a fair and reasonable price.<sup>3</sup> In addition, to reduce the risk of potential conflicts of interest, approval and legal review must be documented if a proposed vendor is (1) a current or former Smithsonian or federal employee, (2) a current Smithsonian board member, or (3) an individual with a close personal or business relationship with any of these groups.<sup>4</sup>

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<sup>2</sup> Smithsonian Directive (SD) 314, *Contracting* (June 12, 2008), and *Procurement and Contracting Procedures Manual* (Sept. 23, 2011).

<sup>3</sup> The justifications and explanations are documented on form OCon 103, *Sole Source Justification Purchase Order File Documentation*.

<sup>4</sup> The documentation is made on form OCon 100, *Contracting with Individuals — Screening Checklist*.

## Offices and Individuals with Responsibilities in the Smithsonian's Decentralized Purchase Order Process

The legislation that established the Smithsonian vested the Board of Regents with authority for contracting. The Board of Regents has delegated the authority for contracting to the Secretary of the Smithsonian, who further delegates contracting authority to the director of the Office of Contracting and Personal Property Management (contracting office).

The contracting office is the principal office that oversees contracting and procurement for the Smithsonian. The Smithsonian purchasing process is decentralized. More than 50 units conducted all of the tasks in the purchase order process for 92 percent of the purchase orders processed in fiscal year 2014.<sup>5</sup> The contracting office reviewed and issued the remaining 8 percent of purchase orders on behalf of the units.

The contracting office director provides a specific amount of procurement authority, generally ranging from \$10,000 to \$25,000, to certain employees in each unit. Those employees are known as procurement delegates. Purchases that exceed the delegated procurement authority must be submitted to contract specialists in the contracting office for a final review and obligation of funds.<sup>6</sup> Both the contracting office's contract specialists and unit procurement delegates are responsible for ensuring that unit purchase orders comply with Smithsonian procurement policies and procedures.

Purchase orders for the Smithsonian Astrophysical Observatory (SAO), headquartered in Cambridge, Massachusetts, are handled differently than those of other Smithsonian units. The contracting office director has delegated contracting officer authority to contract specialists in SAO, so all SAO purchase orders are processed within that unit and are not forwarded to the contracting office.

The Office of Finance and Accounting (accounting office) is the central Smithsonian office that sets the policy for defining which purchasing duties in the Smithsonian's financial accounting system must be segregated, meaning divided among different employees, and approves any exceptions to this policy. Before an employee can process purchase orders in the system, the accounting office is required to approve the purchasing duties, and the Office of the Chief Information Officer (OCIO) must set up the employee's account accordingly.

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<sup>5</sup> A unit is a museum, research center, or administrative office within the Smithsonian.

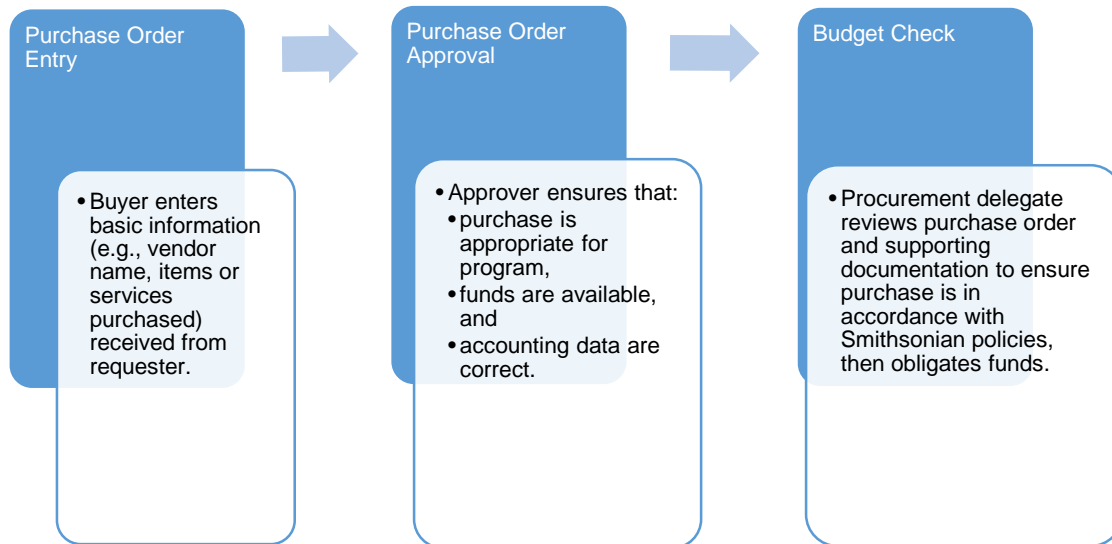
<sup>6</sup> In federal budgeting, an obligation is a commitment of funds that creates a legal liability of the government for the payment of goods and services ordered or received.

## The Smithsonian’s Processes for Executing Purchase Orders

The Smithsonian has two processes for executing purchase orders in the accounting system. The first process is followed by all Smithsonian units except for SAO; the second is unique to SAO. Both processes generally begin when a requester (such as program or administrative staff) identifies a need to purchase an item or service. The requester specifies the item or service and then searches for potential vendors.

For all units except SAO, the requester then gives basic information, such as accounting data, to a buyer, who enters it into the accounting system to start the process of generating a purchase order. Then another individual, known as an approver, must check to confirm that (1) the purchase is appropriate for the program, (2) funds are available, and (3) the accounting data are correct. Next, a procurement delegate with the appropriate authority reviews the purchase order to ensure that it complies with Smithsonian procurement policies and procedures and obligates the funds against the budget, a process that is known as budget checking. If the purchase amount is within the procurement delegate’s spending authority, he or she may perform the budget check. If the order amount exceeds the procurement delegate’s authority, a contract specialist in the contracting office must perform the budget check. Once the purchase order is budget-checked, the procurement delegate issues the purchase order to the vendor. The purchase order process is illustrated in figure 1.

**Figure 1. Overview of the Smithsonian’s Purchase Order Process, by Purchasing Duties, in the Accounting System**



Source: OIG illustration based on information from Smithsonian policies and procedures.

SAO uses a different process for its purchases. The requester enters information about the purchase in the accounting system to generate a requisition, rather than a purchase order. The requisition is an internal document created in the accounting system to set aside funds for a pending purchase. Next, program and financial managers approve the requisition, and a contract specialist in the purchasing section then generates the purchase order.

To perform certain duties (purchase order entry, approval, and budget check) in the accounting system, all individuals must first complete two training courses on the Smithsonian's accounting system and submit their unit-approved request form to the accounting office.<sup>7</sup> Procurement delegates seeking to perform the budget-check duty must also submit a certificate of delegation of purchasing authority from the contracting office.

## RESULTS OF THE AUDIT

### **Half of Purchase Orders Exceeding \$10,000 Were Sole-Source, and Many Did Not Have Required Documentation**

According to officials at the contracting office, sole-source purchasing should be the exception, not the norm, for purchase orders that exceed \$10,000. Nevertheless, OIG estimated that in fiscal year 2014, half of purchase orders exceeding the competition threshold of \$10,000 were sole-source awards. In addition, 38 percent of the sole-source purchase orders OIG sampled had missing or inadequate documentation or approvals to justify their award without competition.

