The SBA Mismanaged Certain 8(a) Information Technology Contracts
DATE: December 3, 2012

TO: Jonathan I. Carver
Chief Financial Officer

SUBJECT: The SBA Mismanaged Certain 8(a) Information Technology Contracts

This report presents the results of our audit on The SBA’s Management of Information Technology Contracts Awarded to Isika Technologies, Inc. Our audit objective was to determine whether the Small Business Administration (SBA) effectively managed information technology (IT) contracts awarded to Isika Technologies, Inc. (iTechnologies). We have incorporated the formal comments from the Office of the Chief Financial Officer into this report.

Please provide your response to this report for each recommendation on the attached SBA Forms 1824, Recommendation Action Sheet, by January 2, 2013.

Consistent with OMB Circular A-50, your response should include the corrective action(s) taken or planned for each recommendation and the target date(s) for completion. If you disagree with the recommendations, please fully explain the reasons for disagreement. Please include the legal basis for disagreement based on interpretation of law, regulations, or the authority of officials to take or not to take action. You may also propose alternative actions to those recommended that you believe would better address the issues presented in this report.

Consistent with our responsibility under the Inspector General Act, we are providing copies of our report to the appropriate congressional committees with oversight and appropriate responsibility over the Small Business Administration. We will also post this report on the Office of Inspector General website for public dissemination.

We appreciate the courtesies and cooperation of the Office of the Chief Financial Officer, Office of the Chief Acquisition Officer, and the SBA’s Suspension and Debarment Official during this audit. If you have any questions concerning this report, please call me at (202) 205-7390 or Riccardo R. Buglisi, Director, Business Development Programs Group, (202) 205-7489.

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/S/ original signed

John K. Needham
Assistant Inspector General for Auditing
What OIG Audited

This is the final Office of Inspector General (OIG) report in a series of three audit reports related to our audit of information technology (IT) hardware and software contracts awarded by the SBA to Isika Technologies, Inc. (iTechnologies). The objective of this audit was to determine whether the SBA effectively managed IT contracts awarded to iTechnologies. Specifically, we determined whether the prime contractor and its subcontractor performed contract requirements in accordance with 8(a) program policies, guidance, and statutory requirements. We also determined whether the SBA’s contracting personnel administered IT contracts in accordance with federal and SBA policies, guidance, and statutory requirements. To achieve our audit objectives, we obtained and analyzed the SBA’s contract files on iTechnologies, conducted interviews, subpoenaed records, and reviewed pertinent policies, guidance, and statutory requirements.

OIG Recommendations and Agency Comments

The OIG recommended a total of 15 specific actions. We addressed 2 actions to the SBA’s Suspension and Debarment official and 13 actions to the SBA’s Chief Financial Officer. On November 5, 2012, management submitted formal comments. Management generally concurred with our findings and recommendations but emphasized that the information technology contracts identified in the report predated the transition of the SBA’s acquisition function to the Office of the Chief Financial Officer (OCFO).

Actions Taken

As of report issuance, suspension and debarment proceedings against iTechnologies were under review. Further, in response to previous recommendations, the SBA’s Chief Financial Officer terminated each of the contracts awarded to iTechnologies.

What OIG Found

The SBA did not adequately manage IT hardware and software contracts awarded to iTechnologies. Specifically, we determined that:

- Contractor misrepresentations and contracting personnel’s lack of due diligence caused the SBA to inappropriately award and administer 8(a) contracts to iTechnologies.
- Contracting personnel at the SBA did not properly administer the contracts as they did not conduct price reasonableness analyses for contracts it awarded to iTechnologies.
- Deficiencies within the SBA’s invoicing procedures established an environment ripe for improper payments.

As a result, the SBA overpaid for IT hardware and software by approximately $343,854 due to multiple layers of markup. Further, the SBA improperly paid 100 percent of iTechnologies’ invoices.

Layers of Markup on iTechnologies Contracts

- Average of 22 Percent Markup
- Second Layer of Markup
- First Layer of Markup
- Manufacturer or Wholesaler
- SBA
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Introduction

This report presents the results of our audit of the SBA’s management of information technology (IT) hardware and software contracts awarded to iTechnologies. Our first report addressed the planning and award of contracts to iTechnologies for the procurement of IT hardware and software. Our second report addressed the funding of IT contracts awarded to iTechnologies. For additional information on the results of these reports, please see Appendix I.

Objectives

The objective of this audit was to determine whether the SBA effectively managed IT contracts awarded to iTechnologies. Specifically, whether:

1. The prime contractor and its subcontractor(s) performed contract requirements in accordance with 8(a) Business Development Program policies, guidance, and statutory requirements; and
2. Contracting and Office of the Chief Information Officer (OCIO) personnel administered IT hardware and software contracts awarded to iTechnologies in accordance with SBA and federal policies, guidance, and statutory requirements.

We conducted our audit between August 2010 and May 2012 in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The SBA oversees the 8(a) Business Development program. The purpose of the 8(a) program is to assist eligible small, disadvantaged businesses compete in the American economy through business development. Participants in the 8(a) program undergo a screening process to be admitted to the program and receive, among other things, contracting preferences and business development advice while participating. One of these benefits includes the award of sole source contracts, which enable participants to receive federal contracts without competing amongst large businesses.

Participants in the 8(a) program are required by federal regulations to perform certain percentages of work on any contract received through the program. This requirement, known as the limitation on subcontracting, is to protect the 8(a) program from fraud by ensuring contracts selected for the 8(a) program are performed by 8(a) participants. Absent the limitation on subcontracting, companies not participating in the 8(a) program could take

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1 SBA OIG Report Number 11-08, SBA’s Procurement of Information Technology Hardware and Software through Isika Technologies, Inc., February 25, 2011
2 SBA OIG Report Number 11-14, SBA’s Funding of Information Technology Contracts Awarded to Isika Technologies, Inc., June 2, 2011
advantage of preferential opportunities, which may deny those same development opportunities to legitimate program participants. These preferential opportunities may include federal set-aside contracts.

An Indefinite Delivery/Indefinite Quantity (IDIQ) contract is appropriate for procuring supplies and services when the government anticipates recurring requirements but cannot determine the precise quantities that it will need within a specific period. It establishes a minimum quantity or value of supplies and services to be purchased and may establish a maximum as well. Contracting officers then issue task or delivery orders against the IDIQ contract to purchase supplies and services that fulfill the government’s needs at a particular time. The IDIQ contracts discussed in this audit are of the indefinite-quantity type. A Blanket Purchase Agreement (BPA) is similar to an IDIQ contract in that it allows the government to order supplies and services when there are a variety of similar products required. The difference being that the exact items and quantities are unknown.

iTechnologies, an 8(a) firm, established a prime and subcontractor relationship with The Look Enterprises (TLE) to obtain contracting opportunities through the SBA’s 8(a) Business Development Program. Through this relationship, iTechnologies and TLE submitted a proposal to the SBA, which awarded a series of sole-source 8(a) contracts to iTechnologies. Specifically, during fiscal year 2009 through 2011, the SBA awarded two IDIQ contracts, a BPA, and six purchase order contracts totaling over $7.6 million to iTechnologies for the procurement of IT hardware and software. Prior to receiving these contract awards, iTechnologies’ focus had been on IT consulting, rather than IT hardware and software procurement. These contracts are listed in the table, below:

**Table 1 Contracts Awarded to iTechnologies**

<table>
<thead>
<tr>
<th>Award Date</th>
<th>Contract Vehicle</th>
<th>Contract Number</th>
<th>Initial Contract Value</th>
<th>Contract Value Including Modifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>09/21/2009</td>
<td>IDIQ</td>
<td>SBAHQ-09-D-0009</td>
<td>$ 5,000,000</td>
<td>$ 4,070,480</td>
</tr>
<tr>
<td>12/09/2009</td>
<td>IDIQ</td>
<td>SBAHQ-10-D-0001</td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>02/18/2010</td>
<td>BPA</td>
<td>SBAHQ-10-A-0001</td>
<td>1,372,260</td>
<td>1,372,260</td>
</tr>
<tr>
<td>03/11/2010</td>
<td>Purchase Order</td>
<td>SBAHQ-10-M-0111</td>
<td>76,369</td>
<td>76,369</td>
</tr>
<tr>
<td>03/19/2010</td>
<td>Purchase Order</td>
<td>SBAHQ-10-M-0118</td>
<td>16,198</td>
<td>16,198</td>
</tr>
<tr>
<td>03/19/2010</td>
<td>Purchase Order</td>
<td>SBAHQ-10-M-0119</td>
<td>11,847</td>
<td>11,847</td>
</tr>
<tr>
<td>04/05/2010</td>
<td>Purchase Order</td>
<td>SBAHQ-10-M-0130</td>
<td>40,067</td>
<td>40,067</td>
</tr>
<tr>
<td>04/10/2010</td>
<td>Purchase Order</td>
<td>SBAHQ-10-M-0135</td>
<td>3,287</td>
<td>3,287</td>
</tr>
<tr>
<td>01/20/2011</td>
<td>Purchase Order</td>
<td>SBAHQ-11-M-0065</td>
<td>23,694</td>
<td>23,694</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td></td>
<td></td>
<td><strong>$ 8,543,722</strong></td>
<td><strong>$ 7,614,202</strong></td>
</tr>
</tbody>
</table>

Note: While the contract value for all contracts and BPA’s reached $7.6 million, the SBA obligated only $3.1 million against these contracts. In response to Report Number 11-14, Small Business Administration’s Funding of Information Technology Contracts Awarded to Isika Technologies, Inc., the SBA terminated all contracts to iTechnologies before the SBA reached the contract ceiling.

