

REVIEW OF
FEDERAL SYSTEMS INTEGRATION
AND MANAGEMENT CENTER (FEDSIM)
REPORT NUMBER A050078/T/5/Z06015
SEPTEMBER 29, 2006

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U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

DATE: September 29, 2006

REPLY TO

ATTN. OF: Regional Inspector General for Auditing
Great Lakes Region (JA-5)

SUBJECT: Review of Federal Systems Integration and Management Center (FEDSIM)
Report Number A050078/T/5/Z06015

TO: Commissioner, Federal Acquisition Service (Q)

This report presents the results of the Office of Inspector General's Review of the Federal Systems Integration and Management Center (FEDSIM). We initiated the review of FEDSIM as a result of the General Services Administration Office of Inspector General's Audit Plan for Fiscal Year 2005.

The report identified issues in FEDSIM related to the procurement process and contract administration that needed improvement. In the procurement area, we identified opportunities that would promote price competition and improve fair opportunity in the planning and procuring of information technology services. Additionally, we identified issues that require improvement in project management and task order administration.

As a result of these issues, we recommend that the Commissioner, FAS, direct FEDSIM management to improve its management of the issues summarized above and detailed in our report.

Thank you for the assistance extended to the audit team during the audit. If you or your staff have any questions, please contact me on (312) 353-7781, extension 113.


for John P. Langeland
Audit Manager
Great Lakes Region



REVIEW OF
FEDERAL SYSTEMS INTEGRATION AND MANAGEMENT CENTER (FEDSIM)
REPORT NUMBER A050078/T/5/Z06015

EXECUTIVE SUMMARY

Purpose

The audit objectives were to determine the following:

- Is FEDSIM obtaining competition among qualified vendors to meet customers' needs with reasonably priced IT solutions?
- Were the services acquired in accordance with the terms and conditions of the contract?

Background

The core business of the Information Technology (IT) Solutions business line is the reselling of private sector solutions that are obtained through the award and administration of contracts with the private sector. FEDSIM issues and manages task and delivery orders against existing contracts, manages projects, and maintains a staff of contracting and project management personnel.

FEDSIM's revenues for fiscal year 2004 were \$1.4 billion. Department of Defense customers represent about 61 percent of FEDSIM's business, with civilian agencies accounting for the remainder. Task orders against the Millennium Government-wide acquisition contract (GWAC) represent about 69 percent of FEDSIM's business, on a dollar basis. Orders for services represent the majority of FEDSIM's business.

Results-in-Brief

While FEDSIM was generally complying with the Federal Acquisition Regulation, our audit identified opportunities for improvement in task order management and increasing price competition. Our review found that FEDSIM had implemented various controls to improve the procurement process. For example, we noted that mandated solicitation and task order checklists were in place and actively used. We found that contracting files contained acquisition plans and market surveys, evidence of legal review, Government cost estimates, price negotiation memoranda, and other required documentation. GWAC awardees were provided a fair opportunity to bid on original solicitations. Our review noted that the competition requirements of section 803 of National Defense Authorization Act were consistently implemented.

However, FEDSIM's management of task orders can be improved. We identified some instances where the terms and conditions of the task order were not enforced. Problems

with contractor invoicing, contractor travel, unexplained task order costs, and security clearances were attributable to over-reliance on outside parties to supply information and support. Technical and non-technical deliverables were not always available. The effect was that some invoices were approved without adequate support, the Government accepted sub-standard services, and in some cases did not receive all services.

In addition, FEDSIM business practices can be improved to increase price competition. FEDSIM publishes cost ranges derived from the Government cost estimate in its solicitations as the expected ranges for the vendor's cost proposals. Commonly, the Government's cost estimate (total dollars) was expressed as a fairly narrow range. Also, FEDSIM often published the estimated level of effort (total hours to perform task) in solicitations. Our analysis found that Millennial contractors were preparing their proposals to meet the midpoint of the narrow range of estimates, which precluded FEDSIM from obtaining a greater range of prices from preeminent IT service providers. Millennial contractors are leaders in their fields and are capable of performing any task within the scope of the contract. We believe that price competition among these vendors can be improved, which could produce additional cost savings, considering the large dollar value of many of the FEDSIM procurements.

Recommendations

We recommend that the Commissioner, FAS, direct FEDSIM management to improve its management and results by a) having FEDSIM project managers proactively manage task orders by conducting regular reviews of key requirements; b) instituting quality control procedures necessary to improve fair opportunity, competition, and planning in the procurement process; and c) examining and revising the FEDSIM vendor solicitation and selection process to promote more price competition.

Management Response

The Commissioner, Federal Acquisition Service, agreed with recommendation numbers one and two, but disagreed with recommendation number three. As a result of the Commissioner's concerns, we revised recommendation number three to better convey our concerns with the use of information contained in Government cost estimates.

REVIEW OF
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INTRODUCTION

Background

We initiated the review of GSA's Federal Systems Integration and Management Center (FEDSIM) as a result of the General Services Administration Office of Inspector General's Audit Plan for Fiscal Year 2005. FEDSIM falls within GSA's Federal Acquisition Service (FAS), Office of IT Solutions.

Responsibilities. The core business of FEDSIM is to provide its clients IT solutions by contracting with private sector providers. FEDSIM's mission is to provide total information technology solutions that deliver value and innovation in support of its clients' missions worldwide through acquisition, project management, and business/mission consulting services. Using a variety of contract vehicles such as Millennia and Millennia Lite, FEDSIM strives to bring IT solutions to complex challenges facing Government agencies today.

FEDSIM's business strategy is to make clients successful at large complex projects. This is especially important to clients requiring significant, dedicated post award support. FEDSIM meets these needs by providing project management throughout project life.

Authorities. FEDSIM, via a current delegation of authority, is authorized to procure and supply information technology for the use of Federal agencies provided the contracts do not exceed ten years. FEDSIM is also authorized to provide, acquire, and operate information technology activities including telecommunications services to Government agencies to satisfy their requirements.

Organization. FEDSIM is organized into two main divisions, Department of Defense and Civilian. Within each sector are two subdivisions, Contracting and Project Management, each serving specific areas (Army, Air Force, FDIC, etc.). FEDSIM employed around 160 full-time employees at the time of our review.

Revenues. FEDSIM is a fully cost reimbursable provider of IT solutions to the Federal Government. FEDSIM has a revenue structure comprised of two sources. The first source of revenue is a 0.75 percent fee for each obligation of funds applied to a task order. This fee is capped at \$100,000 per obligation, which means that the fee applies to all obligations up to \$13,333,333.

The second source of FEDSIM's revenue is hourly billing based on FEDSIM employee grade level. Hourly billings occur over the entire term of a project and represent services

provided by FEDSIM to client agencies such as awarding contracts, reviewing and processing funding, processing modifications, assessing award fee determinations, and reviewing and approving contractor invoices. Rates ranged from \$112 (GS-7) to \$175 (GS-15) per hour.

FEDSIM receives funds from Federal agencies for the contracts or task orders it awards to private sector providers.¹ During the time of our review, FEDSIM had 1,162 contracting actions representing contractual obligations of about \$1.461 billion. FEDSIM handled most of the actions itself; however, FEDSIM also had an agreement with the Department of Interior, National Business Center, in Ft. Huachuca, Arizona to handle some of the workload. In fiscal year 2005, Ft. Huachuca handled 933 contracting actions for FEDSIM with a total value of over \$178 million. At the time of our review, the National Business Center charged 1.5 percent of the contract's value for its contracting services.

Types of Contracts Utilized. In awarding task orders to satisfy client agency requirements, FEDSIM primarily used two contracting programs: (1) the Millennium GWAC contract program; and (2) the FSS Schedule contract program. Below is a breakdown of the value of task orders issued during fiscal year 2004:

GWAC	\$1,191,652,031	83.90% ²
FSS Schedule contracts	\$ 148,358,279	10.44%
Open Market	\$ 264,440	.02%
Other	\$ 80,044,385	5.64%

FEDSIM provided data showing that 23 percent of contracting actions awarded from October 2003 through March 2005 were firm fixed price. Of the 14 recent Millennium awards contained in our sample, 11 were cost plus award fee and three were cost plus fixed fee.

Objective, Scope and Methodology

The objectives of the FEDSIM review were twofold:

1. Is FEDSIM obtaining competition among qualified vendors to meet customers' needs with reasonably priced IT solutions? and
2. Were the services provided in accordance with the terms and conditions of the contract?

¹ FEDSIM (GSA) pays contractors as services are performed satisfactorily and then bills client agencies (earned revenue).

² Millennium represented \$975,488,597 of the GWAC total.