#### Sole-Source Purchase Orders Accounted for Half of Purchases of More Than \$10,000

OIG reviewed a sample of 188 purchase orders exceeding \$10,000 from 33 Smithsonian units, representing a total of \$7,423,329. These purchase orders for fiscal year 2014 involved the procurement of goods (ranging from computer hardware and software to collection items) and services (such as temporary staffing, consulting, and other work involving individuals).

Based on the results of this review, OIG estimates that 36 percent of the 2,250 purchase orders exceeding \$10,000 in fiscal year 2014 were competed. Half (50 percent) were awarded on a sole-source basis. The remaining 14 percent involved blanket purchase orders with specific vendors and payments such as honoraria, travel reimbursements, and stipends that were not required to be competed or to have a sole-source justification. See figure 2 for a breakdown of the various purchase categories.<sup>8</sup>

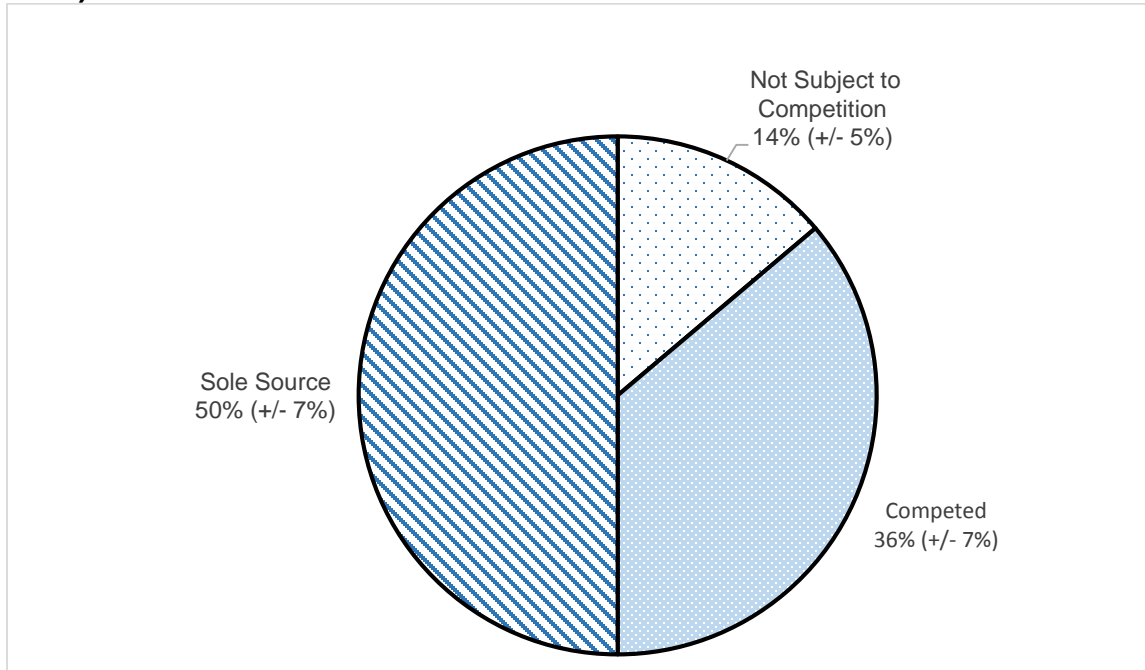
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<sup>7</sup> The two training courses are *Introduction to Enterprise Resource Planning Financials System* and *Basic Purchase Order Processing*.

<sup>8</sup> These estimates are at the 95-percent confidence level and have margins of error of plus or minus 7 percent or less.



**Figure 2. Competition Status of Purchase Orders Exceeding \$10,000 (Fiscal Year 2014)**



Source: OIG analysis of Smithsonian's purchase order files and accounting system data.

Note: These estimates are at the 95-percent confidence level and have margins of error noted in the figure.

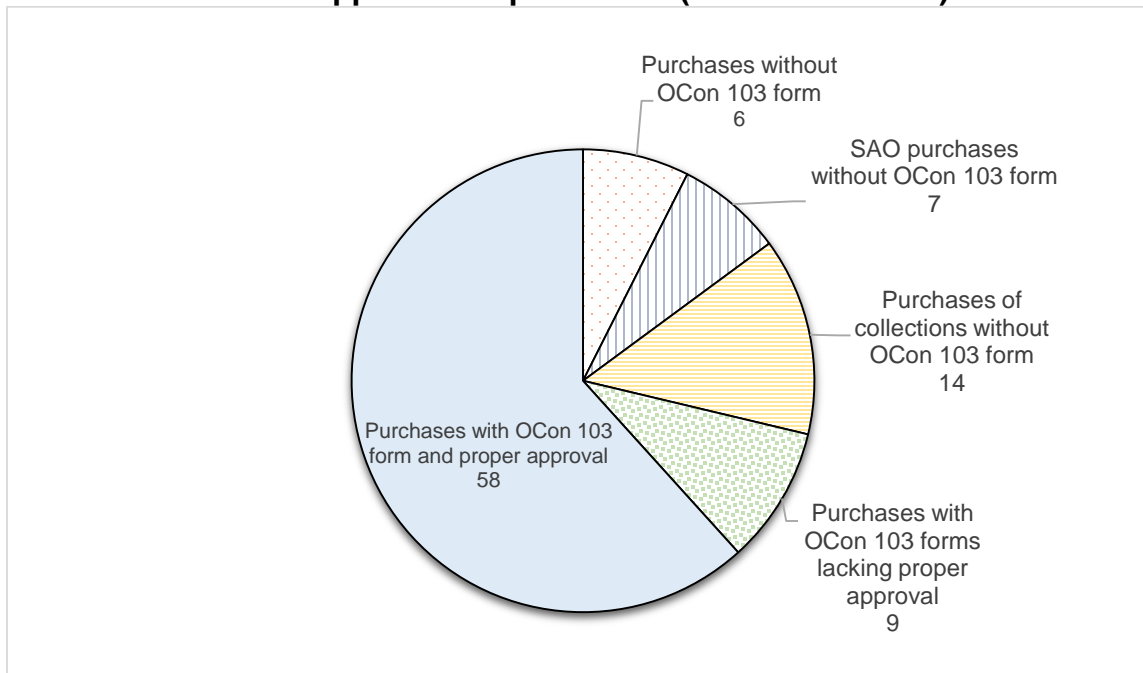
### More Than One-Third of Sole-Source Purchase Orders Did Not Have Required Justifications or Approvals

For purchase orders exceeding the \$10,000 competition threshold, a sole-source purchase order must (1) fall under the limited exemptions for competition and (2) provide an explanation that the Smithsonian is receiving a fair and reasonable price. As mentioned previously, these justifications are to be documented on the OCon 103 form.<sup>9</sup> Moreover, an authorized person (either the unit procurement delegate or a contract specialist from the contracting office, depending on the amount of the purchase order) must review and sign the OCon 103 form to document approval before issuing the purchase order.

OIG identified 94 sole-source purchases, totaling \$2,983,687, in the 188 sampled purchase orders exceeding \$10,000. Of these 94, OIG determined that 58 (or 62 percent) had the required form and proper approval, but 36 (or 38 percent) did not, as shown in figure 3. Without adequate justification and approvals, Smithsonian management officials do not know whether these 36 purchases, which totaled \$724,000, were valid sole-source purchases or whether the Smithsonian paid a fair and reasonable price for these goods and services.