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3 See Appendix III for additional information on IDIQ contracts.

4 The contract proposal identified iTechnologies as the prime contractor with TLE served as its subcontractor.
Nature of Limited or Omitted Information

We did not omit information due to confidentiality or sensitivity, nor were there limitations to information in this audit.

Review of Internal Controls

The SBA’s Standard Operating Procedures (SOPs) provide guidance on the implementation of internal control systems. The Office of Management and Budget (OMB) Circular A-123, Management’s Responsibility for Internal Control requires agency managers to continuously monitor and improve the effectiveness of internal controls. The OMB Memorandum for Chief Acquisition Officers, Conducting Acquisition and Conducting Acquisition Assessments under OMB Circular A-123, provides a required approach for conducting acquisition reviews under this guidance. However, SBA management has not conducted an internal control review of its acquisition function since fiscal year (FY) 2007. During our review, we identified significant internal control deficiencies related to SBA’s contract administration and payment process. Implementing the recommendations in this report should improve SBA’s contract administration and payment controls.

Results

**Finding: iTechologies Subcontracted Nearly 100 Percent of the SBA’s Contract Requirements and Made Several Misrepresentations to the SBA**

The president of iTechologies and personnel from The Look Enterprises (TLE) knowingly misrepresented their prime and subcontractor relationship throughout the award and performance phases of 8(a) contracts with the SBA. For example, iTechologies falsely claimed that it possessed the necessary relationships with vendors, manufacturers, and suppliers to fulfill the SBA contract requirements. iTechologies also violated 8(a) program rules for subcontracting by allowing its subcontractor, TLE, to perform nearly 100 percent of the contract requirements. The firms’ misrepresentations occurred because iTechologies authorized TLE to use its status as an 8(a) firm to obtain nine contracting vehicles for which it did not qualify. The SBA’s contracting personnel also did not perform due diligence in reviewing iTechologies’ proposal and its ability to perform the contract requirements. Moreover, SBA contracting personnel did not adequately monitor contractor performance on its contracts awarded to iTechologies. As a result, the SBA paid $3.3 million to TLE, a non-8(a) program participant, however, iTechologies’ received only $32,000, according to President and Chief Executive Officer, Mr. Philip Isika.

According to the Federal Acquisition Regulations (FAR), misrepresentations through false statements and falsified documentation are serious offenses and serve as grounds for debarring the contractor. For example, it is illegal for a Government contractor to submit false statements and misrepresent the size or ability of its firm to perform the requirements of a

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5 SBA SOP 00 02 2: Internal Control Systems
6 FAR 9.406-2(a)(3), Debarment, Suspension, and Ineligibility
government contract. In addition, for service contracts, the Code of Federal Regulations (CFR) states that an 8(a) contractor must perform at least 50 percent of the cost of the contract incurred for personnel with its own employees. Further, the FAR specifies that “Government business shall be conducted in a manner above reproach,” and “Government contractors must conduct themselves with the highest degree of integrity and honesty.”

Prime and Subcontractor Misrepresented their Relationship

iTechnologies and TLE made false statements to the SBA that resulted in 8(a) set-aside contract awards to iTechnologies. The firms’ misrepresentations occurred because iTechnologies authorized TLE to use its status as an 8(a) firm to obtain nine contracting vehicles for which it did not qualify. In addition, iTechnologies falsely claimed that it possessed the necessary relationships with vendors, manufacturers, and suppliers to fulfill SBA’s contract requirements. As a result, the SBA awarded $7.6 million in contracts to iTechnologies that were passed-through to TLE, a non-8(a) program participant.

According to Mr. Isika, TLE approached him regarding an SBA requirement to procure IT hardware and software that was set-aside for 8(a), Historically Underutilized Business Zone (HUBZone), Service Disabled Veteran, or other SBA priority status vendors. The Look Enterprises proposed teaming with iTechnologies to obtain this contract award as iTechnologies was an 8(a) participant and therefore eligible for the contract award. According to Mr. Isika, TLE prepared the statement of work and submitted the proposal to the SBA without Mr. Isika performing a final review of the proposal. Our review of the proposal and responses to SBA’s clarification questions found numerous false statements, such as the size of both companies, the companies’ roles in performing the contract, and prior work history. The proposal also stated, “There is absolutely no adverse impact on our ability to perform the requirement of this contract if The Look Enterprises does not enter into a teaming agreement with us.” These misrepresentations were presented as clarifications to the statement of work, which was used by the contracting officer to determine the contractor’s ability to perform the contract requirements.

iTechnologies did not possess the necessary relationships with vendors, manufacturers, and suppliers to fulfill the SBA’s contract requirements. By stating that it would serve as the prime contractor and perform the majority of work to meet the SBA’s contract requirements, iTechnologies misrepresented the prime and subcontractor relationship between iTechnologies and TLE. During OIG interviews, Mr. Isika admitted that iTechnologies served as a “pass-through” to TLE. Mr. Isika explained that TLE did not qualify to receive these awards because TLE did not have an 8(a) certification status, and iTechnologies did not possess the working relationships with vendors, manufactures, and suppliers necessary to execute SBA’s contract requirements.

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7 CFR Title 13, Part 125, Section 125.6(a)(1), Prime Contractor Performance Requirements
8 FAR Subpart 3.101-1, Standards of Conduct – General
9 FAR Subpart 3.1002, Contractor Code of Business Ethics and Conduct – Policy
Examples of Contractor Misrepresentations during the Contract Performance Period

A contract performance period begins from the date of the award of the contract to the end of the contract period. For purposes of this audit, we examined actions occurring between September 2009 and January 2011. See Appendix II for additional contract action dates.

Mr. Isika admitted that his original intention when entering into the subcontracting arrangement with TLE was initially to rely upon TLE to order goods for the SBA. Once iTechologies hired additional staff, Mr. Isika intended to transition the ordering function in-house. However, he stated that it was not cost-effective for iTechologies to hire the personnel necessary to meet the SBA’s contract requirements because profit margins were low. Rather than being forthcoming with the SBA, iTechologies and TLE concealed iTechologies’ inability to perform the work required by its contracts with the SBA. Instead, iTechologies permitted TLE to perform nearly 100 percent of the work required of a prime contractor, and both firms perpetuated their practice of misrepresenting which firm would perform the contract work. Recognizing the seriousness of iTechologies’ and TLE’s false statements and misrepresentations, we recommended that the SBA initiate debarment proceeding against both companies.

Throughout the contract performance period, TLE personnel continued to perform the work required to meet SBA’s contract requirements, which included:

- leading the kick-off meeting held with the SBA;
- providing price quotes to SBA personnel;
- accepting orders from the SBA;
- processing orders through its relationships with vendors, manufacturers, and suppliers;
- submitting invoices to the SBA; and
- paying its vendors, manufacturers, and suppliers for products procured by the SBA.

Personnel from TLE continued to represent themselves as employees of iTechologies, throughout the course of the OIG’s audit. For example, during the audit team’s first interview with Mr. Selmon, president of TLE, he introduced himself as the Senior Accounts Manager for iTechologies. Similarly, TLE’s secretary answered her TLE business telephone number by thanking the caller for calling iTechologies. As the audit progressed, Mr. Selmon changed his position by stating he represented TLE instead of iTechologies.

Subcontractor Performed Nearly 100% of the SBA’s Contract Requirements

iTechologies violated 8(a) program rules and federal regulations for subcontracting by allowing its subcontractor, TLE, to perform nearly 100 percent of its contract requirements. As a result, the SBA paid iTechologies $3.3 million of which iTechologies claimed to have only kept $32 thousand with the remaining funds going to TLE, its subcontractor. This “pass-through” to a non-8(a) participant occurred because SBA contracting personnel did not perform due
diligence\textsuperscript{10} in reviewing iTechnologies’ proposal, effectively assessing the firm’s ability to perform the contract requirements, or adequately monitoring contractor performance.

In the case of government contracting, as outlined in the FAR Subpart 1.6, contracting officers are required to act with due diligence by “ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships and by performing other such duties.”

Prior to awarding a contract, contracting personnel are required to only award contracts to responsible prospective contractors.\textsuperscript{11} However, contracting personnel at the SBA did not perform the necessary due diligence to effectively assess whether iTechnologies could comply with 8(a) program and contract requirements. This enabled iTechnologies and TLE to misrepresent the size and capabilities of iTechnologies without detection. For example, in its responses to the SBA’s Request for Proposal, iTechnologies claimed to employ 33 full and part-time employees, 7 of whom would be dedicated to supporting the SBA’s contract requirements. However, since its inception, iTechnologies never employed more than two people. Mr. Isika admitted that he was the sole employee of iTechnologies at the time TLE submitted iTechnologies’ proposal to the SBA and during the period of its contracts with the SBA. In addition, the proposal stated that iTechnologies’ past performance included a $3 million contract with the National Aeronautics and Space Administration. We performed a query of the Federal Procurement Data System – Next Generation (FPDS-NG) and were unable to locate the contract (NASA-RD-0021-07). Mr. Isika later confirmed that iTechnologies never contracted with NASA and added that, before these contracts with the SBA, iTechnologies had never acted as the prime contractor on a federal procurement.

