

# Audit Report

Audit Manager, San Francisco Field Audit Office  
Barbara L. Shelton

**REVIEW OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
CONTROLS AND TESTING OF CONTROLS  
NORTHWEST/ARCTIC REGION  
REPORT NUMBER A050009/T/9/Z05022  
MAY 18, 2005**

**Office of Inspector General  
General Services Administration**



**Office of Audits**

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MAY 18, 2005

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450 Golden Gate Avenue, Room 7-5262  
San Francisco, CA 94102-3434

Date: May 18, 2005

Reply to  
Attn of: Audit Manager, San Francisco Field Audit Office (JA-9)

Subject: Review of Federal Technology Service's Client Support Center  
Controls and Testing of Controls - Northwest/Arctic Region  
Report Number A050009/T/9/Z05022

To: Robin G. Graf  
Acting Regional Administrator (10A)

Barbara L. Shelton  
Acting Commissioner, Federal Technology Service (T)

This report presents the results of the Office of Inspector General's audit of the Federal Technology Service (FTS) Client Support Center (CSC) in the Northwest/Arctic Region (Region 10). The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) directed the Inspectors General of the General Services Administration and the Department of Defense to jointly perform a review of each FTS CSC and determine whether each CSC is compliant, not compliant, or not compliant but making significant progress with Defense procurement requirements.

#### Objectives, Scope and Methodology

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed from August 1, 2004 to October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders. For the Northwest/Arctic Region CSC, our sample included 16 new awards and two existing orders, valued at \$33 million and \$116 million, respectively. The audit was conducted between October 2004 and March 2005, in accordance with generally accepted Government auditing standards.

## **Results of Audit**

We determined the Region 10 CSC to be not compliant but making significant progress. The Region has implemented national controls identified in the Administrator's Get It Right Plan, and has improved its overall contracting practices, compared with our past audit findings. For example, we did not find any instances of non-compliance with the competition requirements of Section 803 of the National Defense Authorization Act for FY 2002. However, we found one new order with procurement compliance deficiencies with limited potential financial impact, and compliance deficiencies for another new order but with no financial impact. In our review of existing orders, we found two with procurement deficiencies for which the CSC had not made adequate remediation progress.

As directed by Public Law 108-375, because the CSC is not fully compliant, we are required to perform a subsequent audit of CSC contracting practices by March 2006 to determine whether the CSC has become compliant.

Procurement Compliance Deficiency with Limited Potential Financial Impact. For a new, sole-source order valued at \$1.25 million and awarded to improve engineering design process, no discount was requested or received after exceeding the maximum order threshold (MOT) for the schedule contract. In the pre-negotiation memorandum, FTS erroneously stated that the contractor offered a discount of 3.48 percent upon exceeding the MOT. However, the contractor actually indicated that the Federal Supply Service's schedule prices had already represented a 3.48 percent discount off its commercial, non-governmental rates. Because of the erroneous assumption, FTS did not pursue the discounts as required by procurement regulations.

Other Procurement Compliance Deficiencies. We identified procurement problems with seven new orders placed against a Blanket Purchase Agreement (ceiling price of \$175 million) with Schedule 70 contractors. These seven orders represented \$55 million of the \$68 million (or 81 percent) awarded during the sample period to support technical areas, ranging in scope from the acquisition of unspecified hardware, software, cable and wiring to user support and help desk operations, training and systems engineering. Given the size and complexity of the procurement, the Office of General Counsel (OGC) advised FTS that an imposed one-week deadline was insufficient to complete an adequate legal review. The legal review, prepared subsequent to award, indicated that FTS did not provide all pertinent documents such as underlying evaluation documents, past performance evaluation scorecards, or the proposals themselves. The legal review also disclosed the following errors associated with the source selection decision: (i) no source selection plan for evaluating the proposals received in response to the Request

for Quotation; (ii) no pre-evaluation standard developed; (iii) overall ranking and method for selecting offerors not clearly described; and (iv) evaluation of price not adequately addressed. The OGC further noted its concerns regarding the broad scope of the Blanket Purchase Agreement citing serious risk that due to the procurement's size, scope, duration, and limited number of awards, the transaction might be considered anti-competitive. While no bid protests occurred, documentation did not support that FTS adequately addressed the OGC concerns.

