



DEPARTMENT OF THE INTERIOR OFFICE OF INSPECTOR GENERAL

AUDIT REPORT



REPORT NO. C-IN-BOR-0067-2002

SEPTEMBER 2004



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Central Region
134 Union Blvd., Suite 510
Lakewood, Colorado 80228

September 30, 2004

Memorandum

To: Assistant Secretary for Water and Science

From: Anne L. Richards *Anne L. Richards*
Regional Audit Manager

Subject: Bureau of Reclamation, Denver Office, Contract Administration
(Report No. C-IN-BOR-0067-2002)

The attached report presents the results of our audit of the Bureau of Reclamation Denver Office's (BOR-DO) contract administration. We concluded that the BOR-DO did not have an adequate system of control to ensure contracting was performed in accordance with acquisition regulations and guidelines.

Based on the July 23, 2004, response to the draft report, we consider three of the four recommendations resolved but not implemented and one recommendation resolved and implemented. Accordingly, we are referring the report and Recommendations 1, 3, and 4 to the Department's Focus Leader for Management Accountability and Audit Follow-up for tracking of implementation.

Since the recommendations are resolved, no further response to the Office of Inspector General is required. We would, however, appreciate being informed of the progress in implementing the recommendations.

The legislation, as amended, creating the Office of Inspector General requires that we report to the U.S. Congress semiannually on all audit reports issued, actions taken to implement our recommendations, and recommendations that have not been implemented.

If you have comments or questions regarding this report, please call me at (303) 236-9243.

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INTRODUCTION

This report presents the results of our audit of the Bureau of Reclamation Denver Office's (BOR-DO) contract administration. The objective of the audit was to determine whether the BOR-DO awarded and administered contract actions¹ in accordance with the Federal Acquisition Regulation (FAR) and other regulations and guidelines (hereinafter referred to as requirements). We found that the BOR-DO did not always award and administer contracts in accordance with requirements. (See Appendix 1 for details on the noncompliance issues identified by our audit.)

BACKGROUND

The BOR-DO includes the Management Services Office, the Technical Services Center, the Office of Policy, and the Office of Diversity and Human Resources.² The Management Services Office includes the Acquisition Operations Group (Acquisitions Group or Acquisitions). The Acquisitions Group has about 18 employees and is principally responsible for acquiring commercial goods and services. For fiscal years 2000 through 2002, the Acquisitions Group processed an average of 319 contracts and obligated an average of \$27.1 million each year.

The Acquisitions Group normally acquires goods and services for the Technical Services Center. The Technical Services Center provides scientific, research, and engineering services related to water management and development to the five BOR regions and to other governmental agencies. The Technical Services Center, which has about 670 employees, operates as a business and funds itself by billing its customers for services provided.

We conducted our audit of the BOR-DO's contract administration in accordance with the *Government*

¹ Contract actions include contracts, delivery orders, and procurement actions.

² In its response to our draft report, BOR stated that it has completed several organizational changes since our fieldwork was completed. The BOR-DO now includes Security, Safety and Law Enforcement; Operations – Denver; and Policy, Management and Technical Services. The Policy, Management and Technical Services Office includes the Chief Information Office, Office of Program and Policy Services, Technical Services Center, Management Services Office, Research and Development, and International Affairs.

Auditing Standards issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that we considered necessary under the circumstances. (See Appendix 2 for details on our Scope and Methodology.)

RESULTS OF AUDIT

In each of the 15 contract actions audited, we found instances where the BOR-DO did not comply with the requirements. For example, the Acquisition Operations Group:

- Awarded cost-plus-percentage-of-cost contracts which are prohibited by requirements because they provide no incentive for contractors to hold down costs, as profit increases as costs increase.
- Awarded a sole-source contract without adequate justification for the absence of competition.
- Awarded time-and-materials contracts when firm-fixed-price contracts would have been more advantageous to the Government.
- Split purchases to stay below the micro purchase limit of \$2,500 and avoid additional purchasing requirements.
- Did not sufficiently monitor contractor performance under time-and-materials contracts to ensure that hours charged and materials used were accurate and in accordance with contracts.
- Did not properly document contract files.
- Made incorrect payments to contractors.