Despite iTechnologies’ misrepresentations, SBA contracting personnel had a duty to perform due diligence in reviewing iTechnologies’ proposal and responses to follow-up questions. Had SBA’s contracting personnel performed its due diligence, they could have determined that iTechnologies falsified its responses and could not execute the SBA’s contract requirements. Similarly, if SBA contracting personnel researched contract NASA-RD-0021-07, they could have discovered that this contract never existed. However, we found no evidence in the contracting files suggesting that contracting personnel performed this due diligence. Therefore, contracting personnel did not exclude iTechnologies from consideration based upon its false statements and misrepresentations.

Sufficient contract monitoring by SBA contracting personnel could have deterred iTechnologies from permitting its subcontractor, TLE, to perform nearly 100 percent of the work necessary to meet SBA’s contract requirements. According to SBA personnel with knowledge of the iTechnologies contract, they believed that iTechnologies and TLE were the same company despite the statement of work that clearly delineated the companies’ prime and subcontractor relationship. Had SBA’s contracting personnel conducted a cursory review of TLE’s website they could have determined that all of their communication to procure hardware and software was

\textsuperscript{10} Due diligence is defined as a measure of prudence, activity, or assiduity, as is properly to be expected from, and ordinarily exercised by, a reasonable and prudent man under the particular circumstances; not measured by any absolute standard, but depending on the relative facts of the special case.

\textsuperscript{11} FAR Subpart 9.1, \textit{Responsible Prospective Contractors}. 
with TLE officials. This practice violated federal regulations, which require a prime contractor to perform at least 50 percent of the contract work. However, since contracting personnel did not adequately monitor performance on the contracts awarded to iTechologies the violation went undetected. For example, contracting personnel should have determined that TLE was performing nearly 100 percent of the work necessary to meet SBA’s contract requirements. As a result, the SBA allowed TLE to receive over $3.3 million under the IT hardware and software contracts awarded on a sole-source basis to iTechologies, an 8(a) firm.

Conclusion

The SBA inappropriately awarded $7.6 million in IT contracts. Misrepresentations made by iTechologies and TLE personnel violated federal law that went undetected since SBA contracting personnel did not perform adequate due diligence to determine whether iTechologies was capable of performing the contract requirements. Had contracting personnel performed an adequate review of the contract proposal, it should have determined that the proposal included false statements regarding iTechologies’ work history with the Federal government.

Management Actions Taken and In Process

We referred our case to the SBA’s Suspension and Debarment Official and recommended that he take action to debar iTechologies from future contracting with any agency of the Executive Branch of the United States Government. As of report issuance, suspension and debarment proceedings against iTechologies were under review.

Recommendations

We recommend that the SBA’s Suspension and Debarment Official:

1. Take action to complete debarment proceedings for iTechologies to prohibit future contracting with any agency of the Executive Branch of the United States Government.
2. Initiate debarment proceedings for TLE and its officials to prohibit future contracting with any agency of the Executive Branch of the United States Government.

We recommend that the SBA’s Chief Financial Officer:

3. Establish and implement a procedure that aligns with the FAR to require contracting officers to determine whether prospective contractors are “responsible” prior to awarding a contract.

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12 TLE’s website included biographies with pictures of its key employees, including its president and vice president, James Selmon and Barbara Jean (BJ) Selmon, respectively.
Finding: SBA Contracting Personnel Did Not Establish Price Reasonableness for Contracts Awarded to iTechnologies

Contracting personnel at the SBA did not ensure that the agency obtained IT hardware and software purchased through iTechnologies at fair and reasonable prices. This occurred because the fair market price was not established through competition, since contracts were awarded to iTechnologies on a sole-source basis. In addition, contracting officers did not perform price analyses; in failing to do so, the contracting officers inhibited the SBA’s ability to negotiate contract prices with iTechnologies. Further, iTechnologies acted as a broker and increased the price of each item that the SBA procured. Because contracting officers did not encourage competition, the SBA paid approximately $343,854 more than the fair and reasonable price that a qualified distributor should have charged. Moreover, SBA contracting officers did not fulfill their fundamental fiduciary responsibility to the government, thereby wasting taxpayer dollars.

According to the FAR, contracting officers must purchase supplies from a responsible source at a fair and reasonable price. In establishing fair and reasonable pricing, the FAR prescribes a variety of techniques that contracting personnel may use to determine the fair market value of commercial items, such as IT hardware and software. The FAR also states that adequate competition establishes fair and reasonable prices. When competition is not present, the FAR requires that contracting officers include the facts and rationale to justify deviating from full and open competition. This justification must include a determination by the contracting officer that the anticipated cost to the government will be fair and reasonable. In the absence of competition, the FAR requires the contracting officer must use price analyses to establish a fair and reasonable price.

The FAR states that “the purpose of performing cost or price analyses is to develop a negotiation position that permits the contracting officer and the offeror an opportunity to reach agreement on a fair and reasonable price.” The FAR also states that a contracting officer’s primary concern is the price the government will pay. The contracting officer’s objective is to negotiate a contract of a type and with a price providing the contractor the greatest incentive for efficient and economical performance.

The SBA Did Not Comply with FAR Criteria for Establishing Price Reasonableness

In OIG Report Number 11-08, SBA’s Procurement of Information Technology Hardware and Software Through Isika Technologies, Inc., the OIG reported that the SBA’s requirement for IT

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13 A broker is a concern that adds no material value to an item being supplied to a procuring activity, or that does not take ownership, possession of, or handle the item being procured with its own equipment or facilities.
14 FAR Subpart 15.402(a), Pricing policy.
15 These techniques include but are not limited to historical pricing, parametric estimating methods, comparison of published prices, independent cost estimates, comparison through market research, and analyses of price information provided by the offeror.
16 FAR Subpart 19.001 defines “fair market price” as a price based on reasonable costs under normal competitive conditions and not on lowest possible cost.
17 FAR Subpart 15.403-3(c)(1), Requiring Information Other Than Cost or Pricing Data.
18 FAR Subpart 15.404-1(b)(2)(i), Proposal Analysis Techniques.
19 FAR Subpart 19.806, Pricing the 8(a) contract and FAR Subpart 19.807, Estimating fair market price.
20 FAR Subpart 15.405(a), Price negotiation.
21 FAR Subpart 15.405(b), Price negotiation.
hardware and software did not qualify for an 8(a) sole-source procurement. We found that inadequate contract planning resulted in the SBA inappropriately awarding two IDIQ contracts, a BPA, and six purchase orders to iTechnologies on a sole-source basis.\(^\text{22}\) By awarding these contracts on a sole-source basis, the SBA prevented competition from establishing the fair market price.

When awarding a contract, contracting officers are required to evaluate price in every source selection.\(^\text{23}\) However, iTechnologies’ proposal did not include any factors relating to price, and contracting personnel did not question the firm’s ability to provide a fair and reasonable price. For example, the SBA should have anticipated that it would pay inflated prices to iTechnologies because the proposal indicated that it would use third party suppliers.\(^\text{24}\) However, we found that the SBA did not conduct price analyses. As a result, contracting officers failed to protect taxpayer interests.

The SBA awarded two IDIQ contracts and a BPA to iTechnologies, which designated iTechnologies as the exclusive provider of IT hardware and software to the SBA. When a contracting officer awards an IDIQ contract or BPA, such as those that SBA awarded to iTechnologies, the contracting officer must issue task orders to execute these contracting vehicles. Contracting officers executed 123 contract actions including task and delivery orders, BPA calls, purchase orders, and requisitions. We reviewed these contract actions\(^\text{25}\) and determined that for 54 of the actions, SBA contracting personnel did not perform analyses to determine price reasonableness. Specifically, the contract files for these 54 actions did not contain evidence that indicated that contracting personnel assessed price reasonableness. Similarly, the contract files for 68 additional contract actions contained unsupported statements within the Basis of Award claiming that contracting personnel had evaluated price reasonableness and determined:

- Prices were fair and reasonable because the contractor’s proposed prices were 10 percent less than those of similar IT equipment on the General Services Administration (GSA) schedules;
- The contractor’s pricelist in the IDIQ contract was previously determined to contain fair and reasonable prices; and
- The prices of items listed on an existing BPA were previously determined to be fair and reasonable.

The contract files for these 68 contract actions, however, did not contain detailed narratives to substantiate these claims. For example, the contracting officer stated that the “proposed prices were 10 percent less than similar items on GSA schedules,” but support for these claims, such as screen shots of the GSA schedules, was not included. Contracting officers should have documented the comparable prices established within the GSA schedules. Contracting officers also claimed that the IDIQ pricelist was “previously determined to be fair and reasonable” but

\(^{22}\) For additional details, please see Appendix II.
\(^{23}\) FAR 15.304(c)(1), Source Selection: Evaluation factors and significant subfactors.
\(^{24}\) iTechnologies stated they would rely upon third party suppliers such as, Ingram Micro, Tech Data, Sun Micro Systems, CDW, and other distributors to supply the SBA with IT hardware and software.
\(^{25}\) The audit team reviewed 103 task and delivery orders, 5 BPA calls, 6 purchase orders, and 9 requisitions that were not placed on contract. However, SBA personnel were unable to provide any contracting documentation for purchase order SBAHQ-10-M-0111.
this statement was inaccurate. The IDIQ contracts did not include price lists, nor were prices considered in awarding the contracts to iTechnologies. Similarly, contracting officers inaccurately claimed that the prices of the items included in BPA SBAHQ-10-A-0001 were previously determined to be fair and reasonable.

