EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

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OMB ISSUES GUIDANCE FOR KATRINA RELIEF CONTRACTS

As part of its efforts to ensure agency hurricane relief purchases fully comply with Federal regulations, the Office of Management and Budget (OMB) today issued new guidance to Federal agencies' chief acquisition officers and chief financial officers regarding new streamlined hurricane procurement policies enacted in the recently-passed hurricane relief supplemental appropriations act. Such guidance is regularly issued following a change to laws that impact agency operations.

Last week, Congress raised the threshold for purchases to $250,000 from $25,000 for procurements of property or services determined by the head of an executive agency to support Hurricane Katrina rescue and relief operations. Office of Federal Procurement Policy (OFPP) Administrator David H. Safavian and Office of Federal Financial Management (OFFM) Controller Linda M. Combs issued the guidance today for purchases made by the government wide purchase card to clarify the management controls in place.

"By cutting the red tape on contracts less than $250,000, we can help get food, water and housing to victims as soon as possible," Safavian said. **"At the same time, this guidance helps make sure that adequate management controls are in place to ensure that taxpayers' dollars are spent efficiently and responsibly in support of disaster victims. Businesses throughout the private sector – particularly ones in the affected region – will play a critical role in the disaster relief effort. After the immediate crisis has subsided, we will re-evaluate the need for this provision."**

To protect taxpayers' interests, the new OMB guidance requires agency heads to identify the individuals who are authorized to use the higher threshold and establish policies for determining whether a transaction is "in support of Hurricane Katrina rescue and relief operations" as allowed by Congress. The guidance also requires agencies to conduct follow-up reviews of transactions and increase their own management controls to mitigate risk under the new streamlined procurement authority.

Visit www.whitehouse.gov/omb to view new guidance. For additional information, please contact OMB Communications at 202-395-7254.

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MEMORANDUM FOR THE CHIEF ACQUISITION OFFICERS AND CHIEF FINANCIAL OFFICERS

FROM: David H. Safavian
Administrator
Office of Federal Procurement Policy

Linda M. Combs
Controller
Office of Federal Financial Management

SUBJECT: Implementing Management Controls to Support Increased Micro-purchase Threshold for Hurricane Katrina Rescue and Relief Operations

Section 101 of the Second Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising from the Consequences of Hurricane Katrina (Public Law 109-62, hereinafter "the Act") raises the micro-purchase threshold to $250,000 for procurements of property or services determined by the head of an executive agency to support Hurricane Katrina rescue and relief operations. This new procurement authority will allow agencies to provide critical supplies and services to the Gulf region that will directly impact the recovery effort. In support of this goal, agencies must take affirmative steps to ensure that this flexibility is used solely for efforts that have a clear and direct relationship to Hurricane Katrina rescue and relief operations, and that appropriate management controls are established and maintained to support this new authority.

The attached document outlines actions agencies must take to implement the increased threshold in a responsible and effective manner. This guidance applies to all types of micro-purchases, but it is geared toward purchases made with the government wide purchase card. Cardholders and ordering officials must determine that prices are reasonable. In addition, certain laws will continue to apply, such as procurement integrity statutes and other laws providing for criminal and civil penalties. The General Services Administration (GSA) is developing supplementary guidance to (1) clarify laws and other requirements applicable to micro-purchases conducted under the increased threshold, and (2) help agency personnel determine whether a transaction is "in support of Hurricane Katrina rescue and relief operations" and therefore allowable under section 101 of the Act.

The increased micro-purchase threshold is just one of a number of tools available to agencies to address procurement needs in response to Hurricane Katrina. Agencies may avail themselves of the simplified acquisition methods to conduct open market

purchases under the simplified acquisition threshold, which has been increased to $250,000 in accordance with 41 U.S.C. 428a. In addition, agencies should continue to take appropriate advantage of existing acquisition vehicles, such as GSA's Multiple Award Schedules.

Please ensure this guidance is distributed broadly to all individuals (i.e., program, contracting, finance, legal, and other officials) that have responsibilities for ensuring effective use of purchase cards. For additional information, please contact Sally Beecroft in the Office of Federal Financial Management on (202) 395-1040, or Lesley Field in the Office of Federal Procurement Policy on (202) 395-4761.