<sup>9</sup> SD 314, *Contracting, Procurement and Contracting Procedures Manual* (Sept. 23, 2011).

**Figure 3. Status of 94 Sole-Source Awards and Compliance with Documentation of Justification and Approval Requirements (Fiscal Year 2014)**



Source: OIG analysis of Smithsonian's purchase order files and accounting system purchase order data.

For the 36 purchase orders missing required forms or approvals, the following occurred:

- For six purchase orders, totaling \$89,614, the OCon 103 forms were missing, and unit management did not have an explanation for why they were not in the files. These purchase orders were for goods and services, such as the reprint of previously published books (\$22,220), a social media strategist (\$10,991), and pins to recognize years of service (\$10,300).
- For nine purchase orders, totaling \$197,689, the required OCon 103 forms were in the files but lacked proper approvals. Six had no approval signatures when the purchase order was issued, and three had signatures by unauthorized persons. These purchase orders were for goods and services, such as costs associated with installation of updates to electronic equipment (\$42,500 and \$39,857) and exhibit installation (\$19,080).
- For 14 purchase orders, totaling \$436,355, involving purchase of collection items, there were no OCon 103 forms. These collection items included gems and minerals, artwork by American Indians, and African-American memorabilia. In discussions with procurement delegates in the five units that made these purchases and with contracting office managers, there was confusion about whether the form was required for collection items. A procurement delegate from

one unit stated that the form was required for collection items but was uncertain about why the form was not completed.

Delegates from the four other units stated that the use of the OCon 103 form was not necessary because collection items are unique and generally only available from a single source. After OIG began its inquiry, one of the four procurement delegates said he sought clarification on this topic from the contracting office and was told that the form was not necessary for purchasing collections. Moreover, contracting office managers originally told OIG that the use of the form was required for these items. However, at the end of the audit, they told OIG the form was not required. The procurement procedures manual does not specify that the purchase of collection items is exempt from the requirement to use the form.

- For seven purchase orders from SAO, totaling \$425,610, there were no OCon 103 forms. Contract specialists did document the sole-source justification for each purchase order using memoranda to the files. However, the memoranda were not in a standardized format, so there was no guarantee that they contained all the information required on the OCon 103 form. In fact, one memorandum did not have documentation describing how SAO officials had determined that the purchase order price was fair and reasonable. This purchase order, totaling \$24,000, was for the delivery of laboratory gases to a remote observatory in Hawaii. The procurement manager said that SAO did not use the required OCon 103 form because certain parts of the form were not applicable to SAO.

As previously mentioned, contract specialists and unit procurement delegates are responsible for ensuring that purchase orders comply with Smithsonian procurement policies and procedures before they perform a budget-check — the last step in the procurement process. OIG determined that for the purchase orders that failed to comply with procurement policies and procedures, there was inconsistent use of the OCon 101 form, *Purchase Order Checklist*. The checklist helps units ensure that purchase orders follow key procurement policies and procedures. However, this checklist was not completed for 23 (or 64 percent) of the 36 purchase orders described above.

### **The Contracting Office Did Not Have Effective Controls to Ensure Compliance and Conflict of Interest Reviews Were Conducted or Key Personnel Received Procurement Training**

As part of the Smithsonian's internal controls, the contracting office is required to conduct compliance reviews of units' purchase order processes every 3 to 5 years. SAO is also required to conduct compliance reviews every 3 to 4 years. However, OIG found that the contracting office and SAO have not conducted compliance reviews since the requirement was established in 2011. The contracting office also did not ensure that sole-source purchase orders awarded to former employees or other related parties (e.g., advisory board members) received proper legal review and approval to avoid potential conflicts of interest. And the contracting office does not have effective

procedures in place to ensure that contract specialists and unit procurement delegates involved with processing purchase orders in fiscal year 2014 met their training requirements.

### The Contracting Office and SAO Did Not Perform Required Compliance Reviews of Units' Purchase Order Processes

Beginning in 2011, the contracting office and SAO were required to conduct periodic compliance reviews of unit purchase orders.<sup>10</sup> These reviews are intended to help to identify areas where compliance requirements were not being met and opportunities to strengthen internal controls.

The contracting office is required to review purchase orders from all Smithsonian units every 3 to 5 years. OIG found that the contracting office has not conducted any compliance reviews since the requirement was established. The last evidence of a compliance review occurred in 2009 when the Smithsonian used a contractor to review purchase orders at five Smithsonian units.<sup>11</sup> The reviews identified similar weaknesses in the areas OIG reviewed in this audit, such as justifications for sole-source purchases and file documentation. The reviews also made recommendations for improved procedures and documentation for sole-source purchase orders, but OIG did not find any evidence that these recommendations were implemented. Contracting management officials said that since 2011, they have not conducted the reviews because they could not retain the staff members hired to conduct these reviews.

Notwithstanding its staffing shortages, the contracting office is responsible for overseeing procurement across the Smithsonian. If the compliance reviews were not being conducted in accordance with Smithsonian policy, the contracting office director had the responsibility to find other ways to oversee and monitor unit purchase orders.<sup>12</sup> For example, the contracting office could have monitored the extent to which units compete purchase orders by using accounting system reports. Based on OIG's analysis of the accounting system reports, two-thirds of fiscal year 2014 purchase orders were entered in the system as not competed. This would have alerted the contracting office to the high percentage of sole-source purchases being made. In addition, OIG's review of 188 purchase orders exceeding the \$10,000 competition threshold showed that 13 percent of the 2,250 fiscal year 2014 purchase orders had inaccurate competition data. Comparing the accounting system data with paper files, OIG found instances where the accounting system indicated that a unit had sought competition for a purchase when it had not, and vice versa.

According to the Smithsonian's procurement manual, unit procurement delegates are ultimately responsible for their unit's purchase orders. However, this manual does not

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<sup>10</sup> SD 314, *Contracting, Procurement and Contracting Procedures Manual* (Sept. 23, 2011).

<sup>11</sup> A contractor reviewed purchase orders at the National Museum of American History, the National Museum of Natural History, the National Museum of the American Indian, the National Portrait Gallery, and OCIO.

<sup>12</sup> SD 314, *Contracting* (June 12, 2008).

specify whether the unit procurement delegates are actually responsible for reviewing the accuracy of competition data entered into the accounting system.

In addition, Smithsonian policy does not require the contracting office to report the results of compliance reviews. Instead, it only requires that the contracting office report serious instances of noncompliance.<sup>13</sup> A requirement to report results of all compliance reviews would have alerted Smithsonian management to the fact that these reviews — a critical internal control in a decentralized program — were not occurring as required.

Since 2011, SAO has not conducted compliance reviews as required. Both the Smithsonian contracting office director and SAO's procurement department manager said that SAO satisfied the requirement through periodic audits and reviews of its federal grants and contracts.<sup>14</sup> However, the contracting office established the requirement for SAO to conduct compliance reviews with the knowledge that SAO was already subject to these other audits and reviews. In addition, OIG found compliance issues in two of the three areas reviewed — failure to complete required OCon 103 forms and failure to enforce training requirements for contract specialists — which demonstrates a need for compliance reviews. Moreover, these compliance reviews could be designed to minimize duplication in the areas covered by the audits and reviews of SAO's federal grants and contracts.