As a result of these deficiencies, the Government lacked assurance that it was acquiring goods and services at the most economical prices and that payments to contractors were accurate. (See Appendix 1 for details on the noncompliance issues identified by our audit.)

INADEQUATE QUALITY CONTROLS

Quality controls were not sufficient to ensure that procurement personnel complied with purchasing requirements and were held accountable for unacceptable work, or that program personnel were prohibited from

improperly influencing contract awards.

The Acquisitions Group did not have written procedures for its internal peer reviews specifying which contracts should be reviewed, how the reviews should be conducted, and how recommendations should be tracked until implementation. Furthermore, when reviews were conducted, corrective actions were not always taken. For example, a peer review determined that the Acquisitions Group was writing a cost-plus-percentage-of-cost contract. However, the peer review system did not require the issue to be addressed, the Manager of the Acquisition Operations Group did not take corrective action, and the prohibited contract type was awarded.

The Acquisition and Assistance Management Division performed external reviews of contracts which were awarded by the Acquisitions Group. The review threshold for FY 2002 established by the Acquisition and Assistance Management Division ranged from \$75,000 for simplified acquisitions to \$500,000 for delivery orders awarded using indefinite-delivery, indefinite-quantity contracts. The Division, however, did not have a system to make sure that appropriate contracts were reviewed or that recommendations were implemented.

Lack of controls also allowed program personnel to improperly participate in the contracting process. For example:

- Program personnel would design contract requirements and sometimes contact or attempt to negotiate with contractors before involving the Acquisitions Group.
- Program personnel treated contracts as an emergency and made promises to outside agencies, such as the EPA, concerning time frames without consulting Acquisitions Group personnel and then demanded that the Acquisitions Group meet the time frames promised.

Subsequent to our fieldwork, the BOR-DO's Manager of the Acquisition Operations Group informed us that the Acquisitions Group is in the process of

implementing a comprehensive independent review procedure. The Manager also stated that management of the Acquisitions Group has changed since the identified deficiencies occurred and the current management has identified this system deficiency and begun to make necessary corrections.

RECOMMENDATIONS

We recommend that the Commissioner, Bureau of Reclamation, ensure that:

1. A policy statement is issued to establish a stronger control environment for contracting including adherence to procurement requirements and separation of program functions and contracting responsibilities.
2. The performance standards for the Director of the Management Services Office, of which the Acquisition Operations Group is a component, are modified to include provisions that require contracts be administered in accordance with requirements.
3. The external quality control review process includes an inventory of all contract actions, a mechanism to select for review all contract actions meeting established thresholds, and a method for tracking implementation of recommendations.
4. The Manager of the Denver Acquisition Operations Group establishes and implements procedures for a system of internal quality control and reviews. The procedures should cover review cycles; contract selection; review objectives, scope, and methodology; and recommendation tracking. This process could result in the creation of a report card to rate contracting officers' compliance with procurement requirements.

BOR RESPONSE AND OIG CONCLUSION

The July 23, 2004, response to the draft audit report from the Commissioner, Bureau of Reclamation, concurred with all four recommendations (see Appendix 3). The response stated that BOR will implement policy and procedures to comply with the recommendations. The response also stated that BOR has restructured the Acquisition Operations Group to enable the Group to

address customer needs and find the best contract vehicle to meet those needs, while remaining within requirements and maintaining accountability. The response was sufficient for us to consider three recommendations resolved but not implemented and one recommendation resolved and implemented. Accordingly, we are referring Recommendations 1, 3, and 4 to the Department's Focus Leader for Management Accountability and Audit Follow-up for tracking of implementation (see Appendix 4 for the status of the audit recommendations).

