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Ethics Advocacy Requires Knowledge of Internal Controls

BY RENE RENDON

In a recent *Journal of Contract Management* article,¹ the authors state that because of the contract manager's unique position in the organization, he or she is "among the first to identify external risks to the integrity of [his or her] organizations and should be empowered to act and to deal with these situations appropriately."² This is an excellent point, and doesn't appear to be emphasized as much as it should. The contract manager's unique position enables him or her to be an ethics advocate for the organization.

The contract manager is the primary interface between government and industry on all contractual matters. On the government side, it is the contracting officer leading the market research aspect of the procurement planning phase—interfacing with external stakeholders and interested offerors in industry. During the solicitation planning phase, the contracting officer interfaces with internal stakeholders in developing the solicitation documents, such as the perfor-

mance work statement and specifications, as well as in structuring the contract terms and conditions. During the solicitation phase, the contracting officer again interfaces with industry through the government point of entry (i.e., www.fedbizopps.gov) in posting solicitations, notices concerning industry information sessions, as well as in conducting pre-solicitation and pre-proposal conferences. During the source selection phase, it is again the contracting officer



who is the main interface with the offerors during the evaluation of proposals, discussions, and price negotiations. Finally, during the contract administration and contract closeout phases, the contracting officer and the contracting officer's representative (COR) are the primary contacts with the contractor in overseeing, assessing, and documenting the contractor's performance.

In performing these critical contract management activities, the contract manager should be among the first to identify external risks to the integrity of his or her organization and should be empowered to act and to deal with these situations appropriately. However, in order to effectively perform these roles, contract managers must be knowledgeable about these contract management processes, and more important, they must be knowledgeable about the internal controls—as well as the implications of these internal controls—on the organization's vulnerability to unethical behavior, such as procurement fraud.

In a recent research study,³ approximately 99 federal government contracting officers were surveyed to assess their knowledge of procurement internal controls and related fraud schemes, as well as their perception of their organizations' vulnerability to procurement fraud. The survey consisted of 26 knowledge-based questions on procurement internal controls and fraud schemes and 12 perception-based questions regarding their organizations' vulnerabilities to procurement fraud. Of the surveyed contracting officers, the median score on the knowledge-based questions was 63 percent (the scores ranged from 46 percent to 70 percent). Using a traditional college grading protocol, this would equate to a grade of "D." Additionally, in the survey item "I have adequate knowledge of contracting fraud schemes to perform my duties," the mean response was a 3.90, which equates to approximately "Agree" on a Likert scale of 1 ("Strongly Disagree") to 5 ("Strongly Agree"). Finally, in the survey item "To which procurement fraud scheme is your organization most susceptible?" approximately 53 percent of the contracting officers responded "I do not suspect fraud."

This research was limited by a small survey sample, and the results may not be representative of the federal government contracting workforce. However, there are some interesting implications from these findings. The results of this research suggest there is some variance in the knowledge level regarding procurement internal controls and related fraud schemes among the surveyed contracting workforce. Although the contracting officers scored an average of 63 percent in the knowledge assessment, the respondents, on average, agreed that they have an adequate knowledge level of internal controls and related fraud schemes to perform their duties. In addition, over half of the contracting officers stated that they did not suspect fraud in their organizations. These findings suggest that perhaps the surveyed contracting workforce is overly optimistic in self-assessing their knowledge of procurement internal controls and related fraud schemes. Additionally, this over-optimism in their knowledge of procurement internal controls and related fraud schemes may result in their organizations being vulnerable to some form of procurement fraud. Furthermore, these research findings indicate that perhaps government agencies are not emphasizing procurement internal controls in their contracting workforce competencies, which may be contributing to an increased vulnerability for procurement fraud in their organizations.

If the contract manager is, in fact, in a unique organizational position to be the first to identify external risks to the integrity of the organization, then the contract manager must be knowledgeable of procurement internal controls. This knowledge is also imperative for the contract manager to be empowered to deal with these situations appropriately. Contract managers must also be knowledgeable of the implications of these internal controls on the organization's vulnerability for unethical behavior, such as procurement fraud.

Government agencies should review their training programs to ensure competencies in procurement internal controls and related fraud schemes are sufficiently emphasized. These training programs should include

an understanding of the internal control components and how they are integrated in the contract management process. Additionally, the contracting workforce should understand the relationship between ineffective internal controls and the resultant fraud vulnerabilities within each contract management process phase. Only then can contracting officers be successful in identifying external risks to the integrity of their organizations and truly be empowered to deal with these situations appropriately. **CM**

ABOUT THE AUTHOR

DR. RENE G. RENDON is a nationally recognized authority in the areas of supply management, contract management, and project management. He is an associate professor at the U.S. Naval Postgraduate School. He has conducted research on acquisition and contract management for the Department of Defense and has taught acquisition and contract management courses to international military and civilian officials. He is a past recipient of the NCMA National Education Award and the NCMA Outstanding Fellow Award. He has also published several books, as well as scholarly articles in the *Journal of Contract Management*. He is a frequent speaker at universities and professional conferences and provides consulting to government and industry.

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ENDNOTES

1. T. Robinson-Harris and L. Swim, "Improving Ethical Behavior in Contract Management: Taking a Principled Approach," *Journal of Contract Management* (2014): 41-48.
2. *Ibid.*, at 46.
3. R.G. Rendon, and J.M. Rendon, "Auditability in Public Procurement: An Analysis of Internal Controls and Fraud Vulnerability," *International Journal of Procurement Management* (2015): 710-730.