#### The Contracting Office Did Not Obtain Required Legal Reviews for Two Purchase Orders that Could Have Posed a Conflict of Interest

To reduce the risk of conflict of interest, the Smithsonian requires that units document, on the OCon 100 form, whether a proposed vendor is (1) a current or former Smithsonian or federal employee, (2) a current Smithsonian board member, or (3) an individual with a close personal or business relationship with any of these groups.<sup>15</sup> Before issuing the purchase order for a proposed vendor who falls in this category, a contract specialist from the contracting office is required to review and approve the form and forward it to an ethics counselor in the Office of General Counsel for approval.<sup>16</sup>

In the 94 sole-source purchase orders sampled, OIG identified 2 purchase orders issued to former Smithsonian employees. The first purchase order, for \$19,250, was for support services to administer a research internship program. The second purchase order, for \$18,000, was for planning and installing an art exhibition. Neither of these purchase orders had the required review or approval by the Office of General Counsel because the contracting office did not send the forms to the general counsel's office. Officials from the contracting office said they did not forward these forms because an ethics counselor under the prior general counsel (who left in 2009) told the contracting

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<sup>13</sup> Smithsonian Directive (SD) 314, *Contracting* (June 12, 2008).

<sup>14</sup> SAO's federal grants and contracts are subject to annual compliance audits required by the Office of Management and Budget's Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, every 3 to 4 years, SAO undergoes contractor purchasing system reviews, required under Federal Acquisition Regulation Subpart 44.3.

<sup>15</sup> SD 314, *Contracting, Procurement and Contracting Procedures Manual* (Sept. 23, 2011).

<sup>16</sup> SD 103, *Smithsonian Institution Standards of Conduct* (Feb. 13, 2012).

office not to send them every form with a potential conflict of interest for legal review. However, the current general counsel told OIG that the contracting office should get legal clearance for all purchase orders that pose potential conflicts of interest. Without proper legal review, the Smithsonian has no assurance that purchase orders are free of conflicts of interest.

After OIG discussed this issue with both offices, an ethics counselor in the Office of General Counsel reviewed these purchase orders and said that the purchase order for the art exhibition did not pose a conflict of interest. However, the ethics counselor said that competitive quotes should have been obtained, or a stronger justification should have been provided, for the sole-source purchase order to administer the research internship program.

#### The Contracting Office Did Not Ensure Contract Specialists and Other Key Personnel Had the Required Procurement Training

The Smithsonian procurement procedures manual specifies procurement training requirements for contract specialists and unit procurement delegates. For contract specialists, the manual requires a cumulative 80 hours of continuing education every 2 years relevant to the procurements they manage. For unit procurement delegates, the manual requires an 8-hour refresher training course once every 3 years.

OIG found that the contracting office did not have effective procedures to ensure that contract specialists and unit procurement delegates involved with processing purchase orders in fiscal year 2014 met their training requirements.

- One of three contract specialists in the contracting office did not meet the 80-hour training requirement in the previous 2-year period (fiscal years 2012 and 2013).<sup>17</sup> Training records for the two other contract specialists, who processed \$18.9 million in purchase orders, contained errors and were missing information; therefore OIG could not determine whether they had met their training requirements.

Contracting office officials said the inaccurate training records were caused by a miscommunication with the office of the Under Secretary for Finance and Administration/Chief Financial Officer, which had been entering data for training courses that had costs into the contracting office's records. Without accurate training records, the contracting office director cannot determine whether staff members are complying with the training requirements. Officials from the contracting office stated that they assumed responsibility for entering their own training data in the system in fiscal year 2015.

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<sup>17</sup> Contract specialists have 80-hour training requirements for specific years, such as fiscal years 2012-2013. In fiscal year 2014, contract specialists were in the first year of a 2-year training period, with no requirements to have training in any one year.

- None of the five contract specialists at SAO, who processed \$17.7 million in purchase orders, met the 80-hour training requirement in the previous 2-year period (fiscal years 2012 and 2013). Four did not take any training. The fifth contract specialist had 16 of the 80 required hours. OIG found that the five contract specialists each had less than 15 hours of training in fiscal year 2014.

SAO's former procurement manager said contract specialists had not completed the 80-hour requirement because he used the limited training funds for staff members who were new to the field rather than ones who had procurement experience. However, the Smithsonian's contracting office director stated that SAO contract specialists should be able to meet the 80-hour requirement because free training courses are available.

- The contracting office did not enforce the refresher training requirement for 14 of the 158 unit procurement delegates during the 3-year period.<sup>18</sup> Twelve of the 14 procurement delegates continued to process 1,083 purchase orders, totaling \$8.5 million, in fiscal year 2014. The two other delegates did not process any purchase orders. One of the 12 individuals who did process purchase orders had not had refresher training since fiscal year 2007 and processed 178 purchase orders, totaling \$486,463, in fiscal year 2014. That individual did take the refresher training in fiscal year 2015.

Periodic training reinforces existing policies and procedures and raises awareness of any changes to these requirements. If individuals do not take the required periodic training, the Smithsonian runs the risk that its contract specialists and procurement delegates may not be aware of current Smithsonian policies and procedures, laws, and regulations related to procurement.

## **The Accounting Office Needs Improvements in Segregating Duties for Purchase Orders to Mitigate Fraud Risk**

Segregating — or separating — responsibilities related to the purchase order process reduces the risk of fraud. When duties cannot be fully segregated due to circumstances such as limited staff, unit management officials are required to obtain a waiver and implement alternative controls to ensure proper oversight of purchase order processing.<sup>19</sup> OIG identified 11 individuals in seven Smithsonian units who performed all three purchasing roles in the accounting system — entry, approval, and budget check. For 7 of the 11 individuals performing all three purchasing duties, unit management implemented the alternative controls documented in their approved waivers.

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<sup>18</sup> The 3-year period begins on the date when the procurement delegate last completed training.

<sup>19</sup> *Smithsonian Institution Financial Management Accounting Policies and Procedures Handbook* (September 2013).

However, no alternative controls were in place for 3 of the 11, and another individual did not have a waiver. OIG also found that the accounting office did not follow its procedures that are designed to ensure that units with segregation of duty waivers continued to need them or have alternate controls in place.

#### Eleven Individuals in Seven Smithsonian Units Made Purchases with No Segregation of Duties

Although a single person handling all purchasing roles poses a high risk for fraud, OIG did not find any instances of fraud or unauthorized purchases made by the 11 individuals who performed all three purchasing duties. The 11 individuals processed 1,727 purchase orders, totaling nearly \$62.5 million, in fiscal year 2014, as shown in figure 4.

**Figure 4: Summary of Purchase Orders Processed by a Single Person, by Smithsonian Unit (Fiscal Year 2014)**

Smithsonian Unit	Number of Individuals	Number of Purchases	Dollar Value of Purchases
Smithsonian Astrophysical Observatory	5	1,479	\$17,102,379
Office of Advancement	1	144	1,403,939
National Museum of Natural History	1	70	287,066
Office of Planning Management and Budget	1	31	43,640,847
Office of Contracting and Personal Property Management	1	1	44,009
Smithsonian Facilities	1	1	3,100
National Air and Space Museum	1	1	1,810
<b>Total</b>	<b>11</b>	<b>1,727</b>	<b>\$62,483,150</b>

Source: OIG analysis of accounting system data.