Contracts and Contract Actions Reviewed Plus Applicable Criteria

A.	Addie Mattox Contract Action
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1. Program personnel made eight purchase card charges for \$13,300 to pay Addie Mattox, a consultant, for services which were not covered by a contract. Additionally, five of the charges were made to pay two bills. By splitting purchases, the program personnel circumvented the \$2,500 micro purchase limit and avoided needing a warranted contracting officer to conduct the procurement action. (FAR 2.101, 13.003(c), DOI Charge Card Guide 3.5)

B.	Ferguson Harbour, Inc. Contract No. 98CS810027 Benton Harbor Quonset Hut Delivery Order No. 9810027D01
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1. The BOR-DO inspector directed the contractor to perform out of scope work. Only the contracting officer has the authority to obligate the payment of money by the Government. (DIAR 1401.670-5)
2. The BOR-DO awarded the contract to a proposer whose bid was originally \$5,000 higher than the low bid. The BOR-DO determined best value by adding a variable cost of contract administration based on the proposed period of performance. However, the BOR-DO did not disclose in the solicitation that period of performance would be an evaluation factor in determining best value. (FAR 15.101(b)(1))

C.	Laguna Construction Company, Contract No. 98CS810026 Castex System Removal, Delivery Order No. 98B1810026
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1. The BOR-DO did not review subcontractor invoices and paid excessive overhead markups of \$79,000 on subcontractor labor. (FAR 4.801(b), Appointment of Authority Memorandum)
2. The BOR-DO allowed excessive subcontracting and incurred extra overhead of \$72,000 from the prime contractor in addition to subcontractor overhead. (FAR 36.501)
3. The BOR-DO created a cost-plus-percentage-of-cost contract by directing that profit be applied to costs other than direct labor. As a result, profit increased by \$71,500. Cost-plus-percentage-of-cost contracts are prohibited by the FAR. (FAR 16.102(c), 16.601(a))
4. The BOR-DO reimbursed the contractor according to the labor rates scheduled in the contract. Had appropriate analysis been performed before the award, actual labor rates,

which were lower than scheduled would have been identified and the contract price could have been reduced by \$35,000. (FAR 1.602-2)

5. The BOR-DO awarded a time-and-materials contract when a firm-fixed-price contract was appropriate. We were told that the BOR-DO used a time-and-materials contract to avoid performing a costly site assessment and because the Environmental Protection Agency prefers time-and-materials contracts for environmental service orders. (FAR 16.601(c)(1), The OMB Best Practices Guide for Contract Administration, page 9)
6. The BOR-DO did not verify that the contractor had an adequate accounting system. (FAR 16.301-3)
7. The BOR-DO inspectors were absent from the worksite for 21 days, and therefore the BOR-DO lacked reasonable assurance that the contractor used efficient methods and effective cost controls. (FAR 16.601(b)(1))
8. The BOR-DO did not obtain or review weekly statements of compliance and payrolls from the contractor and subcontractors to ensure that the statements complied with the appropriate wage determination. (FAR 4.801(b), Appointment of Authority Memorandum)

D.	Clarence McNabb Contract Action
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1. Program personnel wrote nine convenience checks for \$21,000. Eight of the checks were written to make four payments in order to circumvent the \$2,500 micro purchase limit. This avoided the need for a warranted contracting officer to conduct the procurement action. (FAR 2.101, 13.003(c), DOI Charge Guide 3.5)

E.	Cordax One Technology, Contract No. GS35F0447K Delivery Order Nos. 00PE810396 and 00PG810218
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1. BOR-DO program personnel attempted to initiate a purchase order for \$1.3 million to obtain services from the contractor by negotiating with the contractor. Subsequently, a contracting officer approved a \$305,000 delivery order. (FAR 1.601, DIAR 1401.670, The OMB Best Practices Guide for Contract Administration, page 9)
2. Contract administration personnel directed the contractor to perform work costing \$99,000 without specifying specific deliverables. (DIAR 1401.670-5, GSA Ordering Procedures for Services (Requiring a Statement of Work))
3. The contracting officer did not obtain support for a termination payment of \$69,000 and did not document the review of claimed costs or the basis for making the termination payment. (FAR 4.801(b))

4. The contract file did not contain a record of negotiation. (FAR 15.406-3)
5. The contract file did not contain schedules and reports as required in the statement of work. (FAR 4.801(b))

F. Indefinite-Delivery, Indefinite-Quantity Contract No. 00CS810250 Inceptive Partners, LLC, Delivery Order Nos. 00A1810250 through 11A6810250