The SBA’s failure to perform price analyses inhibited the contracting officer’s ability to negotiate fair and reasonable prices for contracts awarded to iTechnologies. Despite the FAR’s specificity, the contracting officers did not negotiate prices for any of the contract actions executed in relation to iTechnologies’ IT hardware and software provisioning. The contracting officers’ failure to analyze the proposed prices or to negotiate the prices resulted in the government overpaying for goods ordered through iTechnologies. As such, contracting officers did not perform their fundamental fiduciary responsibility to obtain supplies at fair and reasonable prices.

**SBA’s Procurement Costs Increased with Additional Broker Markups**

The SBA unnecessarily paid approximately $343,854 to iTechnologies because of multiple layers of markup. iTechnologies relied on its subcontractor, TLE, to place orders with distributors, which led to excessive markups on many of the items that the SBA ordered. For additional details, please see Figure 1, below.

![Figure 1 Layers of Markup on iTechnologies Contracts](image)

We evaluated the prices that the SBA paid to iTechnologies. According to Mr. Isika, TLE placed all orders on behalf of iTechnologies and was also responsible for paying each distributor. Upon the OIG’s request, TLE provided us with complete or partial vendor invoices for 80 of the 123 contract actions that the audit team reviewed. While analyzing these 80 contract actions, we calculated that the SBA unnecessarily paid excessive percentages of markup on individual items that increased the cost of the contract actions by nearly $343,854, since each layer within the procurement process added markup, thus increasing the SBA’s price for each item.

For example, the SBA procured labeling tape under IDIQ contract SBAHQ-10-D-0001, to which
iTechnologies added a price markup of over 85 percent. Specifically, iTechnologies paid $8.81 per roll of labeling tape and charged the SBA $60.00 per roll of labeling tape, representing a $51.19 markup per roll. Similar examples exist for higher end items, such as $43,900 in markups charged to the SBA for laser printers. Had the agency properly planned and awarded its contracts directly to qualified distributors the SBA could have saved approximately $343,854 that it unnecessarily paid to iTechnologies.

To demonstrate the magnitude of iTechnologies’ markups based on our analyses of the 80 contract actions, the OIG developed Table 2, which (1) identifies iTechnologies’ total profit earned for each of its contracts with the SBA, (2) highlights the highest percentage of markup on a single item under each contract, and (3) identifies the average percentage of markup charged by iTechnologies under each of its contracts with the SBA.

Table 2  Analysis of 80 Contract Actions for Which Complete or Partial Invoices Were Provided

<table>
<thead>
<tr>
<th>Contract Number</th>
<th>Excess Payment</th>
<th>High Markup (%)</th>
<th>Average Markup (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBAHQ-09-D-0009</td>
<td>$163,956</td>
<td>68.25</td>
<td>17.65</td>
</tr>
<tr>
<td>SBAHQ-10-D-0001</td>
<td>130,378</td>
<td>85.32</td>
<td>20.40</td>
</tr>
<tr>
<td>SBAHQ-10-A-0001</td>
<td>17,817</td>
<td>69.12</td>
<td>32.22</td>
</tr>
<tr>
<td>Purchase Orders</td>
<td>5,523</td>
<td>13.05</td>
<td>10.92</td>
</tr>
<tr>
<td>Unrelated Requisitions</td>
<td>26,180</td>
<td>69.12</td>
<td>27.43</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>$343,854</strong></td>
<td></td>
<td><strong>21.94</strong></td>
</tr>
</tbody>
</table>

Conclusion

The SBA inappropriately awarded a series of sole-source contracts to iTechnologies for the procurement of IT hardware and software. In the absence of competition, contracting officers did not conduct price analyses or negotiate prices to be good stewards of taxpayer dollars. Instead, the SBA accepted the prices submitted by iTechnologies without determining whether the government received a fair and reasonable price for the goods it procured. As a result of contracting officers’ ignoring their fiduciary responsibility, the contracts awarded to iTechnologies resulted in additional charges to the government of $343,854.

Management Actions Taken and In Process

In OIG Report Number 11-08, we recommended that the Chief Financial Officer immediately terminate IDIQ contracts SBAHQ-09-D-0009, SBAHQ-10-D-0001, and BPA SBAHQ-10-A-0001. In response to our recommendations, SBA contracting personnel terminated these contracts.

Recommendations

We recommend that the Chief Financial Officer:

4. Demonstrate that SBA contracting personnel are proficient at conducting price analyses used to establish whether proposed prices are fair and reasonable and in accordance with FAR requirements.
5. Require contracting personnel to maintain all records used to establish a fair and reasonable price, consistent with FAR requirements.

6. Establish and implement a procedure to verify routinely that contracting officers are documenting price analyses used to establish price reasonableness.

**Finding: SBA’s Invoicing Procedures Contributed to Improper Payments**

The SBA improperly paid 100 percent of invoices submitted under its contracts with iTechnologies, including invoices for goods the agency may not have received. This occurred because the SBA did not have sufficient internal controls in place to ensure the adequacy of its invoice approval process. Specifically, unauthorized and unidentified individuals approved iTechnologies’ invoices for payment. Similarly, payment personnel at the Denver Finance Center did not validate whether the signatories on iTechnologies’ invoices had authority to approve the invoices. For example, payment personnel routinely paid any invoice received as long as it displayed a signature. In addition, payment personnel did not obtain and review the required supporting documentation to substantiate that approved invoices were for goods and services that the SBA actually received. Further, the SBA’s procurement and accounting systems did not fully interface, which exposed the SBA to vulnerabilities to making improper payments. As a result, the SBA inappropriately paid over $180,000 directly to iTechnologies’ subcontractor, TLE, and overpaid iTechnologies by more than $12,000.

According to the FAR, contracting officers have the authority to administer government contracts, which includes approving contractor invoices. The Code of Federal Regulations (CFR) states that only the contracting officer may delegate his or her duties to a Contracting Officer’s Technical Representative (COTR), and must do so via a written letter of delegation. The FAR specifies that the contracting officer or an appropriately delegated COTR must determine whether an invoice is proper, prior to approval, by evaluating the ten elements of a proper invoice. Similarly, the FAR also requires that agencies support all invoice payments with a receiving report or any other documentation authorizing payment such as a government certified voucher.

According to the United States Code, certifying officers are personally accountable for verifying that invoice payments were legal, proper, and correct. Therefore, the certifying officers may be liable for reimbursing the Federal government for all payments that were illegal, improper, or incorrect. In addition, OMB requires agencies to publish a Corrective Action Plan for each root cause of improper payments for its programs and activities. Further, the OMB requires agency managers to continuously monitor and improve the effectiveness of internal controls associated with their programs.

26 FAR Subpart 1.602-1(a), Career Development, Contracting Authority, and Responsibilities: Contracting Officers.


28 FAR Subpart 32.905(a)-(b)(1), Payment Documentation and Process.

29 FAR Subpart 32.905(c), Payment Documentation and Process.

30 Certifying officers refer to Denver Finance Center personnel officially delegated to serve as certifying officers.

31 Title 31 United States Code, Subchapter 3528, Responsibilities and relief from liability of certifying officials.

32 OMB Circular A-136, Revised, Part II.58, IPIA Reporting Details, Subpart III, Corrective Actions.

33 OMB Circular A-123, Revised, Part IV, Assessing Internal Control.
Examples of Ineffective Invoice Processes by Procurement Personnel

Deficiencies within SBA’s invoice review and payment processes at the procurement and payment levels, and its lack of internal controls, significantly contributed to the approval of $3.3 million in improper payments34 to iTechnologies. Federal regulations and formal guidance have established the requirements that agencies must follow throughout their invoicing and payment processes. However, the SBA did not have adequate internal guidance to implement the Federal regulations or controls in place to ensure consistency within its operations and compliance with the law.

In general, the SBA’s invoice review and payment processes consisted of receiving an invoice, signing the invoice to signify approval, and forwarding the signed invoice to the Denver Finance Center for payment. These inadequate invoice processing procedures enabled both the contracting officer and unauthorized personnel to approve each of the 179 ineligible iTechnologies invoices. These unauthorized approvers included SBA personnel serving in the COTR35 capacity without written delegations from the contracting officer, unidentified individuals, and an SBA contractor. We determined that unauthorized personnel approved 28 of the 179 iTechnologies invoices, approximately 16 percent, valued at $301,851.54. Examples include:

- Two individuals serving in the COTR capacity without delegated authority admitted to approving iTechnologies’ invoices despite having never read the iTechnologies contract or its associated task orders.
- Three unidentifiable signatories approved iTechnologies invoices.
- An SBA contractor approved one invoice that may have resulted in an overpayment of $12,385.29 to iTechnologies.

Contracting officers’ demonstrated a lack of due diligence by approving 151 of the 179 or 84 percent of ineligible invoices. Had the SBA established adequate procedures, the invoice reviewer, at minimum, should have verified whether the contractor submitted a proper invoice. Similarly, the SBA should have had an invoice review process that required the approver to ensure the invoiced items were on the contract and matched contract requirements, and that the goods were received. Had these procedures been in place, the contracting officer should have withheld iTechnologies’ invoice approvals rather than forwarding them to the Denver Finance Center for payment.