To accomplish these objectives:

- We obtained a master database of all FEDSIM contracting actions for the period October 1, 2003 through March 31, 2005 including modifications to existing contracts;
- We analyzed the Task Ordering System (TOS) used by FEDSIM as the contract file repository;
- We selected for review the 14 most-recently awarded task orders under the Millennia GWAC contract program (awarded October 1, 2003 through March 31, 2005) and two task orders from our audit survey, with a total estimated value of \$1.885 billion. The 16 task orders, ranging in value from \$17.8 million to 341.7 million, had an average estimated value of \$117.8 million. The review of business practices (cost information included in solicitations) was limited to the 14 recently awarded Millennia task orders;
- To analyze billing processes, we performed a detailed review of a judgmental sample of 23 invoices associated with seven task orders;
- We reviewed a judgmental sample of five task orders for technical and non-technical deliverables, which included a review of security clearances;
- We reviewed acquisition plans associated with several task orders;
- We conducted a review of FEDSIM fee structures and billing practices;
- We analyzed Government cost estimates, cost information contained in the solicitations, and vendor cost proposals;
- We reviewed a judgmental sample of nine of the 16 task orders for quality of contract administration and project management; and
- We conducted ten visits to client, contractor and subcontractor sites in the Washington, DC metropolitan area.

We performed our audit work from December 2004 through September 2005. The audit was conducted in accordance with generally accepted Government auditing standards.

RESULTS OF AUDIT

Findings and Recommendations

Finding 1 – Internal Controls over the Contracting Process

FEDSIM had implemented various controls to improve the procurement process. Fair opportunity was provided to GWAC contractors and schedule holders, who were apprised of contracting opportunities. However, FEDSIM's management of task orders (after point of award) needs to be improved. Problems with contractor invoicing, contractor travel, unexplained task order costs, and security clearances were attributable to over-reliance on outside parties to supply information and support. Technical and non-technical deliverables were not always available. The effect was that some invoices were approved without adequate support, the Government accepted sub-standard services, and in some cases did not receive all services. We noted two areas where acquisition procedures could be improved. These were acquisition planning (one instance) and management controls over re-solicitations (two instances).

Internal Controls Governing FEDSIM Procurements

We assessed the internal controls governing FEDSIM's procurements to provide assurance that the procurements were made in accordance with the FAR and the terms and conditions of the contracts utilized. Our review found that FEDSIM had implemented various controls to improve the procurement process. For example, we noted that mandated solicitation and task order checklists were in place and actively used. We found that contracting files contained acquisition plans and market surveys, evidence of legal review, Government cost estimates, price negotiation memoranda, and other required documentation. GWAC awardees were provided a fair opportunity to bid on original solicitations. Our review noted that the competition requirements of section 803 of the National Defense Authorization Act were consistently implemented, and the source selection process (technical evaluation) operated properly.

FEDSIM issued the solicitation to all Millennia contractors electronically. Often times, there is a notice that FEDSIM received a response back from the contractors, either as a bid on the project or a "no bid" form. We also noted during the survey work that FEDSIM utilizes "e-buy" when making schedule orders for services. FEDSIM's procedure was to issue the solicitation to all contractors under the affected schedule or special item number (SIN). FEDSIM was in compliance with Section 803 of the National Defense Authorization Act.

Section M of the Millennia solicitations provided selection criteria. They were typically Technical Approach, Management Approach, Key Personnel and Project Staffing Approach, Past Performance, and, sometimes, included Service Level Agreements and Performance Metrics. For each of the criteria contained in Section M, Section L contained a detailed breakdown of specifics that appeared meaningful.

The Price Negotiation Memoranda included limited discussion indicating that these selection criteria were considered in relation to the proposal of the winning offeror.

FEDSIM's Management of Task Orders

FEDSIM's published "value-added differentiator" was their certified IT project management professionals who support and manage a client's project. FEDSIM's core business included project management throughout project life. This activity reflected the requirements of FAR subpart 42.302, which provides, among several administrative functions, that the contract administration office shall support the program offices regarding program reviews, status, performance and problems. However, FEDSIM personnel were not always effectively managing their assigned task orders and issuing defined task objectives. As a result, contractor invoices were not always properly supported or prepared in accordance with the contract terms, the Government sometimes received substandard services, and some deliverables were not received. In some cases, FEDSIM contractors did not provide reports or documents that were required by the contract and controls over contractor travel were not enforced. In addition, security clearances were not always provided for contractor and subcontractor employees. The problems occurred due to an over-reliance on the client agency and contractor for providing information and support, not devoting sufficient time to determine how well certain aspects of the task were performed, and inattention to the requirements of the task order.

Task Objectives

We found that the objectives of tasks were well defined, in some cases, and generalized in others. Objectives were not well defined in five of the 14 task orders specifically reviewed for this purpose. For example, we noted that for task GST0004AJM053 the objectives and/or statement of work contained in Section C of the solicitation were very generalized. Many statements indicated that the contractor would assess, support, or monitor. This led us to conclude that the contract was more focused on obtaining a workforce than on developing innovative solutions to specific information technology challenges. The inclusion of a manpower matrix in the solicitation for GST0004AJM053 underscored this concern.

In contrast, we noted that the objectives and work statements in Section C of the solicitations for tasks GST0004AJM060 and GST0004AJM061 were more tightly defined. Included in these sections were support schedules, diagrams, and data and metrics tables. Additionally, contractor responsibilities included steps such as maintaining an IT security plan with associated specifics spelled out. Better-defined objectives are more conducive to the development of innovative solutions, establishment of metrics (award fee, etc.), and assessment of task conclusion.

Contractor Invoices

We performed a detailed review of 23 invoices associated with seven of the 16 task orders reviewed. Our review identified problems with contractor invoices associated with five task orders. Unexplained costs were found in the sample of invoices, especially for subcontractor costs, and were not always prepared in accordance with task orders' terms and conditions. Reviewing invoices was a primary responsibility of the contracting officer's representative (COR).³

Task order [REDACTED] had unsupported costs. Task order [REDACTED] was awarded to a Millennia contractor on behalf of the [REDACTED]. It had an estimated value of \$328,597,552. The task order produced invoicing⁴ with unsupported costs. Documentation provided by the contractor did not support all invoiced costs.

Subcontractors' costs were not substantiated based on a review of the contract file. FEDSIM personnel stated that a review was not their responsibility. FEDSIM relied on the contractor's "approved purchasing system". However, GSA maintained responsibility for determining the reasonableness of the invoices.

The audit team tested the contractor's purchasing system. A software provider was a subcontractor due to its familiarity with the [REDACTED], which was based on the subcontractor's commercial off the shelf software product called [REDACTED]. [REDACTED] procurement and financial management systems relied on the subcontractor's software. The contractor invoiced GSA for subcontractor hourly labor at rates that were up to 121 percent higher than the contractor's ceiling rates under the Millennia contract, representing a potential annual overcharge of \$1.48 million. The invoicing was for work performed for [REDACTED] and showed, at a minimum, over \$2.1 million in project costs. The following represents a comparison between the invoiced rates, the contractor's ceiling rates for the period in question, and rates contained in the subcontractor's current Federal Supply Service schedule 70 contract.

Millennia Category	Invoiced to GSA (a)	Contractor's Ceiling Rate (b)	Percent over Ceiling (c)	Subcontractor's Schedule Rates (d)
Junior IT Analyst	\$ 170.93	\$116.86	46%	
Junior IT Analyst	163.19	116.86	40	
Subject Matter Expert	232.84	143.78	62	\$144.34; \$169.76
Subject Matter Expert	221.37	143.78	54	\$144.34; \$169.76
Journeyman IT Analyst	235.90	132.65	79	\$153.35
Apprentice IT Analyst	162.87	132.65	23	
Apprentice IT Analyst	154.85	132.65	17	
Technician	105.52	59.31	80	
Technician	131.26	59.31	121	

³ The COR was invariably the FEDSIM project manager.

⁴ The invoicing reviewed represented voucher numbers CLIN1-13B; CLIN1-9 and CLIN6-15.