1. The BOR-DO prepared an Independent Government Cost Estimate that was generated from published salaries of national and international firms. Although these salaries were already loaded with applicable overhead and profit rates, the BOR-DO added an additional set of markups which made Inceptive's proposed rates appear reasonable. For example, the published annual salary for a project manager was \$120,000 a year with a corresponding loaded rate equal to \$332,800 a year. The BOR-DO added additional overhead and profit to the loaded published rates to establish a government estimate for a project manager of \$661,232. Inceptive Partners, LLC, proposed to charge an annual rate of \$457,600 for a project manager. (FAR 15.404-1(a)(1))
2. The BOR-DO determined that Inceptive Partners, LLC, was the only source that could meet the specialized requirements for a job and awarded a sole-source contract. However, seven potential contractors had indicated in their response to the advertised sole-source contract that they had the skill required to perform the job. The Small Business Administration stated that "hundreds of small businesses" could perform the work, but approved the sole-source award of the contract. In addition, the contractor performed only 4 percent of the work with its own forces, which indicated that the firm was able to hire subcontractors to fulfill the specialized requirements. (FAR 3.101-1, 6.302-1)
3. The BOR-DO did not verify that the contractor had an adequate accounting system. (FAR 16.301-3(a))

G. National Environmental Sciences, Contract No. 02CS910764A

1. Program personnel wrote 22 convenience checks, splitting nine payments, in order to circumvent the \$2,500 micro purchase limit. This avoided the need to have a warranted contracting officer conduct the procurement action. (FAR 2.101, 13.003(C), DOI Charge Card Guide 3.5)
2. The BOR-DO did not properly review and verify invoices. Our review of the contract file identified a miscalculation of \$1,000. (At the time of our review the payment had not yet been made, so the BOR-DO was able to make the correction before a payment was issued.) (Appointment of Authority Memorandum requires reviews of invoices.)

3. The contract file did not substantiate that there were no responses to the announcement in the Commerce Business Daily of a sole-source award to National Environmental Sciences. (FAR 4.801(b))

H. Laguna Construction Company, Contract No. 98CS810026 Ouachita-Nevada Wood Treaters Site Delivery Order No. 98A4810026

1. The BOR-DO created a cost-plus-percentage-of-cost contract by directing that profit be applied to cost factors other than direct labor. As a result, profit increased by \$143,000. Cost-plus-percentage-of-cost contracts are prohibited by the FAR. (FAR 16.102(c), 16.601(a))
2. The BOR-DO created a contract where the contractor was responsible for paying applicable Davis Bacon rates. The contractor was to be reimbursed at scheduled rates which were the Colorado Davis Bacon rates. However, the contract was performed in Arkansas where the Davis Bacon rates were lower than the scheduled rates. If the BOR-DO had written the contract to require the contractor to pay and be reimbursed at the applicable Davis Bacon rates, we estimate that labor costs would have been reduced by about 55 percent or \$65,000. (FAR 22.404-2)
3. The BOR-DO did not properly review and verify contractor invoices, and the contractor applied excessive markups to labor costs. (Appointment of Authority Memorandum)
4. The BOR-DO did not prepare a determination and findings to justify the award of a time-and-materials contract. The BOR-DO told us that a time-and-materials contract was necessary because the action was time critical and obstacles on the site such as poison oak and debris made it difficult to accurately determine the amount of excavation required. The Environmental Protection Agency and the state of Arkansas had studied the site over a period of 13 years which indicated that an adequate site assessment could have been performed and a fixed-price contract awarded. Consequently, we concluded that the BOR-DO could have taken the time to perform a thorough site assessment. (FAR 4.801(b), 16.601(c)(1))
5. The BOR-DO did not obtain or review weekly statements of compliance and payrolls from contractors and subcontractors to ensure that the statements complied with the appropriate wage determination. (FAR 4.801(b), 22.406-6(c)(1), Appointment of Authority Memorandum)
6. Inspectors were absent from the site on at least 4 days so there was a lack of assurance that the contractor used efficient methods and effective cost controls. (FAR 16.601(b)(1))
7. The BOR-DO inspector authorized overtime without approval from the contracting officer. (DIAR 1401.670-5, The OMB Best Practices Guide for Contract Administration, pages 9 and 15)