We determined that invoice approval personnel neglected to perform steps to ensure that the 179 iTechnologies invoices were appropriate or accurate prior to invoice approval. As a result, SBA personnel approved invoices that a proficient approving official should have determined were ineligible for payment such as:

34 An improper payment is any payment that should not have been made or that is made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.
35 Title 48, Code of Federal Regulations (CFR) Subpart 2901.603-71, Contracting Officer’s Technical Representatives, states that only the contracting officer cognizant of the contract action may delegate a COTR. In addition, a COTR delegation must be issued in a written letter of delegation informing the individual by name of his or her COTR authority, including a delegation of applicable limitations and responsibilities.
All 179 contained inaccurate vendor data; 145 or 81 percent did not contain the correct task order number; 59 or 33 percent were approved for payment prior to task order issuance; 13 were not authorized by a task order; 4 contained item quantities in excess of the task orders, which resulted in an overpayment of $26,265.00 to iTechnologies; 3 included items that were invoiced at a higher rate than authorized by the contract, which resulted in iTechnologies receiving $28,112.00 in excess profits; 2 were duplicative and resulted in an overpayment of $12,073.00 to iTechnologies; and 2 contained the name of TLE, iTechnologies’ subcontractor.

The SBA’s 100 percent improper payment rate on these invoices represents a systemic problem in the agency’s invoicing and payment processes. In the Agency’s Financial Report for FY 2011, the SBA Administrator acknowledged that its contracting program was at significant risk of improper payments and estimated that its improper payment rate was 89 percent. The SBA’s invoice review and approval processes, coupled with contracting personnel’s inability to adhere to established guidance, created an environment susceptible to making improper payments.

Examples of Ineffective Invoice Processes by the Denver Finance Center

We determined that deficiencies within the Denver Finance Center’s invoice payment process and its lack of internal controls significantly contributed to the SBA’s $3.3 million in improper payments on iTechnologies’ invoices. According to payment personnel, they processed every invoice for payment that they received as long as it had a signature and a purchase order number without validating the approving authority of the signatory. If such a requirement existed, these personnel should have found that unauthorized individuals approved 28 of the 179 iTechnologies invoices.

Similarly, the SBA did not have a procedure in place to ensure that payment personnel only processed payments for invoices that included a receiving report. However, personnel at the Denver Finance Center processed 179 iTechnologies invoices for payment that did not include a receiving report to substantiate the receipt of goods. To mitigate the risk of paying invoices for items not received by agencies, the FAR requires that agencies support all invoice payments with a receiving report or any other documentation authorizing payment such as a government certified voucher.  

We performed a limited inventory review of items procured by the SBA under IDIQ contract SBAHQ-09-D-0009.

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36 FAR Subpart 32.905(c), Payment Documentation and Process
37 The audit team performed an inventory review of 18 randomly selected items procured by the SBA under IDIQ contract SBAHQ-09-D-0009.
Management should have ensured that finance specialists determined whether the 179 iTechnologies’ invoices were proper and included the required receiving report or supporting documentation prior to processing invoice payments. A more thorough review by the finance specialists should have detected and prevented the following payment errors:

- Payments totaling $188,934.00 that were made directly to iTechnologies’ subcontractor, TLE;
- $1,587,584.57 in payments that were sent to an unregistered bank account for 90 of iTechnologies’ invoices;\(^{38}\)
- 28 iTechnologies invoice payments that were approved by unauthorized contracting personnel;
- An overpayment of $12,073.00 that was made to iTechnologies; and
- $267,943.50 in payments that were made on 22 of iTechnologies’ invoices prior to task order issuance, which may have created an unauthorized commitment or potential Antideficiency Act violation.

Had adequate internal controls existed and certifying officials performed oversight, finance specialists at the Denver Finance Center should have rejected each of iTechnologies’ 179 invoices that contracting personnel and unauthorized individuals\(^ {39} \) had improperly approved. According to a division manager\(^ {40} \) at the Denver Finance Center, the invoice payment process was vulnerable to improper payments due to known internal control weaknesses.

Another weakness resulted from the SBA not fully interfacing its procurement system, the Procurement Information System for Management (PRISM\(^ {41} \)), and its accounting management system, Joint Administrative Accounting Management System (JAAMS\(^ {42} \)). Without fully interfacing PRISM and JAAMS, finance specialists at the Denver Finance Center processed payments manually using purchase order numbers rather than task order numbers. This exposed the SBA to vulnerabilities in making improper payments because there was no guarantee that the procured items were placed on contract. Similarly, the SBA potentially violated the Antideficiency Act because the contracting officer may not have obligated the funds necessary to cover the cost of goods and services not placed on contract. By fully interfacing information in PRISM and JAAMS, the SBA could significantly reduce its risk of future improper payments because the systems would automatically validate whether:

- Contracts or task orders exist;
- The purchase order numbers corresponds with a contract or task order number; and
- Invoices correspond with both the purchase order numbers and the contract or task order numbers.

\(^{38}\) The unregistered account belonged to iTechnologies but since the account was unregistered it violated contract terms and conditions.

\(^{39}\) See page 18 for a discussion on unidentified and unauthorized individuals approving iTechnologies’ invoices.

\(^{40}\) The division manager was a position within the SBA’s Administrative Accounting Division.

\(^{41}\) PRISM is the procurement system used by the SBA to maintain its contracting actions.

\(^{42}\) JAAMS is the accounts payable system that the SBA uses to process invoice payments.
Conclusion

Deficiencies within the SBA’s internal controls for its invoice review and approval process created an environment susceptible to significant improper payments. Safeguards were not in place to ensure that contracting officers reviewed vendor invoices and only approved proper invoices. Similarly, payment personnel failed to review vendor invoices and made payments without knowing whether the signatory had authority to approve the invoice or obtaining the necessary receiving reports to substantiate the receipt of goods. In addition, SBA management ignored known vulnerabilities within its contracting and payment systems that placed the SBA at high risk for making improper payments. Had SBA management taken action to address internal control weaknesses, its personnel should have rejected each of iTechnologies $3.3 million in invoices and withheld payments until iTechnologies’ invoices were proper and properly approved.

Recommendations

We recommend that the Chief Financial Officer:

7. Conduct an internal control review of SBA’s acquisition function in compliance with OMB Circular A-123 and OMB Memorandum, Conducting Acquisition Assessments under OMB Circular A-123.
8. Based upon the SBA’s internal control review, update internal controls and implement procedures that are essential to an efficient, effective, and accountable acquisition process.
9. Conduct an internal control review of SBA’s Denver Finance Center in compliance with OMB Circular A-123 and include the results in the annual Agency Financial Report (AFR).
10. Update payment processing internal controls and implement procedures that are essential to an efficient, effective, and accountable acquisition process.
11. Recover $12,073 from iTechnologies for payments the contractor received in duplicate;
12. Establish and implement an invoice review processes that limits invoice review to contracting officers or individuals with appropriately delegated authority.
13. Establish and implement a procedure to provide payment personnel with a list of personnel authorized to approve invoices that should be updated at least quarterly and specific to the contracts that non-contracting officers are permitted to approve.
14. Establish and implement an invoice approval procedure that includes attaching and reviewing a receiving report to each invoice, prior to payment processing;
15. Establish and implement an automatic interface between PRISM and JAAMS to ensure that invoice payments are tied to contract numbers instead of purchase order numbers.
Agency Comments and Office of Inspector General Response

On September 28, 2012, we provided a draft of this report to the SBA’s Office of the Chief Financial Officer (OCFO) for comment. On November 5, 2012, the CFO submitted formal comments, which are included in their entirety in Appendix IV. The agency provided four technical comments on information contained in the draft report, as well as comments on each of the fifteen recommended actions. Overall, the CFO concurred with our findings and recommendations but emphasized that the information technology contracts identified in the report predated the transition of the SBA’s acquisition function to the OCFO. In addition, the CFO acknowledged that significant issues existed with these information technology contracts; however, the CFO stated that his office learned from past errors and took steps to improve the SBA’s acquisition process. We consider management’s comments to be responsive to 9 recommendations, partially responsive to 3 recommendations, and non-responsive to the remaining 3 recommendations. A summary of management’s technical comments, recommendation-specific comments, and our responses follows on the next page.
<table>
<thead>
<tr>
<th>Comment Number</th>
<th>Draft Report</th>
<th>Agency Comment</th>
<th>OIG Response</th>
</tr>
</thead>
</table>
| 1              | Review of Internal Controls  
However, SBA management has not conducted an internal control review of its acquisition function since fiscal year (FY) 2007. | According to the CFO, the SBA’s Office of Internal Control performed this review during May 2012 and presented its assessment to the acquisition management team in October 2012. | We consider management’s comment to be non-responsive to the intent of this report. The OCFO’s Office of Internal Control performed a review. However, it did not comply with requirements established by the OMB in its memorandum titled Conducting Acquisition Assessments Under OMB Circular A-123, dated May 21, 2008. |
| 2              | P. 12, Finding  
Further, the SBA’s procurement and accounting systems did not fully interface, which exposed the SBA to vulnerabilities to making improper payments. | According to the CFO, he agreed with this statement but emphasized that the procurement and accounting systems are currently interfaced, except the commitment to obligation phase, which remains a manual process. | We consider management’s comment to be non-responsive to the intent of this report. Until the SBA fully interfaces its procurement and accounting systems and discontinues its use of a manual process in the commit to obligate phase, the SBA will continue to expose itself to the vulnerabilities of making improper payments. |
| 3              | P. 15, Examples of Ineffective Invoice Processes by the Denver Finance Center  
The CFO explained that interfacing the SBA’s procurement and accounting systems will be complete once the agency converts its commitment to obligation phase from a manual to electronically automated process. In addition, the CFO stated that the OIG’s report did not explain how an automatic interface between the procurement and accounting systems would reduce the number of improper payments. According to the CFO, he believed ensuring that contract data is complete, rather than interfacing these two systems, would reduce the SBA’s number of improper payments. | We consider management’s comment to be non-responsive to the intent of this report. Since the SBA did not fully integrate its procurement and accounting systems, the agency paid invoices based on purchase order numbers. Contracting personnel did not place these purchase orders on contracts, which resulted in numerous unauthorized commitments. Similarly, weak internal controls in the contract writing and payment systems enabled the SBA to issue improper payments. |
| 4              | P. 15, Examples of Ineffective Invoice Processes by the Denver Finance Center  
Similarly, the SBA potentially violated the Antideficiency Act because the contracting office may not have obligated the funds necessary to cover the cost of the foods and services not placed on the contract. | The CFO stated that he disagreed with this statement. According to the CFO, mentioning the potential of an Antideficiency Act violation was redundant with a prior OIG report and out of scope for this audit. | We consider management’s comment to be non-responsive to the intent of this report. The OIG stands behind its statement that the SBA potentially violated the Antideficiency Act. The SBA’s practice of issuing payments based on purchase order numbers rather than contracts resulted in improper payments that may also have led to an Antideficiency Act violation. The SBA has not taken action on our previous recommendation to determine whether the SBA’s actions resulted in an Antideficiency Act violation. |
Recommendation 1 – We recommend that the SBA’s Suspension and Debarment Official take action to complete debarment proceedings for iTeechnologies to prohibit future contracting with any agency of the Executive Branch of the United States Government.