- a. The invoices reviewed for [REDACTED] costs were CLIN (contract line item number) 13B, for services performed March 1 through April 30, 2005, and CLIN 1-9, representing services performed during November 2004.⁵ The rates represented the weighted average rate for all employees billed under the labor category during that period and included a [REDACTED] percent general and administrative fee.
- b. The rates shown were the contractor's Millennia ceiling rates for the period May 1, 2004 through April 30, 2005. The contractor supported the invoiced labor rates with rates from an expired contract ([REDACTED]) whose labor categories did not map directly to the Millennia contract. Labor categories that the contractor attempted to link to the Millennia category "Subject Matter Expert", for example, had hourly rates of \$125 to \$134 per hour; these rates were significantly lower than what was being currently invoiced to GSA. This indicated, if the information provided the audit team was current, accurate and complete, that the contractor was not billing at cost under a cost plus CLIN. However, a comparison to Millennia ceiling rates was used in the table since price negotiation memoranda we examined, in six of 14 instances, compared subcontractor rates to Millennia rates, in addition to other points of comparison.
- c. The amounts shown represent the degree amounts invoiced exceeded the contractor's Millennia ceiling rates.
- d. For comparative purposes, we obtained a copy of the subcontractor's current Federal Supply Service Information Technology Schedule Contract No. [REDACTED]. This contract supported the subcontractor's [REDACTED] suite of products; [REDACTED] procurement and financial management systems relied on this software. We determined that, excepting Senior Project Directors, hourly labor rates ranged from \$55.76 to \$183.92.⁶ The subcontractor's FSC Group 70 contracts, including the contract forwarded to us by the prime contractor, did not directly map to the labor classifications contained in the Millennia contract. The rates shown for Subject Matter Expert (\$144.34 to \$169.76) represented the range for all expert categories, including functional expert, technical expert, and senior functional expert. For purposes of comparing grades only, we compared Journeyman IT Analyst to the subcontractor's functional labor category Senior Systems Programmer, which commanded a rate of \$153.35.

During our field visit, we asked contractor officials to substantiate their cost basis in the subcontractor's rates. The contractor supported its pricing with an expired contract⁷, a

⁵ [REDACTED] charges represented the majority of the subcontractor's charges on the invoicing reviewed. The subcontractor's overall hourly rates (by labor category) charged on the referenced invoicing were very similar, if not identical, to the rates shown in column (a) of the table.

⁶ The current schedule contract states that the labor classifications can be used for all classes of service, which includes the software used on the PSIP project. The rates shown covered the period January 1, 2004 through June 15, 2005.

⁷ Working with the GSA Contracting Officer, we determined that the contract was a mandatory source Information Technology Service Financial Management Systems Software contract that had expired on September 30, 1999.

document showing labor categories that did not map to the Millennia contract, and an official price justification memorandum that supported an indirectly related, smaller, and separately price fixed price CLIN. Therefore, we concluded that the contractor was not billing at cost under a cost plus CLIN.

Task order [REDACTED] had over \$4 million in other direct costs not supported. Another subcontractor's proposal consisted of a direct labor rate schedule that was supported by selected invoicing for labor and travel costs from another contract. The price negotiation memorandum addressed the direct labor rates proposed by the subcontractor.

We reviewed invoice number [REDACTED] and found that the contractor had charged the task order \$4,246,783.02 (cumulative) for other direct costs (ODCs) representing "[subcontractor] Satellite Services". The charges had no relationship to the direct labor rates reviewed by GSA's contracting officer.⁸

The basis for price reasonableness provided by the contractor was a comparison of the subcontractor's proposed monthly prices (by site and bandwidth required) to pricing on a previous contract. While a comparison with historical procurement data is an acceptable price analysis technique, it is not sound practice to rely on it in the absence of competition. The contract with the subcontractor was sole source; the basis was the subcontractor's commitment to provide dependable services to the communications industry and the subcontractor's familiarity with the world-wide [REDACTED] network, hence "no learning curve would be required." The contractor concluded that prices were reasonable based on a comparison of non-standard pricing in a non-competitive situation.

FEDSIM contracting personnel could not provide information on over \$4 million dollars in satellite services being provided under the task order and referred us to the contractor. The request for authorization to procure parts and tools (RAPP), provided by the contractor to FEDSIM, simply referred to an open purchase order with the subcontractor for satellite services. The RAPP did not justify the price quoted, nor did it indicate that a procurement professional had reviewed the costs. The RAPP, in this instance, essentially informed the contracting officer of the contractor's intent to subcontract. We concluded that the charges were not properly supported.

Subsequent to our audit work, the contractor's approval of its contractor purchasing system review (approved purchasing system) was formally rescinded by the Defense Contract Management Agency on March 13, 2006. The contractor was granted its prior approval on December 30, 1998. The administrative contracting officer stated that

Software products used on the [REDACTED] project were added to this contract on July 18, 1997. This contract was under FSC Group 70, as is the subcontractor's current schedule contract. GSA's Contracting Officer stated that all of the software and services on the former contract migrated to the current schedule contract.

⁸ The satellite services were contemplated in the task order as originally constituted. The Government's estimate as to the value of ODCs is typically provided in the solicitation. GSA's contracting officer told us that the subcontractor's rates were approved at the time of award, which was documented in the PNM. However, the rates reviewed by the contracting officer had no discernible relationship to the monthly fees for satellite service.

“These reviews are good for a 3-year period unless extended by the Administrative Contracting Officer and I see no such extension in your file.” FAR 44.302(b) stated that “Once an initial determination has been made under paragraph (a) of this section, at least every three years the ACO shall determine whether a purchasing system review is necessary.”

Inadequately prepared invoicing. We reviewed three task orders where the prime contractor’s invoice preparation was inconsistent with the requirements of the task order. We could not determine the basis for accepting some of the billed amounts.

For example, for GST0004AJM055, the contractor was not billing in accordance with the task order which required certain information be provided on all invoices such as employee name, company labor category, corresponding Millennia labor category and the corresponding Millennia ceiling rate. The contractor billed at actual base labor rates rather than a fully loaded rate⁹ on this \$36 million task order. General and administrative costs, fringe benefits, and overhead were billed lump sum. It was not possible to compare the rates that were being invoiced to the contractor’s Millennia ceiling rates since the Millennia rates represented fully loaded rates. Thus, there was no assurance that the contractor was billing at the ceiling rate or less. The project manager accepted and approved the invoices although the invoices did not provide the detail required by the task order.

One subcontractor on this task order submitted a proposal with fully loaded labor rates by labor classification but billed GSA at lump sum amounts totaling \$1.09 million. A second subcontractor was a Millennia contractor but billed GSA at lump sums totaling \$1.67 million. The detail required by the task order was necessary so that the approving official could determine if the amounts billed were consistent with the terms and conditions of the task order and the underlying Millennia contract. Without this detail, the basis for accepting the invoices could not be determined. The project manager did not have supporting documentation for the invoices.

A FEDSIM contracting officer’s representative (COR) designation letter stated that the COR is responsible for “verifying and certifying that the items have been inspected and meet the requirements of the contract.” This would include contractor invoices.

Task orders GST0005AJM066 and GST0004AJM061 also had similar invoicing deficiencies. Refer to Appendix A, notes 14 and 9 for additional information.

⁹ We reviewed invoice numbers 276071 and 286242. The Millennia contract defines fully loaded rates as the contractor’s forward pricing rates, and includes such items as overhead, fringe, general and administration, or any other elements of cost. The fully loaded rates are exclusive of profit or fee.

Metrics and Deliverables

We encountered problems with either technical or non-technical deliverables on four of the five task orders where this review occurred. Technical and non-technical deliverables were addressed during the field visits. Network management metrics were a common item in task orders reviewed, since they lend themselves to objective measurement, e.g., response times. In one instance, we noted that the required network management metrics were not available due to a lack of necessary equipment. A comprehensive electronic database report was also unavailable. Generally, however, technical metrics we asked about were in place and procedures for producing the deliverables on time existed.

Non-technical metrics were more problematic. Personnel security requirements were not adhered to in three of the five tasks where this testing occurred during site visits to contractors and subcontractors. Invoices were also inspected to ensure they were in accordance with the contract and that the project managers had a reasonable basis for acceptance. Three task orders had invoicing that did not provide a reasonable basis for the acceptance of contractors' or subcontractors' costs.

One item that hindered progress assessments was deliverables that were poorly defined in the task order. As an example, many objectives were not clearly defined and often deliverables were listed with an expected due date that was the semantic equivalent of "to be determined" (i.e. upon request, as agreed to, as required, etc.) making it difficult to discern task progress. In one example (GST0004AJ0084), a task order was lacking schedules, milestones, and due dates for deliverables. We had to address deliverables based on the content of monthly status reports.

One indication of whether the intended project results were being obtained can be observed from the Award Fee Evaluation Board findings for those tasks that were awarded on a cost plus award fee basis. We reviewed these findings for tasks GST0004AJM060 and GST0004AJM061, with mixed results. In the case of GST0004AJM060, the award fee memo indicated that the contractor was denied any award fee for the first rating period and that the contractor had underestimated the scope of the assignment. In the case of GST0004AJM061, the contractor received an overall rating of above average and earned approximately 85 percent of the award fee for the period. These packages also provided qualitative assessments in specific areas of contractor performance.

FEDSIM contractors were not able to produce some deliverables requested during our field visits for four of the five task orders reviewed. The causes were, in part, due to a deficient task order and a contractor having difficulty with an assigned task.

Task T0001AJM029. Task T0001AJM029 was awarded to a Millennia prime contractor on behalf of the Department of State. The task order had an estimated value of \$107 million. The client agency provided telecommunications service for all Government activities conducted out of overseas diplomatic and consular establishments. Nine

performance metrics identified in the task order could not be produced as required output of the client agency's Network Management Center. The task order had very few deliverables that identified a specific output or product. Deliverables involving the Network Management Center would be central to an organization providing telecommunications services to overseas clients.