To seek a waiver when purchasing duties cannot be fully segregated, a unit management official must first document alternative controls in a written request to the accounting office. The alternative controls are intended to mitigate the fraud risks when one person in a particular unit has multiple duties in the purchasing process. Once the accounting office approves the waiver, OCIO sets up the approved duties in the accounting system. Unit management is responsible for ensuring that staff implement approved controls.



OIG found that for 7 of the 11 individuals performing all three purchasing duties, unit management implemented the alternative controls documented in their approved waivers. However, unit management officials did not implement the required alternative controls for 3 of the 11 individuals, although each unit had a waiver as required. At the Office of Advancement, management did not review the procurement delegate's purchase orders weekly as required. At the National Museum of Natural History, senior purchasing managers were to perform random quality assurance testing on the individual with all three duties. However, these managers said that they performed random testing on a sample of purchase orders from across the museum and did not focus on the actions of the one individual. They did not know if the random testing had included this particular individual because they did not retain records of their reviews. At the Office of Planning, Management, and Budget, management officials stated that they had reviewed the procurement delegate's purchases but had not maintained records of their review. Without these records, unit management officials in the National Museum of Natural History and the Office of Planning, Management, and Budget could not verify that they had alternative controls in place. During OIG's audit, management officials in these three units removed certain duties so that each of the individuals identified no longer performed all the purchasing functions.

Finally, National Air and Space Museum management did not have a waiver in place for one individual who performed all three duties when making a purchase. According to the accounting office, this individual did not need a waiver because he did not have all three purchasing duties at the same time. The individual was to have his entry and approval duties removed when the budget-check duty was added. However, OIG found that in one case, for a \$1,800 purchase order, the individual performed all three purchasing duties during the time when his duties were being changed in the accounting system.

#### The Accounting Office Did Not Ensure That Units with Segregation of Duty Waivers Continued to Need Them or Had Alternate Controls in Place

As part of its responsibility for monitoring units that have segregation of duty waivers, the accounting office is to annually request a written attestation from Smithsonian unit management as to whether staff members continue to need their waivers.<sup>20</sup> The attestation must also state that effective alternative controls are in place to implement the waivers.<sup>21</sup> The accounting office is required to review and accept or deny these attestations. However, OIG found that the accounting office had not requested or reviewed attestations since fiscal year 2013 but resumed the practice in December 2015 after being informed of the results of OIG's work.

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<sup>20</sup> Office of Finance and Accounting's *Review of Waiver Exceptions to Segregation of Duties over Procurement Responsibilities* (undated).

<sup>21</sup> Each unit's management officials determine the appropriate controls needed to mitigate risks.

According to accounting office management, the accounting office could not fulfill its oversight responsibility because it did not have enough staff. As a result, for fiscal years 2014 and 2015, the accounting office did not know whether an individual who received a segregation of duty waiver continued to need one or whether unit management was properly overseeing this individual.

## CONCLUSIONS

The Smithsonian relies on competition to ensure it is paying a fair and reasonable price for goods and services. Officials of the contracting office say that sole-source purchase orders should not be the norm. Nonetheless, OIG found that half of the \$149 million in purchase orders for more than \$10,000 in fiscal year 2014 were sole source. More than one-third of those, including purchase orders from SAO, did not have the required justification to show why they were awarded without competition or documentation to show that a fair and reasonable price was paid.

Monitoring is a key internal control standard for ensuring compliance with requirements for purchasing goods and services and identifying and mitigating risks. This is particularly important given the significant delegation of procurement responsibilities and authorities to more than 50 Smithsonian units. Such a decentralized system increases risks that units may not follow procurement policies, circumvent competition requirements to expedite purchase orders, or make improper purchases. However, the contracting office has not conducted the required compliance reviews to monitor the various units since that requirement was established in 2011. In addition, the contracting office has not ensured that SAO conduct its own compliance reviews. Without sufficient monitoring to ensure that units have approved valid justifications for sole-source purchases, the Smithsonian risks not paying a fair and reasonable price for goods and services. Oversight and monitoring are further hampered by incorrect competition information in the accounting system. In addition, the Smithsonian has faced an increased risk of conflicts of interest in purchases because of ineffective controls to ensure the required legal clearance is obtained for purchase orders being awarded to former Smithsonian employees, members of various Smithsonian boards and committees, and individuals with close ties to those individuals. The contracting office also has not monitored units to ensure they are enforcing Smithsonian's requirements for training and refresher courses for individuals involved in purchasing and procurement.

Lastly, the accounting office had not ensured that units with segregation of duty waivers continue to need them or have the required alternative controls in place.

## RECOMMENDATIONS

To strengthen the control environment for Smithsonian purchase orders, OIG recommends that the Under Secretary for Finance and Administration/Chief Financial Officer ensure that the Director of the Office of Contracting and Personal Property Management:

1. Conducts compliance reviews in accordance with the Smithsonian's procurement procedures manual and report to the Under Secretary on the results of these reviews. These reviews should include
  - a. determining whether required forms were complete and approved, and
  - b. ensuring the accuracy of the competition data in the accounting system.
2. Revise the procurement procedures manual to require the Office of Contracting and Personal Property Management to annually report the results of the compliance reviews to the Under Secretary of Finance and Administration/Chief Financial Officer.
3. Revise the procurement procedures manual to clarify the responsibility of unit procurement delegates to review purchase orders, including ensuring the accuracy of the data entered in the accounting system.
4. Review and update, as appropriate, the procurement procedures manual regarding the need to use the OCon 103 form for purchasing collection items.

To ensure that SAO's purchase orders are properly justified and that their prices are fair and reasonable, OIG recommends that the Director of the Office of Contracting and Personal Property Management

5. In coordination with the SAO Director, modify the OCon 103 form to fit SAO's procurement structure, then enforce its use for sole-source purchase orders.
6. Ensure that SAO follows the requirement to conduct compliance reviews in accordance with the procurement procedures manual.

To ensure that the Smithsonian does not purchase from vendors who have a conflict of interest, OIG recommends that the Under Secretary for Finance and Administration/Chief Financial Officer, in coordination with the General Counsel:

7. Implement a process to ensure that the Office of Contracting and Personal Property Management forwards to the Office of General Counsel all proposed purchases from vendors identified as current or former Smithsonian employees, board members, or other related individuals.

To strengthen compliance with procurement policies and procedures regarding training, OIG recommends that the Director of the Office of Contracting and Personal Property Management:

8. Review and update the Office of Contracting and Personal Property Management's training records for contract specialists to ensure that the records are complete and accurate.
9. Enforce the 80-hour contract training requirement for contract specialists in the Office of Contracting and Personal Property Management and SAO.
10. Enforce controls to ensure compliance with training requirements for unit procurement delegates.

To strengthen the control environment for the segregation of procurement duties, OIG recommends that the Director of the Office of Finance and Accounting:

11. Monitor unit segregation of duty waivers annually as required.

## MANAGEMENT RESPONSE AND OIG EVALUATION

OIG provided a draft of this report to Smithsonian management for review and comment. Smithsonian management provided written comments, which are found in appendix II. Smithsonian management concurred with all 11 recommendations that OIG made in its draft report.

For recommendations one through eight, management's planned actions address the intent of the recommendations. Management plans to revise its procurement procedures manual and conduct compliance reviews to strengthen the control environment for processing the Smithsonian's purchase orders. In addition, management stated that it has updated its process to ensure that the training records are complete and accurate.