Agency Comments

Management neither concurred nor non-concurred with this recommendation. However, the CFO stated that this matter is under review.

OIG Response

We consider management’s comments to be responsive to this recommendation.

Recommendation 2 – We recommend that the SBA’s Suspension and Debarment Official initiate debarment proceedings for TLE and its officials to prohibit future contracting with any agency of the Executive Branch of the United States Government.

Agency Comments

Management neither concurred nor non-concurred with this recommendation. However, the CFO stated that this matter is under review.

OIG Response

We consider management’s comments to be responsive to this recommendation.

Recommendation 3 – We recommend that the SBA’s Chief Financial Officer establish and implement a procedure that aligns with the FAR to require contracting officers to determine whether prospective contractors are “responsible” prior to awarding a contract.

Agency Comments

Management concurred with this recommendation. Specifically, the CFO stated he agreed that contracting officers should follow the FAR when determining whether a prospective contractor is “responsible” prior to awarding a contract. However, the CFO emphasized that the contracting officers associated with the award of these information technology contracts no longer work for the SBA, and these actions occurred prior to the SBA transitioning the procurement function to the OCFO. In addition, the SBA is rewriting its SOP and contracting officer’s desk manual, which will establish a policy that defines the procedures a contracting officer should take to determine whether an prospective contractor is “responsible” prior to award.

OIG Response

We consider management’s comments to be responsive to this recommendation.
**Recommendation 4** – We recommend that the Chief Financial Officer demonstrate that SBA contracting personnel are proficient at conducting price analyses used to establish whether proposed prices are fair and reasonable and in accordance with FAR requirements.

**Agency Comments**

Management concurred with this recommendation. According to the CFO, contracting personnel should conduct price analyses to establish whether proposed prices are fair and reasonable and in accordance with FAR requirements. However, the CFO reiterated that the contracting officers associated with these information technology contracts no longer work for the SBA, and he emphasized that the OIG’s report did not highlight an ongoing problem with the performance of price analyses.

**OIG Response**

We consider management’s comments to be partially responsive to this recommendation. The CFO stated his concurrence that contracting personnel should conduct price analyses to establish fair and reasonable prices. However, the CFO’s comments also imply that he does not believe the SBA currently has a problem with its price reasonableness determinations. Accordingly, the CFO did not identify a plan or his intention to ensure that contracting personnel establish fair and reasonable prices. To comply with this recommendation, the CFO should have SBA contracting personnel demonstrate proficiency at conducting price analyses in compliance with the FAR.

**Recommendation 5** – We recommend that the Chief Financial Officer require contracting personnel to maintain all records used to establish a fair and reasonable price, consistent with FAR requirements.

**Agency Comments**

Management neither concurred nor non-concurred with this recommendation. Instead, the CFO requested that the OIG clarify this recommendation. The CFO stated that the contracting officers associated with these information technology contracts no longer work for the SBA, and he emphasized that the OIG’s report did not highlight an ongoing problem with the establishment of fair and reasonable prices. In addition, the CFO referenced several FAR citations and discussed the requirements for awarding 8(a) contracts. The CFO concluded that the FAR does not require agencies to establish competition in order to make an 8(a) sole source award at a fair market price.

**OIG Response**

We consider management’s comments to be non-responsive to this recommendation. The CFO accurately stated that the contracting officers and management originally responsible for these information technology contracts no longer work for the SBA. However, the SBA must do more than merely hiring new staff to prevent the continuation or recurrence of previous problems. While the CFO included several FAR citations, the CFO’s comments did not discuss the policies or procedures used by SBA personnel to document their determinations of fair and reasonable prices. The FAR requires contracting officers to purchase supplies from a responsible
source at a fair and reasonable price, regardless of the vendor’s small business status. Similarly, the FAR requires the head of each office performing contracting, contract administration, or paying functions to maintain records of all contractual actions, which includes price reasonableness determinations. The FAR explains that documentation within the contracting files must be sufficient to constitute a complete history of the transactions. This includes the following:

- Providing a complete background as a basis for informed decisions at each step in the acquisition process;
- Supporting actions taken;
- Providing information for reviews and investigations; and
- Furnishing essential facts in the event of litigation or congressional inquiries.

**Recommendation 6** — *We recommend that the Chief Financial Officer establish and implement a procedure to verify routinely that contracting officers are documenting price analyses used to establish price reasonableness.*

**Agency Comments**

Management neither concurred nor non-concurred with this recommendation. The CFO stated that the FAR requires contracting officers to maintain a contract file that includes the data and information used to establish price reasonableness determination. However, the FAR does not specify the type of documentation that should support a price analysis. According to the CFO, the SBA will revise its SOP and the contracting officer’s desk manual to provide guidance on the data and information that the contracting officer should maintain to support their price reasonableness determination.

**OIG Response**

We consider management’s comments to be responsive to this recommendation.

**Recommendation 7** — *We recommend that the Chief Financial Officer conduct an internal control review of SBA’s acquisition function in compliance with OMB Circular A-123 and OMB Memorandum, Conducting Acquisition Assessments under OMB Circular A-123.*

**Agency Comments**

Management concurred with this recommendation. According to the CFO, a review of internal controls was performed in compliance with OMB Circular A-123 during May 2012. The results of this review were presented to the Acquisition Division in October 2012.

**OIG Response**

We consider management’s comments to be non-responsive to this recommendation. The OCFO’s Office of Internal Controls performed an internal control review and provided its results to the OIG in November 2012. However, the OCFO’s review did not comply with the requirements established by the OMB in its memorandum titled *Conducting Acquisition Assessments under OMB Circular A-123*, dated May 21, 2008. For example, the SBA did not assess internal controls related to the four cornerstones: 1) organizational alignment and
leadership, 2) policies and processes, 3) human capital, and 4) information management and stewardship. The agency’s FY 2012 review was completed in accordance with OMB Circular A-123, Appendix A: Internal Control over Financial Reporting, December 21, 2004.

**Recommendation 8** – *We recommend that the Chief Financial Officer based upon the SBA’s internal control review, update internal controls and implement procedures that are essential to an efficient, effective, and accountable acquisition process.*

**Agency Comments**

Management concurred with this recommendation. The CFO stated he would update internal controls, associated procedures, and revise the SOP by December 2012.

**OIG Response**

We consider management’s comments to be partially responsive to this recommendation. We welcome an update to the SBA’s Standard Operating Procedures by December 2012. However, the update will likely not address all internal control weaknesses, as the SBA’s internal control review was not compliant with OMB Memorandum, *Conducting Acquisition Assessments under OMB Circular A-123*, May 21, 2008. To adequately address this recommendation, the SBA needs to conduct an internal control review that is compliant with this memorandum and update internal controls to address any weaknesses identified.

**Recommendation 9** – *We recommend that the Chief Financial Officer conduct an internal control review of SBA’s Denver Finance Center in compliance with OMB Circular A-123 and include the results in the annual Agency Financial Report (AFR).*

**Agency Comments**

Management neither concurred nor non-concurred with this recommendation. Instead, the CFO requested that the OIG clarify the recommendation. In addition, the CFO stated that the agency’s internal control review is of processes rather than individual offices. As such, if SBA personnel responsible for conducting the internal control review identified a material weakness within the any of the SBA’s processes, that weakness would be reported within the annual Agency Financial Report.

**OIG Response**

We consider management’s comments to be non-responsive to this recommendation because SBA’s internal control review was not compliant with OMB’s Memorandum for Chief Acquisition Officers, *Conducting Acquisition Assessments under OMB Circular A-123*, May 21, 2008.

**Recommendation 10** – *We recommend that the Chief Financial Officer update payment processing internal controls and implement procedures that are essential to an efficient, effective, and accountable acquisition process.*
Agency Comments

Management concurred with this recommendation. The CFO stated that once the SOP revision to acquisition process procedures is complete the Acquisition Division and Administrative Accounting management teams would coordinate to improve internal controls and implement procedures to improve the acquisition payment process.

OIG Response

We consider management’s comments to be responsive to this recommendation.