We determined, after working with the contractor's help desk manager, that performance metrics were missing because the Government-provided phone system was inadequate and could not produce the desired data. The contractor could not produce a program metrics report. This report dealt with, in part, network performance data.

Task order GST0004AJM049. Task order GST0004AJM049 was awarded to a Millennia contractor on behalf of the United States Agency for International Development (USAID). The contractor could not produce a "Full IT Asset Inventory Report", which was due July 19, 2005¹⁰. A subcontractor was in charge of warehousing and asset management under the task order. The required reporting was very extensive and covered USAID assets world-wide.

Subsequent to our field work, the FEDSIM project manager informed us that the award fee determination plan contained a qualitative assessment goal entitled "Demonstrate End-to-end control of IT Assets". However, the lack of valid and reliable inventory reports was cited as a source of concern in the summaries provided. The summary for award fee period number three stated "At this time the reports they have don't even accurately report the data that is in the system or that was provided." The specific report and missed deadline were not mentioned in the summary data provided.¹¹

See the report section starting on page 16 dealing with security clearances for additional information on missing deliverables.

Contractor Travel

On one task order we reviewed for contractor travel costs, we found that controls could have been improved. Adherence to controls already in place and a proactive approach to managing contractor travel would have resulted in savings to the Government.

Task order GST0004AJ0084. Task order GST0004AJ0084 was awarded to a Professional Engineering Schedule contractor¹² on behalf of a DoD client agency. The task order had an estimated value of \$44,638,918. Travel expense was estimated to be \$1.49 million. It provided engineering expertise and support for F-35 fighter aircraft.

¹⁰ The work breakdown structure dated August 12, 2005 showed that the project had a new deadline of September 15, 2005 (start date July 19, 2005).

¹¹ The summary document provided by FEDSIM's project manager was entitled "Asset Management Comments from the Award Fee Board Reports."

¹² The contractor has supported the client agency in their current capacity since 1994.

We visited the contractor's offices to examine supporting detail for twelve trips taken by its personnel. The task order provides "All requests for travel and ODCs must be approved by the FEDSIM Program Manager (PM) prior to incurring costs." It was reiterated in the contractor's Project Management Plan.

Controls over contractor travel were bypassed. Four of the twelve trips were approved after the trip had occurred.¹³ The project manager was receiving a trip report and a copy of an approval document¹⁴ after the travel had occurred. The contractor told us procedures were changed due to the high number of last minute travel requests.

Other approval documents provided were vague and contained questionable costs, as explained below.

Generally, we found almost no evidence to support the contention that much travel was "last minute". A sample of five trips to Dallas/Fort Worth (all out of Washington Dulles) found airfares of \$277, \$396, \$867, \$1146, and \$1734. All but one, was purchased at least one month in advance. We noted two separate trips to Dallas/Fort Worth that included Sunday travel, a non-stop leg, with scheduling at least a month in advance; however, the fares were \$277 and \$1146. The task order required that "Airfare will be reimbursed for actual common carrier fares, which are obtained by the most reasonable and economical means."

Other costs associated with travel. We found that travel was assessed a [REDACTED] percent general and administrative fee. The task order states "Costs incurred shall be burdened with the contractor's indirect handling rate as entered in their GSA schedule...." The task order further states "If no rate is specified in the schedule, no indirect rates shall be applied to or reimbursed on such costs." The contractor was unable to show us contractual support for the rate.

The quality assurance surveillance plan states that "the COR may periodically request a review of travel vouchers by an independent party to ensure that the Government Travel Regulations are being followed. Such review will occur at least annually." We could not establish that a review occurred in the past.

Re-Competing Amended Solicitations

Millennia contractors received fair opportunity to bid on original solicitations. However, in two of the 14 recent Millennia task orders included in our sample (14 percent), FEDSIM contracting officers chose not to re-solicit to all Millennia contractors after materially amending the requirement or reviewing a technical proposal that was unsatisfactory.

¹³ The back-up documentation for several trips contained the statement "In accordance with AI-ES's new contract supporting the JPO, prior 'written' approval (email concurrence is fine) is required for travel."

¹⁴ This invariably took the form of email traffic between the client agency's approving official and the requestor.

One example presented a significant¹⁵ scope decrease after the solicitation was due; however the contracting officer only resubmitted the new solicitation to the two Millennia contractors that originally submitted proposals. FAR 15.206(e) requires that if:

....an amendment proposed for issuance after offers have been received is so substantial as to exceed what prospective offerors reasonably could have anticipated, so that additional sources likely would have submitted offers had the substance of the amendment been known to them, the contracting officer shall cancel the original solicitation and issue a new one, regardless of the stage of the acquisition.

The contracting officer agreed that the Government should have sent the new solicitation to all Millennia contractors to ensure a fair opportunity to bid on the new statement of work. We also noted that the technical proposal received from the sole (incumbent) bidder on task order GST0005AJM062 was materially deficient. The task order would have benefited from re-solicitation.

We looked at several acquisition plans and identified one plan that was of limited value to intended users.

The limited acquisition plan associated with task order GST0004AJ0084 was not satisfactory because it did not fully delineate the acquisition's history. The acquisition plan did not note that the subcontractor currently performing the task had provided continuous customer support since 1994 on the then-current and predecessor contracts.¹⁶ To reinforce this point, the subcontractor claimed, during technical evaluation, that certain contract risks were mitigated because they could provide uninterrupted execution following award. The effect was that meaningful discussion of the impact of prior acquisitions on feasible acquisition alternatives could not have occurred, based on the acquisition plan's contents. The solicitation received two bids, including the subcontractor's (who eventually won the award).

FAR 7.103(l) (FAR subpart 7.1 – Acquisition Plans)¹⁷ states that the agency head shall prescribe procedures for assuring that the contracting officer, prior to contracting, reviews the acquisition history of the supplies and services. The General Services Administration Acquisition Manual reiterates this responsibility under subpart 507.103(c)(4)(i). Accordingly, GSA Order OGP 2800.1 (paragraph 12(b)(1)) specifically references limited acquisition plans and states that plan content should include "Acquisition background and objectives, including a statement of need, applicable conditions, cost, capability or performance, and delivery or performance-period requirements. (See FAR 7.105(a)(1)-(5)."

FAR 7.105(a)(1) states that the acquisition

¹⁵ The original proposal under GST0004AJM053 [REDACTED] and the amended task called for a reduced man-hour total of [REDACTED] and a reduced total value of [REDACTED]. The decreased solicitation was due to client agency funding issues.

¹⁶ We confirmed the prior contracts with a representative of the [REDACTED].

¹⁷ Nothing in FAR 7.103 limits the discussion to just comprehensive acquisition plans or just limited acquisition plans.

background and objectives shall “Summarize the technical and contractual history of the acquisition. Discuss feasible acquisition alternatives, the impact of prior acquisitions on those alternatives, and any related in-house effort.”

Security Clearances

Our review identified problems with the furnishing of security clearances for three of five task orders tested for this contract deliverable. Some of the problems were severe; we concluded, in one instance, that the security environment required by the task order was not in place. The results of our audit tests are summarized in the following chart:

T.O.	Agency / Contractor	Personnel	Cleared	Not Cleared	Percent not Cleared
GST0004AJM049	USAID / Prime Contractor ¹⁸	53	26	27	51%
GST0004AJM058	Army / Prime Contractor	23	18	5	22%
GST0005AJM066	DoD / Prime & Subcontractor	62	49	13	21%
GST0004AJ0084	DoD / Prime Contractor	No security clearance problems were identified in the audit sample that was tested.			
GST0001AJM029	State Dept. / Prime Contractor	No security clearance problems were identified in the audit sample that was tested.			

Security clearances not produced. Task order GST0004AJM049 was awarded to a Millennia contractor on November 10, 2003, on behalf of the United States Agency for International Development (USAID). The task order had an estimated value of \$328,597,552. The requirements of section H.8.1 “Security Requirements” and the governing DD Form 254 “Contract Security Classification Specification” were not met.

The task order required that personnel working in the Ronald Reagan Building or Beltsville Information Management Center possess a secret or top secret clearance. Interim clearances were accepted. As a minimum, a limited investigation (Employment Authorization) and favorable adjudication by USAID/SEC¹⁹ was required. The contractor was responsible for ensuring subcontractor compliance.

¹⁸ There were an additional 57 subcontractor employees on this task for whom no security information was provided to the audit team.

¹⁹ We understood this to mean USAID’s Office of Security.

The DD Form 254 provided for the following:

As a reminder, ADS 567.3.3 prohibits employment on an AID contract until the prerequisite investigation has been completed and a clearance/authorization awarded by the competent authority.