I. Veridian, Contract No. GS35F0038J, Delivery Order No. 02PE810774
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1. The contracting officer did not properly document the negotiation. There was no price negotiation memorandum in the file. (FAR 4.801(b), 15.406-3)
2. The BOR-DO did not provide daily surveillance although the contracting officer stated in the determination and findings that there would be daily surveillance. The first two performance reports submitted by the contractor were unsatisfactory and had to be redone. If inspectors had been on site during the work, the contractor may have been made aware of the data BOR expected to be reported. (FAR 16.601(b)(1), The OMB Best Practices Guide for Contract Administration, page 9)

J. Westinghouse Remediation Services, Contract No. 00CS810229 Vinton Tank Battery and Pits, Delivery Order No. 00A3810229
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1. The BOR-DO inspector was absent from the site on 10 days so there was a lack of assurance that the contractor used efficient methods and effective cost controls. (FAR 16.601(b)(1))
2. The BOR-DO did not verify that the contractor had an adequate accounting system. (FAR 16.301-36)
3. The BOR-DO did not ensure that adjustments to subcontractor payrolls were accurate or that subcontractor employees were paid the correct wages. In our review, we found that the employees were overpaid by \$1,300. (FAR 22.406-6(c)(1), Appointment of Authority Memorandum)

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Scope and Methodology

Our audit was conducted at the BOR-DO. We judgmentally selected 15 contract actions to review based on areas where we believed problems could exist. The contract actions consisted of three contracts awarded sole source and two delivery orders issued under General Services Administration contracts. We also identified and reviewed three acquisitions that did not have contracts in place at the time the contractor performed services. Finally, we reviewed three indefinite-delivery, indefinite-quantity contracts for Environmental Protection Agency (EPA) environmental services work and four delivery orders issued under these contracts. Our audit period was fiscal years 2000 through 2002, but we extended the period back to fiscal year 1998 to examine the contracts used for EPA work because that was when the BOR-DO awarded these 5-year contracts.

We identified significant regulations relevant to contract administration. We reviewed the available documentation supporting the contracts to determine whether the contract clauses, contract actions, and contract administration efforts were in accordance with requirements. We interviewed the contracting personnel in the Acquisitions Group and program personnel in the Technical Services Center. We also evaluated the BOR-DO's process of reviewing the contracting function to ensure contracting is performed in accordance with requirements.

We specifically reviewed the EPA contract actions because the EPA is one of the Technical Service Center's principal customers. The EPA has agreements with the BOR to award and administer contracts for the clean-up of hazardous waste sites. Additionally, in 2001 the EPA's Office of Inspector General (EPA-IG) began a review of selected contracts that the BOR administered for the EPA. The EPA-IG identified numerous problems with the BOR's contract administration. The EPA-IG identified many of the same problems that we are reporting including:

- Program personnel directing the contracting process.
- Paying profit on other direct costs for time-and-materials contracts.
- Not reviewing support for contractor invoices on time-and-materials contracts.
- Allowing contractors to work on time-and-materials contracts without inspectors being present.
- Adding funding to contracts before EPA had made the funding available.

We conducted our audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that we considered necessary under the circumstances.

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United States Department of the Interior

BUREAU OF RECLAMATION

Washington, D.C. 20240

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JUL 30 2004

Central Region

MEMORANDUM

To: Office of Inspector General
Attention: Central Region Audit Manager

Through: R. Thomas Weimer *R. Thomas Weimer* JUL 23 2004
Principal Deputy Assistant Secretary - Water and Science

From: John W. Keys, III *John W. Keys, III* JUL 22 2004
Commissioner

Subject: Bureau of Reclamation Response to the Draft Audit Report on Bureau of Reclamation
Denver Office Contract Administration (Audit Report No. C-IN-BOR-0067-2002)

We appreciate the opportunity to review and comment on the draft audit report titled Bureau of Reclamation Denver Office Contract Administration. Attached for your consideration are Reclamation's comments and our response to the recommendations as stated in the draft audit report.

If you have any questions or require additional information, please contact Reclamation's Audit Liaison Officer, Tom Lab at 303-445-3436 or Reclamation's Audit Liaison Coordinator, Elaine Ferrari at 303-445-2788.