Recommendation 11 – We recommend that the Chief Financial Officer recover $12,073 from iTechnologies for payments the contractor received in duplicate.

Agency Comments

Management neither concurred nor non-concurred on this recommendation. However, the CFO stated that his office would consult with the SBA’s Office of General Counsel on the recovery of $12,073 from iTechnologies.

OIG Response

We consider management’s comments to be responsive to the intent of this recommendation.

Recommendation 12 – We recommend that the Chief Financial Officer establish and implement an invoice review processes that limits invoice review to contracting officers or individuals with appropriately delegated authority.

Agency Comments

Management concurred with this recommendation. The CFO stated that the agency would implement its new invoice review process in December 2012 along with a corresponding SOP.

OIG Response

We consider management’s comments to be responsive to this recommendation.

Recommendation 13 – We recommend that the Chief Financial Officer establish and implement a procedure to provide payment personnel with a list of personnel authorized to approve invoices that should be updated at least quarterly and specific to the contracts that non-contracting officers are permitted to approve.

Agency Comments

Management partially concurred with this recommendation. According to the CFO, the SBA completed corrective action by updating the list of certified Contracting Officer’s Representatives (COR) maintained within the SBA’s procurement system.
OIG Response

We consider management’s comments to be partially responsive to this recommendation. The OCFO’s stated action of updating the certified COR list within PRISM on a monthly basis is a good first step. However, updating the COR list without identifying which contracts the COR is assigned to will not help payment personnel determine whether invoices were approved by authorized personnel. Similarly, the CFO did not address the first portion of this recommendation about establishing a policy and implementing a procedure requiring payment personnel to validate that an authorized individual approved each invoice for payment.

Recommendation 14 – We recommend that the Chief Financial Officer establish and implement an invoice approval procedure that includes attaching and reviewing a receiving report to each invoice, prior to payment processing.

Agency Comments

Management concurred with this recommendation. The CFO stated that his office implemented invoice approval procedures that include attaching a receiving report prior to the invoice prior to payment. In addition, the CFO stated that this updated invoice approval procedure would be included in the revised SOP.

OIG Response

We consider management’s comments to be responsive to this recommendation.

Recommendation 15 – We recommend that the Chief Financial Officer establish and implement an automatic interface between PRISM and JAAMS to ensure that invoice payments are tied to contract numbers instead of purchase order numbers.

Agency Comments

Management concurred with this recommendation. According to the CFO, since 2008 the OCFO has worked to interface PRISM and JAAMS. Once the interface is complete during FY 2013, the contract number and purchase order number will be the same number.

OIG Response

We consider management’s comments to be responsive to this recommendation.

Actions Required

Please refer to the transmittal letter for specific instructions on providing your corrective action(s) and target dates for completion or reasons for disagreement on the final audit report.
Appendix I: Scope and Methodology

We conducted this audit from April 2011 to May 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The overall objective of this audit was to determine whether the SBA effectively managed information technology (IT) contracts awarded to Isika Technologies, Inc. (iTechnologies). Specifically, we determined whether the prime contractor and its subcontractor performed contract requirements in accordance with the 8(a) program policies, guidance, and statutory requirements. Additionally, we determined whether contracting personnel administered IT hardware and software contracts in accordance with federal and SBA policies, guidance, and statutory requirements.

To achieve our audit objectives, we reviewed the SBA's iTechnologies contract files, to include each Indefinite Delivery/Indefinite Quantity (IDIQ) contract, blanket purchase agreement (BPA), purchase order, task order and modification that the SBA maintained. We also interviewed personnel from the SBA's Office of the Chief Information Officer (OCIO), the Office of the Chief Financial Officer (OCFO), iTechnologies, and iTechnologies' subcontractor, The Look Enterprises, Inc. (TLE). Additionally, we obtained records held by Mr. Philip Isika, president and registered agent, of iTechnologies; the Texas Workforce Commission; Wells Fargo Bank; and Mr. James E. Selmon, president and chief executive officer of TLE. We also reviewed pertinent Code of Federal Regulations, Federal Acquisition Regulations, the United States Code, and the U.S. Government Accountability Office’s Principles of Federal Appropriations Law (Red Book).

Use of Computer Processed Data

We obtained view-only access to the SBA’s accounting management system, Joint Administrative Accounting Management System (JAAMS), in order to retrieve invoice payment data for iTechnologies invoices processed for payment within JAAMS. We validated these invoice payment reports with iTechnologies invoices maintained at the SBA Denver Finance Center. We determined that each invoice corresponded with one invoice payment within the JAAMS report. Because we could not obtain access to Automatic Clearing House (ACH) bank account information within JAAMS, we relied on personnel from the SBA Denver Finance Center to obtain the JAAMS bank account payment reports. Similarly, we relied on personnel from the SBA Denver Finance Center to obtain ACH bank account information for iTechnologies from the Central Contractor Registry.

Prior Coverage

The SBA OIG issued the following two reports that focused on the planning and award, and funding of IT hardware and software contracts awarded to iTechnologies:

1. Report Number 11-08, February 25, 2011, SBA’s Procurement of Information Technology Hardware and Software Through Isika Technologies, Inc., reported that the SBA inadequately planned and inappropriately awarded two 8(a) sole-source IDIQ contracts and

This audit was suspended from August 2011 through February 2012 due to resource constraints.
a BPA to iTechnologies for the procurement of IT hardware and software. Specifically, the IDIQ contracts and BPA awarded to iTechnologies did not qualify as 8(a) sole-source procurements under the non-manufacturer rule.

2. Report Number 11-14, June 2, 2011, SBA’s Funding of Information Technology Contracts Awarded to Isika Technologies, Inc., reported that SBA officials improperly funded contracts awarded to iTechnologies for the procurement of IT hardware and software. Specifically, the SBA violated the bona fide needs rule relating to its FY 2009 and FY 2010 annual appropriations. The SBA also risked violating the Anti-Deficiency Act by obligating expired FY 2010 annual funds during FY 2011 with no assurance that the agency had funds available to cover these inappropriate expenditures.
Appendix II: Contracts Awarded to iTechnologies

During fiscal years 2009-2011, the SBA awarded two Indefinite Delivery/Indefinite Quantity (IDIQ) contracts, a Blanket Purchase Agreement (BPA), and six purchase order contracts to iTechnologies for the procurement of information technology (IT) hardware and software, totaling $7,614,202, as demonstrated in Table 4:

Table 4 Contracts Awarded to iTechnologies for the Procurement of IT Hardware and Software

<table>
<thead>
<tr>
<th>Award Date</th>
<th>Contract Vehicle</th>
<th>Contract Number</th>
<th>Initial Contract Value</th>
<th>Contract Value Including Modifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>09/21/2009</td>
<td>IDIQ</td>
<td>SBAHQ-09-D-0009</td>
<td>$ 5,000,000</td>
<td>$ 4,070,480</td>
</tr>
<tr>
<td>12/09/2009</td>
<td>IDIQ</td>
<td>SBAHQ-10-D-0001</td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>02/18/2010</td>
<td>BPA</td>
<td>SBAHQ-10-A-0001</td>
<td>1,372,260</td>
<td>1,372,260</td>
</tr>
<tr>
<td>03/11/2010</td>
<td>Purchase Order</td>
<td>SBAHQ-10-M-0111</td>
<td>76,369</td>
<td>76,369</td>
</tr>
<tr>
<td>03/19/2010</td>
<td>Purchase Order</td>
<td>SBAHQ-10-M-0118</td>
<td>16,198</td>
<td>16,198</td>
</tr>
<tr>
<td>03/19/2010</td>
<td>Purchase Order</td>
<td>SBAHQ-10-M-0119</td>
<td>11,847</td>
<td>11,847</td>
</tr>
<tr>
<td>04/05/2010</td>
<td>Purchase Order</td>
<td>SBAHQ-10-M-0130</td>
<td>40,067</td>
<td>40,067</td>
</tr>
<tr>
<td>04/10/2010</td>
<td>Purchase Order</td>
<td>SBAHQ-10-M-0135</td>
<td>3,287</td>
<td>3,287</td>
</tr>
<tr>
<td>01/20/2011</td>
<td>Purchase Order</td>
<td>SBAHQ-11-M-0065</td>
<td>23,694</td>
<td>23,694</td>
</tr>
</tbody>
</table>

**TOTAL:** $ 8,543,722  $ 7,614,202
Appendix III: Indefinite Delivery Indefinite Quantity Contracts

Indefinite Delivery/Indefinite Quantity (IDIQ) contracts provide the indefinite quantity of services for a fixed time. They are used when the General Services Administration (GSA) cannot determine, above a specified minimum, the precise quantities of supplies or services that the government will require during the contract period. They help streamline the contract process and speed service delivery. These contracts are most often used for service contracts and architect-engineering services. Awards are usually for base years and option years. The government places delivery orders (for supplies) or task orders (for services) against a basic contract for individual requirements. Minimum and maximum quantity limits are specified in the basic contract as either number of units (for supplies) or as dollar values (for services).

According to the FAR, there are three types of indefinite-delivery contracts: definite-quantity contracts, requirements contracts, and indefinite-quantity contracts. Further, “The appropriate type of indefinite-delivery contract may be used to acquire supplies and/or services when the exact times and/or exact quantities of future deliveries are not known at the time of contract award.”44 Pursuant to 10 U.S.C. 2304d and section 303K of the Federal Property and Administrative Services Act of 1949, requirements contracts and indefinite-quantity contracts are also known as delivery-order contracts or task-order contracts.