In our sample of 53 personnel, the contractor's Facility Security Officer (FSO) could not produce clearances or adjudicated employee work authorizations in 27 instances (51 percent).

Clearance/authorization information for the entire staffs of some subcontractors were not provided. This added an additional 57 employees whose security credentials were in question and included personnel working in the Beltsville Information Management Center. The contractor's FSO was unaware of some contractors.

The contractor's project manager, when questioned about six of the employees, stated that authorizations were not required because the employees did not access USAID buildings, systems or networks. Section H.8.1.1 of the task order, however, requires:

The USAID program manager and FEDSIM COR may choose to permit contractors (U.S. citizens)²⁰ not requiring access to USAID space or access to National Security Information to perform on this contract. However, a limited investigation (Employment Authorization) and favorable adjudication of these contractors by USAID/SEC is required before these individuals are permitted to perform under the terms of this contract. The provisions of ADS 576.3.3²¹ apply in these circumstances. The designated CTO should refer to the supplemental guidance attached to the Contract Security Classification Specification, DD Form 254 for processing instructions.

We saw no evidence that any Employment Authorizations had been issued for these individuals. Therefore, we were concerned as to a) whether the contractor was forwarding Visit Authorization Requests to USAID security personnel; b) the basis on which personnel were issued USAID building passes; and c) the amount of clearance information provided the USAID Office of Security, especially paperwork necessary to process Employment Authorizations, all of which were task order requirements.

We asked the GSA Contracting Officer to have the contractor provide the information. The contractor provided only copies of DD Forms 254. The submission was incomplete when compared to the list of subcontractors contained in the current project management plan.

²⁰ The task order has been modified to include non-U.S. citizens.

²¹ The task order is in error: the DD Form 254 references ADS 567.3.3, not 576.3.3. ADS 567.3.3 can be provided upon request.

The GSA Contracting Officer said that additional information was not available and that the issue was being addressed with both client and contractor.

Subcontractor was not maintaining clearances. Task order GST0005AJM066 was awarded to a Millennia prime contractor on January 5, 2005 on behalf of a DoD agency. The task order had an estimated value of \$17,807,442.²² The contractor and one subcontractor could not produce security clearances for several personnel. The task order required the contractor to pursue and obtain secret clearances for all personnel, including subcontractors.

We met with the subcontractor on August 12, 2005 (about 8 months into the approximately one year task order). Subcontractor officials could not produce clearances for ten of 30 personnel. Four employees had just initiated the required paperwork on August 8, 2005.²³ Four employees had not been granted interim clearances. One person had his clearance denied. A subcontractor employee with management authority in “System Engineering”²⁴ and assigned to the Global Command and Control System (GCCS)²⁵ did not have a valid clearance. The DD 254 required a top-secret clearance for contractor personnel working in the GCCS and intelligence networks.

Contractor officials could not produce required clearances for three of 32 of its own personnel. The security clearance summary provided by the contractor did not contain the names of four employees listed on a recent invoice. This led us to question whether the agency’s security manager was provided current and accurate information. The DD 254 required the contractor to establish and maintain an access list of all employees working under the task order. The client agency’s security manager told us he was not receiving an access list. However, he described processes in place for allowing contractor personnel into his agency’s facilities.

Not adhering to security procedures led to problems. Task order GST0004AJM058 was awarded to a Millennia contractor on behalf of the United States Army. The task order had an estimated value of \$151,190,206.

The security requirements contained in the task order were not met.²⁶ The agency’s security manager did not always receive, or independently verify contractor information. This resulted in several contractor personnel not having the requisite clearances.

²² For more information on task order details, refer to Appendix A, note 14.

²³ Subcontractor officials provided us with an email, dated August 4, 2005, which provided instructions to these employees on how to complete the necessary paperwork, dated just after the audit staff left the prime contractor’s facilities on August 4, 2005 after requesting permission to visit the subcontractor.

²⁴ Per the contractor’s Project Management Plan dated January 13, 2005.

²⁵ Per detailed subtask spreadsheets provided to us by contractor officials during our field visit of August 4, 2005.

²⁶ The security clearance requirements are contained in section H.8.1 of the task order, the DD Form 254 “Contract Security Classification Specification”, and attachment “N” to the task order entitled “Personnel Security Plan”. The investigative requirements are (depending on position) either a Special Security Background Investigation or a Defense National Agency Check with Written Inquiries.

The task order requires the contractor's field security officer to provide the client agency with a visit authorization letter when personnel are hired. A sample letter with required security fields was provided in the task order. The agency's security manager would verify the information contained in the visit authorization letter. The contracting officer's technical representative then approved or rejected the letter.

The system did not work. Of our sample of 23 contractor and subcontractor personnel, 12 employees did not have sufficient information on file to determine if a clearance or background investigation existed. The problems ranged from no independent verification of clearances to no paperwork at all. We enlisted the assistance of the contractor's security manager, and concluded that five individuals did not have clearances. Additionally, many of the visit authorization letters either did not exist, were expired, or referenced the wrong contract number.²⁷

The contractor attempted to "grandfather" existing visit authorizations into the current contract; the result was that the agency's security manager did not have updated or complete security information. When coupled with lack of access to the Joint Personnel Adjudication System, it limited his ability to verify the information.

FEDSIM officials implied that it was not GSA's responsibility to ensure adequate clearances. However, we believe GSA's responsibilities in awarding and administering the task orders' requirements include working with the appropriate parties to ensure adequate clearances.

Executive Order 12829 (January 6, 1993) entitled "National Industrial Security Program" establishes a program to safeguard Federal Government classified information that is released to contractors, licensees, and grantees of the United States Government. The National Industrial Security Program Operating Manual (NISPOM) incorporates the requirements of the Executive Order.²⁸ Section 1-104(b) of NISPOM states the following:

The designation of a CSO [Cognizant Security Offices] does not relieve any Government Contracting Activity (GCA) of the responsibility to protect and safeguard the classified information necessary for its classified contracts, or from visiting the contractor to review the security aspects of such contracts.

Section C1.3.1.3 of the Industrial Security Regulation (DoD 5220-R) corroborates this requirement and states that any deviation from the security requirements of NISPOM or the contract should be referred promptly to the Cognizant Security Offices.

²⁷ Instead of relying on the visit authorization letters prescribed in the task order, reliance was placed on a spreadsheet entitled "TIS Verification of Contractor's Background/Clearance Status" (July 19, 2005). This spreadsheet referenced a GSA schedule contract number instead of the current contract number and, in place of specific dates of visit, had the notation "Annual VAL Renewal" for all employees.

²⁸ Preceding paragraph per FAR subpart 4.402(a) and (b).

GSA should work with the Defense Security Service, Directorate for Industrial Security, to determine the appropriate guidance in this area.

Cause of Task Order Management Problems

The principal cause of the task order management problems was excessive reliance on outside parties for providing information. For example, FEDSIM placed reliance on a contractor's approved purchasing system instead of taking a proactive approach and asking questions about invoiced charges that were easily discernible from even a cursory review. In another instance, FEDSIM officials, when discussing inadequately prepared invoicing under task order GST0004AJM055, stated that a DoD organization would eventually perform a contract close-out and the problem would be resolved. It is FEDSIM's responsibility to ensure that there is a reasonable basis for accepting and paying invoices. FEDSIM personnel also indicated that security clearance reviews were not their purview; this was the role and responsibility of another DoD organization. It is the responsibility of FEDSIM's contracting officers to ensure that the requirements of its task orders are fully complied with.

Finding 2 – Business Practices For Providing Competition Among Highly Qualified Vendors

FEDSIM's business practices can be improved to increase price competition. While we did find that FEDSIM generally provides fair notice and opportunity for all qualified vendors to bid on each project, FEDSIM publishes in the solicitation a Government-prepared narrow cost range for the scope of work, within which contractors are encouraged to bid. The solicitations state that any vendor submitting bids outside of the range must explain the difference in writing. Individual vendor prices varied less than three percent from the midpoint for the majority of the 28 proposals reviewed (representing 14 task orders).

FEDSIM officials stated that they used a best value approach which prioritized the best vendor solution for the project, with price a less important priority. However, we noted that the Millennia GWAC contract program, which constitutes the majority of FEDSIM's contract awards and from which 15 task orders in our sample were awarded, provides world class industry leaders that are all premier providers of IT solutions and are capable of performing any task within the scope of the contract. Although FEDSIM's approach of publishing narrow cost ranges for vendor proposals is not prohibited by regulation, we believe that it limited the benefits of price competition among proposals submitted by Millennia contractors.

The Millennia contract program is not a highly competitive arena. The Millennia solicitations we reviewed received an average of about two proposals each and 38 percent received only one proposal. This small number of proposals limits comparison of alternative solutions and pricing, especially when considering the narrow cost range specified in FEDSIM's solicitations, and dictates the need for additional actions to improve competition.