Attachment

cc: Assistant Secretary - Water and Science, Attention: Olivia Ferriter
Office of Inspector General, Attention: Roger La Rouche
(w/att)

**Bureau of Reclamation
Comments on the Draft Audit Report
Bureau of Reclamation Denver Office Contract Administration
July 2004**

General Comments:

Several organizational changes have occurred since the beginning of audit survey work over two years ago. The following information is provided to the Office of Inspector General as an update to the final audit report:

Page 1, Background, first sentence - The sentence should read: The BOR-DO includes Security, Safety and Law Enforcement; Operations – Denver; and Policy, Management and Technical Services. The Policy, Management and Technical Services Office includes the Chief Information Office; Office of Program and Policy Services; Technical Services Center; Management Services Office; Research and Development; and International Affairs.

In addition to implementing policy and procedures to comply with the audit's recommendations, Reclamation has taken the additional step of restructuring the Acquisition Operations Group (AOG). This restructuring will enable AOG to address customer needs and offer alternatives to find the best contract vehicle to meet those needs, while remaining within regulatory guidance and maintaining employee and contractor accountability.

Bureau of Reclamation
Response to Draft Audit Report Recommendations
Bureau of Reclamation Denver Office Contract Administration
July 2004

Recommendation 1

A policy statement is issued to establish a stronger control environment for contracting including adherence to procurement requirements and separation of program functions and contracting responsibilities.

Response

Concur. A Reclamation Manual policy statement will be issued to instruct Reclamation employees on the roles and responsibilities of acquisition offices and the requirement of complying with Federal Acquisition Regulations. This policy statement will emphasize the necessity of keeping contracting responsibilities and program functions separate. The policy statement will be issued under the Commissioner's signature.

The responsible official is the Director, Management Services. The target date for issuing the policy statement is March 31, 2005.

Recommendation 2

The performance standards for the Director of the Management Services Office, of which the Acquisition Operations Group is a component, are modified to include provisions that require contracts be administered in accordance with requirements.

Response

Complied. Since 2003 the Director, Management Services' performance standards have included provisions that require contracts to be administered in accordance with requirements.

Recommendation 3

The external quality control review process includes an inventory of all contract actions, a mechanism to select for review all contract actions meeting established thresholds, and a method for tracking implementation of recommendations.

Response

Concur. The Acquisition and Assistance Management Division (AAMD) will refine the external quality control review process for monitoring and selection of contract actions

for review by utilizing the data entered into the Federal Procurement Data System – New Generation (FPDS-NG). FPDS-NG is a contract reporting mechanism required by the Federal Acquisition Regulation. This will allow AAMD to monitor all contract awards in light of established review thresholds. This data can then be compared with the actual reviews performed to ensure that review agreements are complied with and enforced. Additionally, AAMD will identify a process to track the implementation of recommendations by reviewing corrective action plans provided by field offices and performing follow-up reviews as necessary.

The responsible official is the Director, Management Services. The target date for establishing an external quality control review process is December 31, 2004.

Recommendation 4

The Manager of the Denver Acquisition Operations Group establishes and implements procedures for a system of internal quality control and reviews. The procedures should cover review cycles; contract selection; review objectives, scope, and methodology; and recommendation tracking. This process could result in the creation of a report card to rate contracting officers' compliance with procurement requirements.

Response

Concur. The Acquisition Operations Group (AOG) will implement a comprehensive internal control process to monitor the contracting staff's compliance with procurement requirements. This process will address review cycles; contract selection; review objectives, scope, and methodology; and recommendation tracking. Additionally, this process will be used to develop performance measurements for maintaining a balance between regulatory compliance, internal efficiency, effectiveness and customer satisfaction. The evaluation of the measurements will allow AOG to identify systemic problem areas and training needs of the contracting staff.

The responsible official is the Director, Management Services. The target date for establishing and implementing procedures for a system of internal quality control and reviews is June 30, 2005.

Status of Audit Recommendations

<u>Recommendation</u>	<u>Status</u>	<u>Action Required</u>
1, 3, and 4	Resolved; not implemented	No further response to the Office of Inspector General is required. The recommendations will be referred to the Department's Focus Leader for Management Accountability and Audit Follow-up for tracking of implementation.
2	Resolved and implemented.	No further action is required.

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Report Fraud, Waste, Abuse, and Mismanagement



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