Existing Order Procurement Deficiencies. For two task orders, we identified procurement deficiencies involving inadequate remediation efforts and improper billings, respectively. The first order, which supported data center services, has a potential value of \$104 million. Problems at award included: (i) inadequate price support; (ii) no justification for use of a Time and Materials task order; (iii) no evidence of price negotiation to obtain discounts; and (iv) significant variances between the Independent Government Estimate and the vendor's proposal for the level of effort. FTS had recognized the prior deficiencies and had begun discussions with the client agency. However, FTS did not develop a formal remediation plan to clearly demonstrate management's commitment and to assure that the necessary steps will be carried out. The second order, which provided information technology support for counter-intelligence field activity, totaled \$8.3 million. Performance was completed in November 2004. However, we determined that nine labor categories that were not proposed and/or included in the vendor's base contract were improperly billed for approximately \$600,000. We informed FTS of the improper billing in January 2005, but as of the completion of our fieldwork, FTS had not yet notified the contractor to resolve the matter.

## **Conclusion**

While not fully compliant, we found that the Northwest/Arctic Region CSC has made significant progress in implementing controls to ensure compliance with procurement regulations. The CSC has implemented national controls identified in the Administrator's Get It Right Plan and improved its overall contracting practices. However, we did find procurement compliance deficiencies in seven new orders without potential financial impact, and one task with potential financial impact. As stated in the January 2004 OIG report on the FTS CSCs, we believe that steps to remedy the CSC procurement problems require a comprehensive, broad-based strategy that focuses on the structure, operations and mission of FTS as well as the control environment. Based on the comprehensive recommendations contained in that report, no further overall recommendations are deemed necessary at this time.

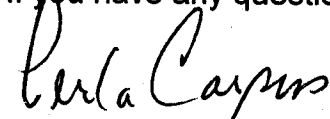
### **Management's Comments**

We obtained agency comments throughout our audit work, providing a draft written summary of our findings on each order to FTS regional officials for their written comments, which we incorporated into our analysis as appropriate. We also provided a draft of this letter report to Regional officials. On May 10, 2005, the Regional Administrator concurred with the report findings and provided further comments on newly established and/or revised contract procedures to address compliance deficiencies as noted in the report. Management's response is included in its entirety as Attachment 1 to this report.

### **Internal Controls**

We assessed the internal controls relevant to the CSC's procurements to assure that the procurements were made in accordance with the FAR and the terms and conditions of the contracts utilized. While we have seen substantial improvements in internal controls, FTS will need to continue their commitment to the Get It Right Plan and to implementation of effective controls over procurement processes to ensure full compliance by March 2006.

If you have any questions regarding the report, please contact me at (415) 522-2744.



PERLA CORPUS  
Audit Manager  
San Francisco Field Audit Office (JA-9)

**MANAGEMENT RESPONSE**



GSA Northwest/Arctic Region

May 10, 2005

MEMORANDUM FOR       JOSEPH J. BREWSTER  
                                  REGIONAL INSPECTOR GENERAL FOR AUDITING (JA-9)

FROM:                     ROBIN G. GRAF  
                                  ACTING REGIONAL ADMINISTRATOR (10A)

SUBJECT:                 DRAFT REPORT: *We. R. G.*  
                                  Review of Federal Technology Service's  
                                  Client Support Center Controls and Testing of Controls  
                                  Northwest/Arctic Region  
                                  Assignment Number A050009

Please allow us to express our appreciation to your staff for the tremendous amount of exchange of information, opinions, and ideas that occurred between this Region's Federal Technology Service Client Support Center and your office during this review. During the last two years, the Northwest/Arctic Region CSC has made significant progress in creating processes, procedures, and controls where none formerly existed. We recognize that a review such as this is an opportunity to identify where continuous improvement needs to occur.