FEDSIM's Procurement Approach

FEDSIM Utilizes Cost Ranges in Solicitations. FEDSIM issued a standard solicitation to all Millennia partners. FEDSIM's standard business practice was to establish a cost range for the project generally based on the Government estimate, less 10 percent for the solicitations we reviewed. Vendors were encouraged to submit proposals within the noted range for any given task. However, this range may be overly narrow given the large estimated values of FEDSIM's projects. The average estimated value of the solicitations shown in Appendix C was over \$107 million. On average, this equates to a published range of only \$10.7 million based on a solicitation value of \$107 million for 85 percent (12 of 14) of the solicitations included in Appendix C. See Appendix C for a detailed description of the cost ranges contained in 14 solicitations we reviewed. We further noted that in 28 proposals reviewed covering 14 task orders, in 20 of the proposals (about 70 percent) the actual difference in price proposals only varied six percent, thus achieving only a six to seven million dollar difference between vendors on a procurement valued at \$107 million. FEDSIM officials stated that they focus on a "best value" approach that prioritizes the technical solution over price, which is not prohibited by statute or regulation.

FEDSIM officials told us that the focus on technical approach and use of cost ranges helps to streamline proposal evaluations and tends to limit the number of non-responsive bids. However, we noted that each of these bidders was qualified by virtue of being a GWAC awardee. The officials also stated that vendors were allowed to bid outside of the ranges. Section M.2²⁹ stated that any vendor submitting out of this range must provide a written explanation as to the reason for the difference. We found that FEDSIM's published estimates drive the contractors' proposals. We found only one proposal (out of 28 reviewed) that fell outside of the solicitation's range.

FEDSIM officials told us that ten percent has been historically used for the ranges, but they were unsure of the origin of the practice. We also noted that some of the ranges included amounts as high as ten percent above the estimates. We could not determine why cost ranges would provide for bids higher than the Government estimate.

FEDSIM's standard solicitation makes it clear to potential vendors that price is not a paramount factor in making awards. Section M.1³⁰ addresses exactly how proposals would be awarded with more details provided in further sections. M.1 states:

The Government anticipates awarding a task order to the offeror whose proposal is the most advantageous to the Government, price and other factors considered. Technical proposals will be evaluated based on the factor criteria, described in Section M.3. Technical merit is more important than cost. Award may be made to other than the lowest priced technically acceptable proposal.

²⁹ Section M is listed as "Evaluation Factors".

³⁰ Section M.1 is listed as "Method of Award".

Section M.2³¹, in addition to requiring justification for proposals falling outside the published dollar range, states that price will be considered by the contracting officer for reasonableness. Section M.3³² went into great detail about how awards would be evaluated for technical merit. An example from section M.3 follows:

The Government will evaluate technical proposals based on the factors shown below:

- Factor 1: Technical Approach
- Factor 2: Management Approach
- Factor 3: Service Level Agreements and Performance Metrics
- Factor 4: Key Personnel and Project Staffing Approach
- Factor 5: Past Performance

The overall quality of the technical proposal and its ability to best meet the Government's requirements are most important. The factors are listed in descending order of importance with Factors 1, 2, and 3 being of equal importance and Factor 4 being more important than Factor 5.

Published Estimates Drive Millennia Contractor Proposals

Published cost ranges and hours drove Millennia contractor proposals. Contractors consistently adhered to the published costs and hour estimates, which narrowed the range of their proposals. While driving contractor proposals into a narrow range may facilitate comparison and the expeditious award of Millennia task orders, it acts to limit opportunities for cost savings.

We reviewed 28 proposals submitted by Millennia contractors in response to 14 FEDSIM solicitations. Millennia prime contractors are leaders in their fields and have the ability to deploy products and services worldwide. The contractors have expertise in software engineering, communications and systems integration. Contractor proposals closely replicated published information with 27 of the 28 proposals we analyzed falling within the published cost range. The proposals were also consistent with the underlying independent Government estimates developed by FEDSIM. Further, the cost proposals trended strongly to just below the midpoint³³ of the published cost range, with an overall statistical standard deviation from this point of less

³¹ Section M.2 is listed as "Cost/Price Evaluation".

³² Section M.3 is listed as "Technical Evaluation Criteria".

³³ The dominant proposal trend was to the 49% mark of the cost range published in FEDSIM's solicitation (i.e. if the published range is 0 – 100, this would be 49). For simplicity sake, we will refer to this simply as the midpoint of the cost range for the remainder of this report.

than three percent. In other words, about 68 percent of Millennia cost proposals fall within six percent of the midpoint of the published cost range.³⁴ These proposals were for tasks with total procurement values ranging from approximately \$17 million to \$341 million.

Appendix B shows in detail how closely Millennia contractors approximated the midpoint of FEDSIM's published cost range in their proposals.

Level of effort (LOE). FEDSIM also included the LOE in six of the 14 solicitations reviewed. When FEDSIM included the Government estimate for LOE in Section L of the solicitation, contractor proposals replicated this LOE hour figure with an overall standard deviation of 5.6 percent from the LOE. In contrast, when no information regarding LOE was included in the FEDSIM solicitation, the range of LOE in contractor proposals expanded significantly. This was reflected by a standard deviation of proposal LOE that more than doubled to 14.6 percent. All the proposals contained more hours than the independent Government-estimated LOE (which was not provided). Providing the LOE further contributes to driving vendor proposals into a narrow range of hours which could impact innovative approaches requiring different numbers of hours.

The proposals exceeded the independent Government estimate by an average of almost 20 percent, with the largest deviation being over 45 percent. We do not know if not publishing the level of effort resulted in savings or extra costs to the Government because, despite the large disparity of proposal LOE from the underlying, unpublished independent Government estimate, these contractor proposals still met the published cost midrange with the consistency noted above. It should also be noted that FEDSIM separately publishes specific estimated costs for long distance travel, tools, and ODCs in Section B of the solicitations. This practice enables a discerning reader to couple this information with that in Section L and break out labor costs. Labor costs can be divided by the level of effort (the level of effort is not always published) to estimate the Government's expected average labor rate.

Published estimates may increase costs. We identified one example where Millennia contractors adjusted average wage rates downward to meet the midrange of the revised published cost estimate. The revised solicitation did not require a less costly or less skilled labor mix; however, the Millennia contractors reduced average wage rates between seven and eight percent. This was accomplished while proposing LOE virtually identical to that contained in the solicitation. If this wage reduction had occurred in the original proposals, the Government would have saved three million dollars.

The influence of published estimates is demonstrated by a material error contained in the original solicitation for task order GST0004AJM053. The solicitation accurately reflected the cost from the Government estimate but mistakenly understated LOE by

³⁴ Standard deviation is a statistic that measures how tightly various samples are clustered around the mean (in our case, midpoint) in a set of data. One standard deviation away from the mean in either direction accounts for approximately 68 percent of the samples in a group. In our example, 68 percent of the proposals were within 2.8 percent of the Government estimate's midpoint.

almost 40,000 hours. Two Millennia prime contractors submitted proposals in response to this solicitation. Despite the large error in the solicitation, both contractor proposals received for this task were within two percent of the midpoint of the published cost range and within 1 percent of published LOE.

This solicitation was subsequently amended and reissued due to a client driven scope reduction. The amended solicitation no longer contained the material error. The same two Millennia contractors again submitted proposals. Vendor 1’s cost proposal was within one percent and Vendor 2’s proposal was within 4.8 percent of the midrange cost published in the solicitation. Despite the large shift in estimated hours due to the removal of the material error, LOE in both Millennia contractor proposals was virtually identical to the published LOE. This consistency could only be accomplished by a significant decrease in the overall average labor rates in the proposals.

The table below displays the impact of this LOE change to the average labor rate in the two Millennia contractors’ proposals. The table includes average labor rates taken directly from independent Government cost estimates that underlie the information published in the solicitations.

Since this amended solicitation represented a straight scope reduction, and not a shift in labor mix among critical performance areas, we would expect little variance in the average labor rates between the contractors’ initial and amended proposals. This expectation was corroborated by the small change in average labor rates in the underlying independent Government cost estimates. The table below shows our analysis:

Component	Original Solicitation	Amended Solicitation	% Reduction from Original
Government Estimate of Cost	\$45.44 M	\$31.47 M	
Midpoint of Cost Estimate published in Solicitation	\$42.14 M	\$29.3 M	
Government Estimated LOE	419,680	291,400	
LOE Published in Solicitation	380,000*	291,400	
Average Wage Rate of Vendor 1 Proposals	\$110.12	\$102.14	7.3%
Average Wage Rate of Vendor 2 Proposals	\$105.58	\$97.41	7.7%
Average wage rate from Government cost estimate	\$104.94	\$103.23	1.6%

* **(76,000 hours x 5 years)** – The solicitation represented LOE as 76,000 hours annually and the period-of-performance of the task was five years.³⁵

As shown in the table, the average rates in both vendors' amended proposals dropped by a significant amount (between seven and eight percent). The contractors' average labor rate reduction was accomplished by shifting proposed hours into less skilled and less senior labor categories.