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44 FAR Subpart 16.501-2(a), Indefinite-Delivery Contracts
TO: John K. Needham  
Assistant Inspector General for Auditing, Office of Inspector General

FROM: Jonathan Carver  
Chief Financial Officer, Office of the Chief Financial Officer

DATE: November 5, 2012

SUBJECT: OCFO’s Response to OIG’s Draft Advisory Memorandum on SBA Mismanaged Certain 8(a) Information Technology Contracts dated September 28, 2012

OCFO concurs with the findings and recommendations found in the Draft Advisory Report entitled “The SBA Mismanaged Certain 8(a) Information Technology Contracts.” OCFO appreciates the opportunity to review this draft advisory opinion on the mismanagement of the IT technologies 8(a) contracts. OCFO would like to highlight that this contract mismanagement occurred prior to the transition of the acquisition function to OCFO. Since the transition of the acquisition function to OCFO, the CFO and the Acquisition Division management have attempted to not only resolve the significant issues related to the award of the contracts but to learn from the past errors and improve the acquisition process at the SBA from award to close-out.

The OCFO has the following specific comments on the draft report:

- **P. 3 of the Report, “Review of Internal Controls” paragraph, 2nd to last sentence in this paragraph that states “However, SBA management has not conducted an internal control review of its acquisition function since fiscal year (FY) 2007.”**: This sentence is incorrect. The SBA’s Office of Internal Controls conducted an internal control review of the acquisition function in May 2012. The Office of Internal Controls presented its assessment to the acquisition management team in October 2012.
• P. 12 of the Report, 1st paragraph, 2nd to last sentence that states “Further, the SBA’s procurement and accounting systems did not fully interface, which exposed the SBA to vulnerabilities to making improper payments.”: While OCFO does not disagree with this statement, OCFO would like to note that as stated in the OCFO comments to the OIG Proposed Management Challenge 11 that the procurement and accounting systems are currently interfaced with one exception, the commitment to obligation phase is a manual process.

• P. 15, 2nd full paragraph: OCFO would like to note that as stated in the OCFO comments to the OIG Proposed Management Challenge 11 that the procurement and accounting systems are currently interfaced with one exception, the commitment to obligation phase is a manual process. OCFO would also like to include that the report does not state how automating and interfacing the systems could specifically reduce the number of improper payments. Ensuring that the contract data is complete would be a more accurate diagnosis of reducing improper payments than the system interface.

• P. 15, 3rd bullet at the top of the page & 2nd full paragraph, 2nd to last sentence which states “Similarly, the SBA potentially violated the Antideficiency Act because the contracting officer may not have obligated the funds necessary to cover the cost of the foods and services not placed on the contract.” : OCFO continues to disagree with the OIG’s assessment of the potential ADA violation. OCFO expressed this disagreement in in response to OIG Report 11-14, Rec. 4. Furthermore, mentioning the potential ADA violation in this report is redundant and out of scope since the OIG already issued a report on this assertion and OCFO appropriately responded.

In addition to the draft report comments, OCFO submits the following comments on the recommendations offered in the draft report:

OIG Recommendations to CFO in BOLD

1) Take action to complete debarment proceedings for ITechnologies to prohibit future contracting with any agency of the Executive Branch of the United States Government.

   This matter is under review.

2) Initiate debarment proceedings for TLE and its officials to prohibit future contracting with any agency of the Executive Branch of the United States Government.

   This matter is under review.
3) **Establish and Implement a procedure that aligns with the FAR to require contracting officers to determine whether prospective contractors are "responsible" prior to awarding a contract:**

The OCFO concurs with the OIG on the point that contracting officers should follow the FAR in determining whether prospective contractors are “responsible” prior to awarding a contract (and that if SBA determines a small business apparent successful offeror to be nonresponsible, it will refer the matter to SBA for a Certificate of Competency). However, the contracting officers associated with the matter discussed in this report are no longer employed at the SBA. These actions occurred prior to the transition of the acquisition function to OCFO. While OCFO concurs that the agency’s contracting officers should follow the FAR in determining whether a prospective contractor is responsible, the OIG has not indicated that SBA is currently not following the FAR in making this determination. Additionally, SBA is working on the Acquisition Division SOP Re-write and Contracting Officer’s desk manual, which will establish and implement procedures in determining whether prospective contractors are “responsible” prior to award.

4) **Demonstrate that SBA contracting personnel are proficient at conducting price analyses used to establish whether proposed prices are fair and reasonable and in accordance with FAR requirements.**

The OCFO concurs with the OIG on the recommendation that contracting personnel should conduct price analyses to establish whether proposed prices are fair and reasonable and according to FAR requirements. However, the contracting officers associated with the matter discussed in this report are no longer employed at the SBA. These actions occurred prior to the transition of the acquisition function to OCFO. While OCFO concurs that the agency’s contracting officers should follow the FAR in determining whether proposed prices are fair and reasonable, the OIG has not indicated that SBA is currently not following the FAR in making this determination.

5) **Require contracting personnel to maintain all records used to establish a fair and reasonable price, consistent with FAR requirements.**

OCFO would like the OIG to clarify this recommendation. OCFO would like to reiterate that the contracting officers and management associated with the matter discussed in this report are no longer employed at the SBA’s Acquisition Division. These actions occurred prior to the transition of the acquisition function to OCFO. There is no indication that the current contracting personnel and management do not properly establish a fair and reasonable price. For example, SBA follows FAR procedures when awarding sole source 8(a) contracts. According to the FAR 19.807, contracting officers
estimate the fair market price of the work to be performed by the 8(a) contractor and may use cost or price analysis and consider commercial prices for similar products and services, available in-house cost estimates, data (including certified cost or pricing data) and data obtained from any other Government agency when making this determination. The FAR defines “fair market price” with regard to the small business program to mean “a price based on reasonable costs under normal competitive conditions and not on lowest possible cost (see 19.202-6).” FAR § 19.001. Thus, contrary to the OIG’s assertion, competition is not necessarily required to ensure a contract award is for a fair and reasonable price; agencies can and do issue 8(a) sole source awards at a fair market price.

6) **Establish and implement a procedure to verify routinely that contracting officers are documenting price analyses used to establish price reasonableness.**

FAR 4.803(a)(17) states that data and information related to the contracting officer’s determination of a fair and reasonable price is a record normally contained in a contract file. The FAR does not necessarily require detailed narratives or “screen shots” to support a price analysis. However, SBA is working on the Acquisition Division SOP Rewrite and Contracting Officer’s desk manual, and will set forth guidance with respect to the data and information that should be in the contract file to support the contracting officer’s determination.

7) **Conduct an internal control review of SBA's acquisition function in compliance with OMB Circular A-123 and OMB Memorandum, Conducting Acquisition Assessments under OMB Circular A-123.**

OCFO agrees with this recommendation and has already conducted the A-123 review of the acquisition function in May 2012. The Office of Internal Controls presented the results of the A-123 review to the Acquisition Division in October 2012.

8) **Based upon the SBA's internal control review, update internal controls and implement procedures that are essential to an efficient, effective, and accountable acquisition process.**

OCFO concurs with this recommendation and will begin the implementation process of these controls and procedures and SOP re-write is scheduled to be completed by December 2012.
9) **Conduct an internal control review of SBA’s Denver Finance Center in compliance with OMB Circular A-123 and include the results in the annual Agency Financial Report (AFR).**

OCFO would like this recommendation clarified. Appendix A of OMB Circular A-123 prescribes the review of processes, not offices such as SBA’s DFC. Furthermore, the Office of Internal Controls already reviews processes (i.e. cash receipting, cash disbursement, travel, financial reporting, procurement, etc.) that occur at DFC, in compliance with OMB Circular A-123, Appendix A. If the Office of Internal Controls finds materials weaknesses from these process reviews, then the Office of Internal Controls would include these material weaknesses in the AFR’s Assurance Statement.

10) **Update payment processing internal controls and implement procedures that are essential to an efficient, effective, and accountable acquisition process.**

OCFO concurs with this recommendation. Once the acquisition process procedures are in place from the SOP re-write, the Acquisition Division management and the Administrative Accounting management will coordinate to improve internal controls and implement procedures to improve the acquisition payment process.

11) **Recover $12,073 from ITTechnologies for payments the contractor received in duplicate.**

OCFO will consult OGC on this recovery action.

12) **Establish and implement an invoice review processes that limits invoice review to contracting officers or individuals with appropriately delegated authority.**

OCFO concurs with this recommendation and the invoice review process will be implemented with the completion of the SOP re-write in December 2012.

13) **Establish and implement a procedure to provide payment personnel with a list of personnel authorized to approve invoices that should be updated at least quarterly and specific to the contracts that non-contracting officers are permitted to approve.**

OCFO partially concurs with this recommendation. OCFO has accomplished this recommendation on the acquisitions side by monthly updates of the certified COR lists in PRISM.
14) Establish and implement an invoice approval procedure that includes attaching and reviewing a receiving report to each invoice, prior to payment processing.

OCFO concurs with this recommendation and has already implemented invoice approval procedures that include attaching a receiving report prior to payment process. This invoice approval procedure will be included in the SOP re-write as well.

15) Establish and implement an automatic interface between PRISM and JAAMS to ensure that invoice payments are tied to contract numbers instead of purchase order numbers: OCFO agrees with this recommendation.

OCFO has partially interfaced PRISM and JAAMS and began the interface production in 2008. When OCFO completes the interface, the contract number and purchase order number will be the same number. OCFO anticipates completing the interface within FY2013.