Subcontracting-Natural Disasters[1]

The Scenario

A Department of Defense (DoD) auditor was conducting a review of DoD construction awards in an area designated as a natural disaster. The objective of the audit was to determine whether DoD officials were overseeing subcontracts awarded to small veteran-owned businesses. Federal regulations mandate that prime contractors on large construction projects detail to the government how they plan to use subcontractors. Agencies monitor contractor performance under subcontracting plans based on information provided in accomplishment reports. These reports are submitted by contractors and reviewed by agency contracting officials to monitor contractor performance, and they contain information on the extent to which small business subcontracts were awarded.

During fieldwork, the auditor completed the following steps:

- Obtained data from the Federal Procurement Data System-Next Generation (FPDS-NG), the government-wide database on contracting activity, to determine the extent to which DoD contracted with veteran-owned businesses in the disaster area.

- The auditor analyzed FPDS-NG data to identify the top10 veteran-owned subcontractors receiving construction awards. This review showed that XYZ subcontractor, specializing in school reconstruction, received 20 percent of the DoD subcontracting award money.

- For DoD contracts with veteran-owned subcontracting plans, the auditor requested the prime contractors' subcontracting accomplishment reports.

- The auditor interviewed procurement officials to gather information on DoD procedures to monitor subcontractor award reporting.

The auditor's work disclosed the following:

- The FPDG-NS listed 25 contracts as having veteran-owned subcontracting plans. Despite having awarded these contracts, DoD officials were not able to provide the subcontracting accomplishment report information for half of the contracts. Also, DoD officials could not provide a reason for why the subcontracting information was unavailable.

- Agency contracting officials were not following internal policies to monitor contractor compliance with subcontracting plan reporting requirements.

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[1] Information in this scenario is based on the Government Accountability Office Report, Hurricanes Katrina and Rita, Federally Funded Programs Have Helped to Address the Needs of Gulf Coast Small Businesses, but Agency Data on Subcontracting Are Incomplete," Report Number GAO-10-723, July 2010.

- The auditor visited five locations where XYZ subcontractor was awarded construction contracts. At all locations, construction work had not started on any of the school buildings. Follow-up with DoD officials disclosed that they could not locate any accomplishment reports for XYZ.

General Comments / Lessons Learned.

Historically, the federal government has provided billions of dollars to assist with recovery efforts immediately following natural disasters. Natural disasters are defined as "cataclysmic events that can have a direct or indirect impact on the public's health and well being. Natural disasters can include weather phenomena as well as landslides and avalanches, which occur as a result of erosion or severe weather patterns."[2]

Without subcontracting accomplishment information, contracting officials at DoD lacked a key tool used to monitor contractors' performance under subcontracting plans. Without a consistent process for making sure that subcontracting accomplishment reports are submitted, maintained, and reviewed, DoD was limited in its ability to determine whether contractors are following their subcontracting plans. Failure to monitor a subcontractor's performance increases the risk of fraud, waste, and abuse.

FRAUD INDICATORS

- **Unexplained reasons for missing subcontractor accomplishment reports.**

- **Contracting officials are not following internal policies to monitor contractor compliance with subcontracting plan reporting requirements.**

- **Lack of a consistent process to ensure that subcontracting accomplishment reports are submitted, maintained, and reviewed.**

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[2] Source: eHow Health (www.ehow.com)