If a less skilled and less costly labor mix was deemed able to render satisfactory performance on this task, we would have expected them to be proposed in response to the initial solicitation, thus reducing overall cost to the Government for the same effective solution. Since they were not, we are left to conclude that the labor categories proposed for these task orders were an attempt to meet published cost estimates. In this case, if the average labor rate in Vendor 1's initial proposal had matched the reduction of 7.3 percent in its amended proposal, its initial proposal cost would have been reduced by three million dollars. Vendor 2, with an average rate reduction of 7.7 percent, would have produced an initial proposal reduced in cost by over three million dollars.

We would expect highly qualified vendors to propose innovative solutions that include an appropriate labor mix predicated on an analysis of the task to be performed, not on the advertised budget. The preceding shows that Millennia contractors are intent on meeting the advertised cost and labor estimates instead of producing independent estimates. Given the narrow ranges being used, the large dollar value of the projects and the potential for increased price competition, opportunities for further savings exist if contractors produce independent proposals.

Recommendation

We recommend that the Acting Commissioner of FAS:

1. Evaluate FEDSIM project managers' performance in a manner that encourages proactive management of task orders and involves regular reviews of key task order requirements and invoices to ensure they are in accordance with the terms and conditions of the contracts;
2. Instruct FEDSIM management to continue to develop and implement controls and procedures in order to: (a) attract more proposals to its solicitations; (b) ensure that all GWAC contractors receive a fair opportunity to be considered for task orders that have been materially revised or otherwise impaired; and (c) ensure that acquisition plans contain all required information; and

³⁵ This error occurred because the original Government estimate included another partial year in the period-of-performance (total period-of-performance ~5 ½ years). Costs for this partial year were carried through to the solicitation whereas LOE was not because the preparer used an hours-per-year format and represented the period-of-performance of task as only being 5 years.

3. Analyze the FEDSIM vendor solicitation and selection process, and basis and approach for setting published cost ranges and levels of effort in the solicitation, to promote opportunities for further cost savings.

Management Response

The Commissioner, Federal Acquisition Service agreed with recommendation numbers one and two, but disagreed with recommendation number three. The Commissioner's response to the draft audit report can be found in Appendix D. As a result of the Commissioner's concerns, we revised recommendation number three to better convey our concerns.

Internal Controls

We assessed the internal controls governing FEDSIM's procurements to provide assurance that the procurements were made in accordance with the FAR and the terms and conditions of the contracts utilized. Our review found that FEDSIM had implemented various controls to improve the procurement process. For example, we noted that mandated solicitation and task order checklists were in place and actively used. We found that contracting files contained acquisition plans and market surveys, evidence of legal review, Government cost estimates, price negotiation memoranda, and other required documentation. GWAC awardees were provided a fair opportunity to bid on original solicitations. Our review noted that the requirements of section 803 of the National Defense Authorization Act were consistently implemented.

However, controls over contract administration activities need to be improved. Our review noted that contactors were not always complying with the personnel security, invoicing, or long distance travel requirements of the task orders reviewed. We noted the existence of unexplained and excessive costs on invoices reviewed. The problems in this area were the direct result of relying on outside parties to provide information.

We found that the control structure over FEDSIM's procurements could be improved. In a two instances, fair opportunity was not provided GWAC awardees when events occurring after the issuance of the original solicitation required re-solicitation. In one instance, an acquisition plan did not contain the required information.

REVIEW OF
FEDERAL SYSTEMS INTEGRATION AND MANAGEMENT CENTER (FEDSIM)
REPORT NUMBER A050078/T/5/Z06015

SUMMARY OF FEDSIM AUDIT SAMPLE

Task Order	Date of Award	Estimated Value ³⁶	Client Agency	Notes	Contract Vehicle
	11/10/2003			1	Millennia
GST0004AJM050	12/18/2003	\$100,696,734	GAO	2	Millennia
GST0004AJM053	12/22/2003	\$30,776,442	DoD	3	Millennia
GST0004AJM055	3/29/2004	\$36,102,564	DoD	4	Millennia
GST0004AJM056	4/12/2004	\$337,564,048	DHS	5	Millennia
GST0004AJM057	1/10/2005	\$94,539,687	DoD	6	Millennia
GST0004AJM058	4/30/2004	\$151,190,207	DoD	7	Millennia
GST0004AJM060	6/15/2004	\$22,584,908	DoD	8	Millennia
GST0004AJM061	9/20/2004	\$341,741,035	FDIC	9	Millennia
GST0005AJM062	2/15/2005	\$79,214,226	DoD	10	Millennia
GST0004AJM063	8/31/2004	\$86,671,436	DoD	11	Millennia
GST0005AJM064	11/29/2004	\$18,178,365	DoD	12	Millennia
GST0005AJM065	2/17/2005	\$86,493,731	DoD	13	Millennia
GST0005AJM066	1/5/2005	\$17,807,442	DoD	14	Millennia
GST0001AJM029	8/1/2001	\$107,541,025	STATE	15	Millennia
GST0004AJ0084	6/23/2004	\$44,638,918	DoD	16	Schedule

Notes:

1. For additional information on this task order, please refer to Finding 1 in the body of the report.
2. The scope of this review was limited to cost estimate preparation and use in section L of the solicitation. For information related to this review, refer to Finding 2 in the body of the report.
3. Refer to Finding 2 in the body of the report for an analysis of this task order.

³⁶ Estimated value is over the term of the entire contract including option years.

SUMMARY OF FEDSIM AUDIT SAMPLE
(Continued)

4. The task order was highlighted in the report as an example of problems with contractor invoicing. A subcontractor was a GSA Professional Engineering Schedule holder. The PNM stated that the proposed subcontractor rates were in accordance with its FSS schedule rates. The subcontractor's schedule labor categories did not correspond to those contained in Millennia. The subcontractor proposed using Millennia categories. Eight labor categories were proposed for this task and the subcontractor only had seven labor categories on schedule. There was no crosswalk in the contracting file between the Millennia labor categories proposed and the Professional Engineering Schedule labor categories. The prime contractor billed the subcontractor's direct labor costs "lump sum" instead of breaking the costs out by employee and labor category, as the task order demands. For additional information, refer to Finding 1 in the body of the report.
5. Task GST0004AJM056 was awarded to Northrop Grumman on April 12, 2004, for the United States Department of Homeland Security. The estimated value of this task is \$337,564,048 and the period of performance is through April 11, 2011.
6. The scope of this review was limited to cost estimate preparation and use in section L of the solicitation. For additional information related to this review, refer to Finding 2 in the body of the report.
7. For additional information on this task order, refer to Finding 1 in the body of the report.
8. The scope of this review was limited to cost estimate preparation and use in section L of the solicitation. For information related to this review, refer to Finding 2 in the body of the report.
9. Our review showed that beginning with invoices for the month ending February 28, 2005, billings from the Millennia prime contractor for this task order included subcontractor labor costs, and these were billed as a lump sum. Without sufficient detail supporting subcontractor labor, there is no way to determine if billings are excessive or somehow not reasonable when compared to proposed amounts.

We requested subcontractor-billing detail for these invoices from the project manager (PM), and this was provided to us in the form of an Excel file. The project manager indicated that he had obtained this file from the prime contractor. Our

SUMMARY OF FEDSIM AUDIT SAMPLE
(Continued)

review of this file indicated that the lump sum subcontractor billings were partially comprised of excessive rates.

The subcontractor on this task is also a Millennia prime contractor. Even though it is functioning as a subcontractor on this task - and did not exceed the prime's ceiling rates – it is FEDSIM Acquisition Policy that it still adhere to its own ceiling rates as a Millennia prime. In fact, the price negotiation memorandum indicated that a subcontractor's labor rates would be verified prior to award to ensure that its rates did not exceed their Millennia ceilings.

Over the seven-month period that we reviewed billings under Task Order GST0004AJM061, there were multiple instances of subcontractor employees exceeding the Millennia ceiling rates for their respective labor categories. The number of employees who exceeded the ceiling rates ranged from eight to 15 a month. As a percentage of billed employees this ranges from 13.3 to 22.1 percent.

We were informed that the contractor had been instructed to provide subcontractor information needed for adequate invoice review, and we were provided a copy of an email to the contractor, dated October 11, 2005, with the instructions.

10. The task order was awarded to a contractor who held this project under a time and materials BPA, a time and materials bridge contract, and was subsequently awarded the task under its Millennia contract.