For the recommendations to enforce training requirements, management's response did not fully address the intent of these recommendations. For recommendation nine, management officials stated that managers in the contracting office and SAO enforce or grant exceptions to the 80-hour training requirement for contract specialists. However, as OIG discussed in this report, these managers did not enforce or document exceptions from the training requirement for their contract specialists who processed purchase orders in fiscal year 2014.

For recommendation 10, management officials stated that the contracting office enforces controls to ensure compliance with training requirements for unit procurement delegates. OIG agrees that procurement delegates are notified of the need to take refresher training to maintain their delegation of authority. However, as OIG reported, the contracting office did not revoke delegations for the 14 procurement delegates who did not take the refresher training when required. Management officials also stated that because of the limited availability of refresher training courses, procurement delegates are allowed to complete their training at any point until the end of the fiscal year in which training is due or when the next course is offered. However, based on OIG's review, none of the 14 procurement delegates met the training requirement by the end of the applicable fiscal year, and 7 of them were more than 2 years late.

Lastly, for recommendation 11, management provided evidence that the accounting office has resumed its monitoring of unit segregation of duty waivers. Therefore, this recommendation is considered closed as of the date of this report.

## Appendix I

### Objective, Scope, and Methodology

The objective of this audit was to assess the extent to which the Smithsonian Institution's (Smithsonian) controls over purchase orders are effective in ensuring compliance with key Smithsonian policies and procedures. The audit focused on compliance with Smithsonian policies and procedures governing sole-source purchase orders, training of procurement personnel, and segregation of duties. The Office of the Inspector General (OIG) conducted this audit because the Smithsonian's procurement process is decentralized, and there is minimal centralized oversight.

To obtain an understanding of the Smithsonian's purchase order program and challenges, OIG reviewed relevant Smithsonian policies and procedures and portions of the Federal Acquisition Regulation. The Smithsonian is not required to comply with this regulation but is guided by its principles. OIG also interviewed management and staff in the following Smithsonian offices: the Office of Contracting and Personal Property Management (contracting office); the Office of Finance and Accounting (accounting office); the Office of the Chief Information Officer (OCIO); and the Office of General Counsel. Because procurement activities occur at the unit level, OIG also interviewed procurement delegates and other staff involved in the unit procurement process. In addition, OIG reviewed reports by four Offices of Inspectors General for other federal agencies, as well as internal audit functions for a local government and private organization.

OIG used the Smithsonian's definition of purchase orders to identify the population of fiscal year 2014 purchase orders. The Smithsonian generally uses purchase orders for noncommercial items or services that cost up to \$100,000 and commercial items or services that cost up to \$5 million. The Smithsonian Astrophysical Observatory (SAO) has higher thresholds than the rest of the Smithsonian—\$150,000 for noncommercial items and services, and \$6.5 million for commercial items and services. Purchase orders also are used for items or services that cost up to \$5 million (or \$6.5 million for the SAO) and are purchased using the General Services Administration's federal supply schedule.

To assess compliance with sole-source policies and procedures, OIG performed a number of analyses for all fiscal year 2014 purchase orders from the Smithsonian's financial accounting system, Enterprise Resource Planning. First, to estimate the number of sole-source purchase orders, OIG used a simple random probability sample of 188 purchase orders, totaling \$7,423,329, from the 2,250 fiscal year 2014 purchase orders exceeding the competition threshold of \$10,000.<sup>22</sup> These purchase orders

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<sup>22</sup> OIG randomly selected a probability sample from the population of fiscal year 2014 purchase orders. With this probability sample, each member of the study population had a nonzero probability of being selected, and that probability could be computed for any member. This sample is only one of a large number of samples that OIG might have drawn. Since each sample could have provided different estimates, OIG expresses its confidence in the precision of this particular sample's precision estimates as

represented procurements from 33 of the Smithsonian's more than 50 units. To determine whether the procurement delegate sought competition for each purchase order, OIG obtained the file documentation, including the executed purchase order, any evidence of competition, and other related supporting documentation. Second, in cases where competition was required but did not occur, OIG checked to see whether the file contained a sole-source justification form that was approved by an authorized unit procurement delegate before the purchase order was executed. OIG did not evaluate the validity of the sole-source justifications that were filed. Third, to assess whether procedures to avoid conflicts of interests were followed when contracting with former employees and other individuals with ties to the Smithsonian, OIG determined whether the appropriate conflict of interest form was completed and signatures for approval were obtained.

OIG assessed the reliability of data from the enterprise resource planning system by (1) electronically testing the data to identify and address data anomalies; (2) interviewing contracting office, OCIO, and unit staff knowledgeable about the data; and (3) obtaining and reviewing information on the audits and controls the Smithsonian uses to ensure data reliability.

To assess compliance with procurement training requirements, OIG determined the training requirements for all procurement delegates and the contract specialists who processed fiscal 2014 purchase orders. OIG obtained training records from the Smithsonian's Human Resources Management System and tested the reliability of the data by verifying the training to source documentation (such as certificates of training and class sign-in sheets). Since contract specialists' training requirement covers a 2-year period, OIG used the most current 2-year period prior to the start of the audit, fiscal years 2012-2013, to test compliance.

To assess effectiveness of controls when purchasing duties cannot be segregated, OIG identified purchase orders that were completed without segregation of duties (that is, instances where one individual performed all three purchasing roles in the accounting system – entry, approval, and budget check). Of the 14,832 purchase orders in fiscal year 2014, OIG identified 1,727 purchase orders, totaling \$62,483,150, that fell into this category. They were executed by 11 individuals in seven different Smithsonian units. Five of those individuals were employed by SAO. For each of the 11 individuals, OIG attempted to obtain the segregation of duties waivers to verify approval by the accounting office and to identify alternative controls. OIG also interviewed unit management to determine whether the alternative controls identified in the existing waivers were implemented and functioning effectively. To ensure that these purchases were authorized, OIG reviewed file documentation to determine whether purchases were requested by someone other than the 11 individuals.

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95-percent confidence intervals (e.g., plus or minus 7 percentage points.) These are intervals that would contain the actual population value for 95 percent of the samples OIG could have drawn. As a result, OIG is 95-percent confident that each of the confidence intervals in this report will include the true values in the study population. All percentage estimates from the sample of purchase orders have sampling errors (confidence interval widths) of plus or minus 7 percentage points or less.

OIG conducted this performance audit in Washington, D.C.; Arlington and Herndon, Virginia; and Fort Pierce, Florida, from October 2014 through September 2016 in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on its audit objective.