We are presently undertaking efforts to improve our desk guides, templates, review and approval mechanisms, and training efforts. Our comments concerning the results of the audit and our efforts to prevent any reoccurrences are attached for your review. It must be noted, however, that resolution of some of the issues are beyond the control of a single CSC and will require dialog between internal organizations and FTS leadership.

If you have any questions, please feel free to contact Kathy Brinkley, Acquisition Director, at (253) 931-7888.

Attachment

**MANAGEMENT RESPONSE****Procurement Compliance Deficiency with Limited Potential Financial Impact**

Finding: For a new sole-source order, no discount was requested or received after exceeding the maximum order threshold for the schedule contract.

Comment and Corrective Action: It has been this CSC's practice to include instructions in a Request for Quotation (RFQ) which requires quotes to be sufficiently detailed to permit the analysis of the proposed labor mix, the Schedule prices, and any discounts offered. Although such a request was made in the action reviewed, it is apparent that the contracting officer relied on information provided and made an erroneous assumption that would not have occurred if the quotation had required the contractor to provide a copy of the FSS Published Pricelist. Our RFQ templates have been revised and contract specialists have been trained to explicitly request a discount and obtain sufficient supporting documentation either in the RFQ or in on-line tools such as GSA Advantage. In addition, the detail of our Price Negotiation Memorandum will be improved to fully explain the price discussions that occurred between the offeror and the Government concerning discounts, as well as the contracting officer's decision to agree to the final price considering the rate of the discount.

**Other Procurement Compliance Deficiencies**

Findings: Office of General Counsel advised FTS that an imposed one-week deadline was insufficient to complete an adequate level review. FTS did not provide all pertinent documents. Errors existed in the source selection decision. The OGC noted concerns regarding the broad scope of the Blanket Purchase Agreement.

Comment and Corrective Action: This one procurement action received General and Regional Counsel Review of the acquisition planning and source selection documents prior to issuance of the competitive solicitation. The belief was that Counsel concurred with the acquisition approach as well as the form and the content of the solicitation. The award recommendation was submitted to Counsel with all documents the CSC believed to be pertinent within the timeline specified in the GSA Order concerning Legal Review. The documents for this procurement were voluminous and were forwarded to FTS Counsel because of the workload in Region 10. The review was accomplished through a teleconference with Region 10 representatives, a representative from FSS in Central Office, and Legal Counsel in Central Office, Region 9 and Region 10. It was determined during this call that there were no legal impediments that precluded the proposed awards. Review comments from Counsel were received after award for use in future procurements.

This one instance reveals that a closer working relationship with a single point of contact within Legal through the entire acquisition would be beneficial. In order to foster continuity and improve our own communication with the Office of General Counsel during the entire procurement process, we have adopted a form which will capture the comments and advice



**MANAGEMENT RESPONSE**

offered by Counsel for the benefit of those conducting subsequent reviews. Counsel has and will continue to be invited to participate in Contract Review Board sessions involving actions that will require Legal review or any action that might be result in source selection process challenges. These steps should improve the understanding of prior decisions affecting an acquisition strategy and result in greater efficiency and timeliness of the review process. Conversations on this issue have occurred between the Office of General Counsel and FTS Central Office and Regional management that will, hopefully, result in improved clarity of what types of information are considered to be pertinent, discern the difference between recommendations and advice and actual findings of legal sufficiency or insufficiency, and establish new guidance on the time allotted for reviews.

**Existing Order Procurement Deficiency**

Finding: Inadequate remediation efforts and improper billings were discovered in two older task orders that were recently completed. Problems at award included inadequate price support, lack of justification of a time and material order, no evidence of negotiations to obtain discounts, and significant variances between the Independent Government estimate and the offeror's proposal.