Attachment

Management Controls for Implementing Section 101 of the "Second Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising From the Consequences of Hurricane Katrina"

A. Program management responsibilities.

1. There will be no blanket increase of cardholder authority. The head of each executive agency (with delegation at a level no lower than the head of the contracting activity) must identify in writing those individuals who are authorized to use the higher threshold; these individuals must be working directly on Hurricane Katrina-related acquisitions.

2. Each agency must modify contracting officer and other warrants, as appropriate, and ensure that cardholders have sufficient training appropriate for the increased authority.

3. Agencies shall work with card issuing banks to raise monthly and single transaction limits accordingly.

4. Agencies must establish and communicate policies and procedures for determining whether a transaction is "in support of Hurricane Katrina rescue and relief operations" and therefore allowable under Section 101 of the Act.

5. All open market transactions (those not placed under existing contracts) that exceed $50,000 must be pre-approved by a warranted contracting officer (other than the buyer or cardholder) or a senior manager at the GS-14 level or above.

6. The head of the agency must designate officials to conduct follow-up reviews of transactions made pursuant to Section 101 of the Act. These follow-up reviews should take place as soon as practicable, but no later than 60 days after any given transaction. The officials shall evaluate whether the transaction: (a) was consistent with agency's policies and procedures identified in paragraph A.4, above, and was otherwise reasonable and appropriate; (b) provided the maximum practicable opportunity for small business participation under the circumstances (see paragraph B.2, below), and (c) was appropriately documented by the cardholder. Based on these reviews, the official shall make recommendations to the head of the agency on changes to the policies and procedures identified in paragraph A.4 above, and any administrative or disciplinary actions required.

7. Agencies should increase management controls to mitigate risk under the new micro-purchase authority. OMB Circular A-123, Appendix B, Improving the Management of Government Charge Card Programs, provides guidance on implementing strong internal controls. Examples include, but are not limited to the following, as may be appropriate:

    - Increasing the frequency and scope of reviews of spending and transaction limits to ensure appropriateness;
    - Limiting the number of individuals authorized to use the increased micro-purchase threshold and the length of time this authority can be used;
    - Evaluating the span of control for approving officials;
    - Blocking card use for high risk merchant category codes; and
    - Establishing a control to ensure that card accounts are canceled when the employee returns from temporary duty or leaves the agency.

    Agencies should review OMB Circular A-123, Appendix B for additional guidance on appropriate controls for charge card programs, with special emphasis on Sections 2.3 (planning), 3.4 - 3.5 (training), 4.3 - 4.7 (disciplinary actions, use of data, key personnel, etc.), 6.3 - 6.4 (creditworthiness), and Attachment 5 (best practices).

8. When initiating administrative or disciplinary actions for card misuse, charge card managers should, in addition to consultation with agency human resources professionals, where appropriate:

    - Communicate clearly the penalties for fraud and misuse of the purchase card;
    - Initiate verbal counseling and warning;
    - Provide written warning;
    - Suspend or revoke charge card privileges;
    - Suspend or revoke employee security clearance;
    - Include misuse occurrence in employee performance evaluations;
    - Suspend or terminate employment;
    - Ensure consistent enforcement of penalties; and
    - Publish actions taken by the agency for misuse of charge cards.

9. Responsibilities identified in this section that have been assigned to the head of the executive agency may be delegated to a level no lower than the head of the contracting activity.

B. Additional acquisition responsibilities.

1. Cardholders and ordering officials are reminded to ensure that prices are reasonable. These common sense determinations may take into consideration the extraordinary circumstances of the rescue and recovery operations.

2. Although there is no absolute requirement to award micro-purchases to small businesses, agencies using this authority are expected to provide small businesses maximum practicable opportunity under the circumstances to participate in federal acquisitions as prime contractors and subcontractors. Where possible and consistent with efficient acquisition of needed supplies and services, local small businesses should be given priority.

3. Section 307 of the Stafford Act (P.L. 93-288) establishes a preference, to the extent feasible and practicable, for contracting with local organizations, firms, or individuals for debris clearance, distribution of supplies, reconstruction, and other major disaster or emergency assistance activities.

4. If making a purchase on behalf of another agency, the agency making the purchase will ensure the requesting agency has the authority to make the purchase and fully document the purchase card transaction, including the date and time of the request, the name and contact information of the requesting official, and funding authorization.