## Appendix II

## MANAGEMENT RESPONSE

	<b>Smithsonian Institution</b>	<b>Memo</b>
	Under Secretary for Finance and Administration and Chief Financial Officer	
Date	September 21, 2016	
To	Cathy Helm, Inspector General	
	Attn: Joan Mockeridge, Assistant Inspector General for Audits Michelle Uejio, Auditor	
cc	Porter N. Wilkinson, Chief of Staff to the Regents Greg Bettwy, Acting Chief of Staff, Office of the Secretary Virginia B. Clark, Assistant Secretary for Advancement Judith Leonard, General Counsel Cindy Zarate, Executive Officer, Office of the Under Secretary for Finance and Administration/Chief Financial Officer Charles Alcock, Director, Smithsonian Astrophysical Observatory Thomas E. Dempsey, Acting Director, Office of Contracting and Personal Property Management Jean Garvin, Director, Office of Finance and Accounting David Voyles, Director, Office of Planning, Management and Budget Kirk R. Johnson, Director, National Museum of Natural History Tina M. Jones, Associate Director for Procurement, OCon&PPM Joseph Lendall, Manager, Sponsored Programs and Procurement Department, SAO Curtis B. Sanchez, Associate Director for Policies and Resources, OCon&PPM Anita Young, Financial Manager, National Air and Space Museum	
From	Al Horvath, Under Secretary for Finance and Administration/CFO 	
Subject	Response to the Draft Report, Office of the Inspector General Audit A-15-01, Acquisition Management: Oversight and Monitoring Would Improve Compliance with Policies for Sole-source Purchases	
	Thank you for providing me a copy of the draft report on the Office of Inspector General (OIG) audit on Controls over Smithsonian Purchase Orders, audit A-15-01. My staff and the Manager, Sponsored Programs and Procurement Department (SPPD), Smithsonian Astrophysical Observatory (SAO), have reviewed the audit findings, issues presented, and recommendations for action included in the report. On behalf of the organizations within my office, and the Director, Smithsonian Astrophysical Observatory, I hereby submit the following comments on the written Results of the Audit and actions already taken or planned to be taken to address each of the recommendations or actions suggested. Thank you for the opportunity to comment prior to issuance of your final report.	
	<b>Results of Audit</b>	
Issue 1	<b>Half of Purchase Orders Exceeding \$10,000 Were Sole-source, and Many Did Not Have Required Documentation</b>	
	<b>Comment:</b> Generally, sole source procurements over \$10,000 would require documentation of justification on a form OCon 103. Examples of exceptions to required documentation that may be allowable and approved by the cognizant Contracting Officer at the Office of Contracting and Personal	
	1000 Jefferson Drive, SW, Room 421 Washington DC 20560-0046 202.633.7120 Telephone 202.633.7130 Fax	

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Property Management (OCon&PPM) and the Smithsonian Astrophysical Observatory (SAO) or a duly authorized Unit Procurement Officer (UPO) are for procurements for which: the selected vendor is identified in sponsored project awards or donor gift agreements; purchases of Smithsonian collections items that have advance review and approved by a curatorial council; or, timeframes within which a procurement must be completed prevents documentation and review occurring in advance of purchase. Such exceptions may be/have been approved verbally by a Contracting Officer or UPO, however, absent apparent record or notes of such verbal approval in files reviewed by OIG, OCon&PPM understands OIG could not be assured such exceptions were granted.

**Issue 2 The Contracting Office Did Not Ensure Other Internal Controls Relating to Purchase Orders Were Followed or Monitor Compliance**

**Comment:** As noted in the report, OCon&PPM has experienced staff retention issues that disrupted implementation of its procurement policies and procedures compliance review program with the Units. However, compliance with process and documentation requirements is conducted on each procurement action that is presented to OCon&PPM for review, most of which also require budget checking at OCon&PPM. Oversight of procurement activities SI-wide can be improved now that OCon&PPM has on-boarded a new employee assigned to lead procurement compliance review activity.

**Issue 3 Accounting Office Needs Improvements in Segregating Duties for Purchase Orders to Mitigate Fraud Risk**

**Comment:** The exception noted for NASM was, in all likelihood, a timing issue. PO approval is granted as a separate role and permission within ERP. It is possible that in this case, the NASM employee had entry, approval, and budget check rights while the change was being implemented.

**RECOMMENDATIONS**

**A. To strengthen the control environment for Smithsonian purchase orders, OIG recommends the Under Secretary for Finance and Administration/Chief Financial Officer (USF&A/CFO) ensure that the Director of the Office of Contracting and Personal Property Management.**

1. Conducts compliance reviews in accordance with the procurement procedures manual and report to the Under Secretary on the results of these reviews. These reviews should include:
  - a. Determining whether required forms were complete and approved, and
  - b. Ensuring the accuracy of the competition data in the accounting system.

**Comment:** Concur

**Action Planned:** Managers and staff in OCon&PPM have created an action plan to review and revise the procurement compliance review processes and requirements currently set forth in Parts 1 and 2 of the Procurement and Contracting Procedures Manual (PCPM). OCon&PPM managers and staff will determine necessary adjustments for elements of the procurement compliance review processes. The PCPMs will be revised accordingly to clearly state requirements for appropriate documentation and accurate procurement data entry in SIERP SI's unit delegated procurement officials. Revisions to the PCPMs will also include a requirement for the results of compliance reviews to be provided annually to the USF&A/CFO. Additionally, OCon&PPM managers and staff will finalize a procurement compliance review roll-out schedule, which will commence in FY2017.

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**Target Date for Completion:** January 31, 2017

2. Revise the procurement procedures manual to require the Office of Contracting and Personal Property Management to annually report the results of the compliance reviews to the Under Secretary of Finance and Administration/Chief Financial Officer.

**Comment:** Concur

**Action Completed/Action Planned:** As part of the action planned for responsiveness to Recommendation No. 1 above, OCon&PPM managers shall ensure the reports on the results of each compliance review conducted are provided to the USF&A/CFO on an annual basis, and that such requirement is incorporated into PCPM 1.

**Target Date for Completion:** January 31, 2017

3. Revise the procurement procedures manual to clarify the responsibility of unit procurement delegates to review purchase orders, including ensuring the accuracy of the data entered in the accounting system.

**Comment:** Concur

**Action Planned:** As part of the action planned for responsiveness to Recommendation No. 1 above, OCon&PPM shall increase emphasis during its procurement-related training classes on UPOs' responsibilities for ensuring the accuracy of purchase order content and data related to procurements that is entered into SIERP. Appropriate sections of PCPM 2, Simplified Acquisitions, will also be updated to clarify these responsibilities.

**Target Date for Completion:** January 31, 2017

4. Review and update, as appropriate, the procurement procedures manual regarding the need to use the OCon 103 form for purchasing collections items.

**Comment:** Concur

**Action Planned:** Managers and staff in OCon&PPM shall determine the types of sole source procurements for which a form OCon 103 may not be necessary and incorporate that information into the PCPM 2.

**Target Date for Completion:** January 31, 2017

**B. To ensure that SAO's purchase orders are properly justified and that their prices are fair and reasonable, OIG recommends that the Director of the Office of Contracting and Personal Property Management:**

5. In coordination with the SAO Director, modify the OCon 103 form to fit SAO's procurement structure, then enforce its use for sole-source purchase orders.

**Comment:** Concur

**Action Planned:** SAO managers and staff are now reviewing the OCon 103 and shall complete it for revisions that accommodate the SAO procurement process. Determination and agreement on a final alternative form OCon 103 for SAO shall be made by the Sponsored Programs and Procurement Department Manager, SAO and Acting Director,

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OCon&PPM. OCon&PPM shall recognize this form and its use in the revised PCPM 2.

**Target Date for Completion:** January 31, 2017

6. Ensure that SAO follows the requirement to conduct compliance reviews in accordance with the procurement procedures manual.

**Comment:** Concur

**Action Planned:** As part of the action planned for responsiveness to Recommendation No. 1 above, managers and staff in OCon&PPM and SAO will determine the elements of and frequency of SAO compliance reviews considering the frequency and elements of routine external audits conducted on SAO procurements processing. Information in PCPM 1 regarding required SAO compliance reviews shall be updated.