Comment and Corrective Action: We recognize that orders or contract decisions made a few years ago did not benefit from the in-depth review and documentation that is occurring at this time. Although Federal Acquisition Regulation encourages Contracting Officers to streamline the process and the documentation, we recognize that simplification of the Contracting Officer's decision documentation is not a prudent place in which to minimize details.

Processes are in place to review old orders and determine the most effective remediation approach. When beneficial, that approach may include the planning and execution of new competitions. We recognize that exiting from a contract before its expiration date may not be advisable or must be properly timed to mitigate any termination liability or risk of litigation, detriment to the client agency's mission or disruption of public service, or increased cost to the taxpayer.

Your review revealed that our file documentation of the contract management review process and the resultant decisions and plans needs to be improved. A shortcoming of FTS's automated contract system, Integrated Technology Solutions Shop, is that contract management correspondence and documentation that is not directly in support of a modification is archived after 90 days and disappears from the active windows. In order to remedy this problem, we are developing a database that will improve management's visibility into outstanding issues and planned milestones to ensure that resolution of problems are conducted in a timely manner. This database will also will also serve as an active repository of contract administration actions and will permit the Contracting Officer to record decisions and assign dates for follow-up action. Templates for price negotiation memorandums are being developed to ensure that negotiations

**MANAGEMENT RESPONSE**

and award decisions are documented in sufficient detail to permit subsequent readers to gain a full understanding of the basis for the contracting officer's decision.

FTS Central Office has recently issued policy on the review and processing of invoices which we anticipate will reduce errors. FTS R10 implemented similar processes well before the publication of this new guidance. However, on this once instance, the process failed when the reviewer compared the invoices to an earlier contract document without considering later modifications. FTS R10 is evaluating its process to ensure correct application. While the new processes are being implemented, timely payment of invoices has become a problem for many Regions, and we are working to resolve and prevent such delays.

The Northwest/Arctic Region is particularly committed to improving our ability to create meaningful Independent Government Estimates. Internal training and on-the-job coaching is a primary focus at this time. It must be recognized, however, in some instances a variance between a government estimate and the price offered by industry is not necessarily a failing. We have discovered that improved performance based work statements, recently granted authority for FTS to utilize a broader spectrum of Federal Supply Schedules and Government-Wide Acquisition Contracts, better understanding of the scope of work that can be purchased under those contracts, allowance of longer proposal preparation times for industry, and the use of e-Buy to alert potential sources of our requirements has stimulated the competitive environment. Such a highly competitive environment is resulting in more innovative solutions and cost savings from industry. In such cases, the government is delighted to see a variance from the Independent Government Estimate. Such good news deserves better documentation which we will achieve by improving our Price Negotiation Memorandums as noted above.

**Conclusion**

We are acutely aware of the need to improve communications and foster cooperation and understanding between all members of the acquisition team which includes clients, internal GSA organizations, and industry. Our continuous process improvement efforts can be seen in our re-engineering of contract file documentation, independent government estimates, performance based statements of work, quality assurance surveillance plans, acquisition management tools, contract review boards and audits, and updated desk guides and templates and our commitment to human resource development and appropriate staffing. To meet the challenges of acquiring complex services, we are recruiting outstanding scholars for contracting career internships and investing in their formal and on-the-job training. We are joining forces with neighboring Federal agencies and professional organizations, such as National Contract Management Association, Seattle Federal Executive Board, and the Department of Army at Fort Lewis and Madigan Hospital, to maximize access to acquisition and fiscal law training. Our associates in the project management and customer relationship management professions are completing professional certification programs as well as client relationship management. Other training is planned that should enhance our ability to provide compliant, value-added support to Federal agency clients. Your continued advice and recommendations in achieving these goals will help us to obtain our mission.

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