**Target Date for Completion:** January 31, 2017

**C. To ensure that the Smithsonian does not purchase from vendors who have a conflict of interest, OIG recommends that the Under Secretary for Finance and Administration/Chief Officer, in coordination with the General Counsel:**

7. Implement a process to ensure that the Office of Contracting and Personal Property Management forwards to the Office of the General Counsel (OGC) all proposed purchases from vendors identified as current or former Smithsonian employees, board members, or other related individuals.

**Comment:** Concur

**Action Planned:** OCon&PPM has participated in the review of and provided concurrence with the recently updated OGC-controlled SD 103, *Standards of Conduct*, and the SD's Section 13, Personal Conflicts of Interest. The Section 13 requirement for OGC review of all proposed procurements that present a potential conflict of interest is now being promoted and adhered to by OCon&PPM. OCon&PPM managers continue to coordinate with OGC on a revised OCon 100, *Contracts with Individuals – Screening Checklist* by which necessary information is solicited on individuals with whom a procurement is planned that helps determine whether or not a conflict of interest exists. It is anticipated that use of the new form OCon 100 will begin in October, 2016.

**Target Date for Completion:** October 31, 2016

**D. To strengthen compliance with procurement policies and procedures regarding training, OIG recommends that the Director of the Office of Contracting and Personal Property Management:**

8. Review and update the Office of Contracting and Personal Property Management's training records for the contract specialists to ensure that the records are complete and accurate.

**Comment:** Concur

**Action Completed:** In FY2015, the Policies and Resources Division (PRD) staff, OCon&PPM assumed the responsibility for ensuring OCon&PPM's employee training records in the Human Resources Management System (HMRS) are timely updated and tracked. PRD staff periodically send out reminders regarding OCon&PPM staff training

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requirements, information about how employees can and should check the accuracy of their training record in HRMS, and requests to staff to inform PRD when their training has been completed, especially if outside of SI. PRD ensures that the staff's training records are updated in HRMS upon being advised of training completion. OCon&PPM is in the process of providing additional information to support OCon&PPM's forthcoming request for closure.

**Date Completed:** October 31, 2016

9. Enforce the 80-hour contract training requirement for contract specialists in the Office of Contracting and Personal Property Management and SAO.

**Comment:** Concur

**Action Completed:** The biennial training hours requirements have been promoted and enforced by the OCon&PPM management team since they were implemented the start of FY 2012. Employees are periodically reminded that they have access to their training records in HRMS. Employees are advised to check their own compliance with training requirements, and periodically review their records and ensure all completed training has been recorded. OCon&PPM staff may also contact PRD staff at any time, who are set up to respond directly to employees and/or their supervisors upon receipt of requests for training compliance information.

Managers in OCon&PPM and SAO enforce the training requirements, and encourage employees to identify and attend courses and conferences pertinent to their professional and personal development as well as to the types of procurement actions on which they customarily assist. Managers have necessary discretion to grant exceptions to the biennial requirements based on consideration of an employee's workload, demands on staff time by SI organizations, and individuals' required personal time away from the office. Similarly, managers have worked one-on-one with their employees to determine whether certain required classes can be satisfied with similar and/or alternative classes that better serve the Smithsonian's immediate contracting/procurement needs. Managers primarily enforce training through the employee's appraisal and note if training has not been met.

**Related Action Pending:** OCon&PPM has initiated a review of the biennial training hour requirement based on concerns raised by employees who have been trying to meet the requirement as currently stated in the PCPM. OCon&PPM will be reviewing whether the requirements need to be revised to incorporate requirements that are more pertinent to the needs of the Smithsonian's contracting office's projects and operations.

**Target Date for Completion:** March 30, 2017.

10. Enforce controls to ensure compliance with training requirements for unit procurement delegates.

**Comment:** Concur

**Action Completed:** OCon&PPM enforces controls to ensure compliance with training requirements for unit procurement delegates. It utilizes several systems (HRMS, Moodle,

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and ERP Financials) to help track, remind, and enforce requirements. In FY 2013, PRD began using Moodle, the Learning Management System, and its Learning Path feature to assist with its monitoring and enforcement of unit procurement delegates' training requirements. In FY 2014, PRD began using the HRMS electronic messaging feature. This feature automatically generates email notices to unit procurement delegates and their supervisors, based on the last date recorded for the employee's completed required training. Numerous notices are generated to employees in advance of the date that a training requirement must be fulfilled (ie. at 180, 90, and 45 calendar days in advance). HRMS also automatically generates a final notice to employees and supervisors on the date the employee is indicated to be out of compliance with training requirements. As a result of the notifications, PRD has noticed that for the few cases where procurement delegates have not met their training due date, the system's automated email immediately prompted the procurement delegates to book pass-due training for the next available offering.

Due to limits on availability of refresher training courses throughout the fiscal year, OCon&PPM may permit employees to complete their training requirements by the end of the fiscal year in which the training expires, or where requested, may also grant a limited extension to complete the required training course at the next available offering past the current fiscal year end. In instances when a delegation of procurement authority is requested to be modified but training requirements have not been met, the modification is declined until training has been completed. On an annual basis, OCon&PPM PRD staff reviews unit procurement delegate training records and if no exceptions had been approved, will notify the delegate and if necessary inform them that their procurement delegation will be revoked pending completion of required training. In rare cases PRD staff will further request OCIO to inactivate their budget checking rights in the ERP Financial systems. OCon&PPM is in the process of providing additional information to support OCon&PPM's forthcoming request for closure.

**Date Completed:** October 31, 2016.

**E. To strengthen the control environment for the segregation of the procurement duties, OIG recommends that the Director of the Office of Finance and Accounting:**

11. Monitor unit segregation of duty waivers annually as required.

**Comment:** Concur

**Action Completed:** The Office of Finance & Accounting (OF&A) recognized this issue prior to it being identified by OIG. During FY 2016, OF&A strengthened the monitoring requirements for Segregation of Duties (SOD) waivers granted or continued in FY 2016 by establishing details on Units' responsibilities for oversight of purchasing actions by employees with SOD waivers and requiring the Units to submit SOD monitoring plans with each request for a SOD waiver.

OF&A also began notifying supervisors, or other managers, each FY of unit personnel for whom SOD waivers are approved and will require renewal of existing waivers and new waivers to be requested. Before the approval of a renewal or new waiver will occur, the Unit's written plan to assure the same individual does not perform the waived duties on the same transaction must be approved by OF&A.

For FY 2017, the annual renewal process will include verification by OF&A that the Unit

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implemented its written monitoring plan for each SOD waiver. This will be accomplished through SOD reviews conducted by OF&A, with the results of each review summarized in written reports to the OF&A Director within 45 days of fiscal year end (by November 14, 2016).

**Target Date for Completion:** Completed. Documentation has been submitted to the OIG to evidence the request for closure of this recommendation.

Please direct any questions you may have regarding the information included herein to Curtis B. Sanchez, OCon&PPM, for a coordinated response. Curtis may be reached by telephone at 202.633.7294 or via email to [SanchezC@si.edu](mailto:SanchezC@si.edu).



Smithsonian Institution  
Office of the Inspector General

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If requested, anonymity is assured to the extent permitted by law. Although you may remain anonymous, we encourage you to provide us with your contact information. The ability to gather additional information from you may be the key to effectively pursuing your allegation.

Information provided is confidential.