The bulk of the work described was to “support” some of the client agency's systems. This meant the contractor was expected to have personnel present and ready to work when work was needed.

The cost estimate was prepared by determining the average monthly labor requirement (average hours times average rate) for each labor category proposed. The average monthly requirement was multiplied by 12 to determine the annual requirement. This was an accurate way to construct the cost estimate, especially since the new contract was for the same work, only under a Millennia contract rather than a blanket purchase agreement. However, the contractor's proposal was about 146,000 hours more than the cost estimate. The price negotiation memorandum was not clear as to why the Government accepted a cost proposal that contained 20 percent more hours than the Government cost estimate. For more details on the contract awarding for this task, refer to Finding 1 in the body of the report.

SUMMARY OF FEDSIM AUDIT SAMPLE
(Continued)

11. The scope of this review was limited to cost estimate preparation and use in section L of the solicitation. For information related to this review, see Finding 2 in the body of the report.
12. The scope of this review was limited to cost estimate preparation and use in section L of the solicitation. For information related to this review, refer to Finding 2 in the body of the report.
13. The scope of this review was limited to cost estimate preparation and use in section L of the solicitation. For information related to this review, refer to Finding 2 in the body of the report.
14. The contractor did not prepare invoicing in accordance with the task order's terms and conditions. Invoice number 7976-7, dated July 20, 2005 and representing services performed during the period June 18 through July 15, 2005, did not provide adequate detail supporting subcontractor labor costs. The contractor simply billed an amount of \$1,549,694.23 representing "Subcontractor". The audit staff met with contractor accounting and finance personnel on August 8, 2005; these officials told us that the required detail would be provided FEDSIM personnel for this and subsequent billings.

For additional information on this task order, refer to Finding 1 in the body of the report.

15. The task order was included in our survey work. We included it in our report because of the emphasis given to project management in our review.

For additional information on this task order, refer to Finding 1 in the body of the report.

16. The task order was included in our survey work. We included it in our report because of the emphasis given to project management in our review.

For additional information on this task order, refer to Finding 1 in the body of the report.

APPENDIX B

REVIEW OF
FEDERAL SYSTEMS INTEGRATION AND MANAGEMENT CENTER (FEDSIM)
REPORT A050078/T/5/Z06015

EFFECTS OF PUBLISHING GOVERNMENT COST ESTIMATE INFORMATION

Task Order	Midpoint of Published Cost Range	Vendor Proposal	Difference of published cost & Vendor Proposal (\$)	Difference of published cost & Vendor Proposal (%)
	\$335,258,000	\$333,549,666	\$1,708,334	0.50%
	\$335,258,000	\$342,242,623	\$6,984,623	2.00%
	\$335,258,000	\$345,415,309	\$10,157,309	2.90%
	\$99,029,000	\$100,696,734	\$1,667,734	1.70%
	\$42,140,000	\$42,544,884	\$404,884	1.00%
(Note 2)	\$42,140,000	\$41,361,184	\$778,816	1.90%
(Note 2)	\$29,302,000	\$30,776,442	\$1,474,442	4.80%
	\$29,302,000	\$29,563,817	\$261,817	0.90%
	\$31,296,300	\$33,755,990	\$2,459,690	7.30%
	\$97,755,000	\$94,541,505	\$3,213,495	3.40%
	\$97,755,000	\$94,627,540	\$3,127,460	3.30%
	\$97,755,000	\$94,599,702	\$3,155,298	3.30%
	\$145,040,000	\$143,218,735	\$1,821,265	1.30%
	\$145,040,000	\$143,994,901	\$1,045,099	0.70%
	\$20,580,000	\$20,928,774	\$348,774	1.70%
	\$341,236,000	\$344,365,139	\$3,129,139	0.90%
	\$341,236,000	\$343,416,257	\$2,180,257	0.60%
	\$341,236,000	\$346,936,834	\$5,700,834	1.60%
	\$78,547,000	\$81,469,676	\$2,922,676	3.60%
	\$89,586,700	\$86,671,436	\$2,915,264	3.40%
	\$89,586,700	\$88,035,086	\$1,551,614	1.80%
	\$18,771,900	\$19,321,389	\$549,489	2.80%
	\$88,935,000	\$86,493,731	\$2,441,269	2.80%
	\$88,935,000	\$88,640,560	\$294,440	0.30%
	\$88,935,000	\$87,669,819	\$1,265,181	1.40%
	\$18,218,200	\$17,641,658	\$576,542	3.30%
	\$18,218,200	\$17,714,071	\$504,129	2.80%
	\$18,218,200	\$18,378,640	\$160,440	0.90%
Overall Standard Deviation (Note 1)				2.80%

APPENDIX B

EFFECTS OF PUBLISHING GOVERNMENT COST ESTIMATE INFORMATION
(Continued)

PROPOSED LEVEL OF EFFORT (LOE) WHEN LOE PUBLISHED IN SOLICITATION (IN HOURS)				
Task Order	Published LOE	Vendor Proposal	Difference of published LOE & Vendor Proposal (hours)	Difference of published LOE & Vendor Proposal (%)
	1,012,014	904,452	107,562	10.60%
	380,000	378,540	1,460	0.40%
	380,000	380,000	0	0.00%
	291,400	291,184	216	0.10%
	291,400	291,340	60	0.00%
	250,832	262,676	11,844	4.70%
	531,432	548,715	17,283	3.30%
	531,432	580,560	49,128	9.20%
	531,432	531,755	323	0.10%
	217,843	239,183	21,340	9.80%
	217,843	218,323	480	0.20%
	217,843	206,286	11,557	5.30%
Overall Standard Deviation (Note 1)				5.61%

Proposed LOE when LOE is Not Published in Solicitation (Note 3)				
Task Order	Government Estimated LOE	Vendor Proposal	Difference of published LOE & Vendor Proposal (hours)	Difference of published LOE & Vendor Proposal (%)
	243,760	296,453	52,453	21.6%
	1,180,960	1,361,542	180,582	15.3%
	180,810	196,398	15,588	8.6%
	1,388,596	1,394,650	6,054	0.4%
	1,388,596	1,757,918	369,322	26.6%
	1,388,596	1,558,302	169,706	12.2%
	762,894	839,810	76,916	10.1%
	1,020,896	1,484,347	463,451	45.4%
	1,020,896	1,409,360	388,464	38.1%
Overall Standard Deviation (Note 1)				14.6%

EFFECTS OF PUBLISHING GOVERNMENT COST ESTIMATE INFORMATION

(Continued)

Notes:

1. Standard deviation is a statistic that communicates how tightly various samples are clustered around the mean in a set of data. One standard deviation away from the mean in either direction accounts for approximately 68 percent of the samples in a group. Two standard deviations away from the mean account for roughly 95 percent of the samples and three standard deviations account for about 99 percent of the samples. In our example (see chart 1) 95 percent of the proposals were within 5.6 percent of the Government estimate's midpoint and 68 percent of these proposals were within 2.8 percent of the midpoint.
2. "██████" designates the original solicitation sent to the Millennium contractors for this task and the resultant proposals. "██████" designates Amendment 2, the final solicitation for this task, and the related proposals from the same two contractors.
3. The two charts containing LOE data on the second page of this appendix are designed to illustrate the contrast in contractor proposals when information based on Government estimates is published in the solicitations versus left unpublished. When the Government estimate for LOE was in the solicitation, contractor proposals replicated this LOE hour figure closely and ranged roughly from 10 percent fewer hours than what was published in the solicitation to 10 percent more hours.

When no information regarding LOE was included in the solicitation, the range of LOE in contractor proposals expanded significantly. None of the contractor proposals contained fewer hours than the Government estimate. Despite the large disparity of proposal LOE from the underlying, unpublished independent Government estimate, the contractor proposals still met the published cost midrange consistently as illustrated in the cost chart on the first page of this appendix. This change in characteristics of proposed LOE raised the concern that Millennium contractors were unduly focused on developing proposals that met the information published in FEDSIM solicitations.

REVIEW OF
FEDERAL SYSTEMS INTEGRATION AND MANAGEMENT CENTER (FEDSIM)
REPORT A050078/T/5/Z06015

DESCRIPTION OF RANGES CONTAINED IN FEDSIM SOLICITATIONS

Task	The range communicated in Section L of the solicitation was:	The range was determined as: (all were rounded)
M049	Broken out by individual labor CLINs.	The Government estimate calculated for each CLIN as the ceiling and 10% less than this as the floor.
M050	For the total of all tasks and cost reimbursable items.	The total Government estimate as the ceiling and 10% less that this as the floor.
M053A	For the total estimated cost of the task order, including all transition costs, ODCs, tools, and cost reimbursable items	The total Government estimate as the ceiling and 10% less that this as the floor.
M053B	For the total estimated cost of the task order, including all transition costs, ODCs, tools, and cost reimbursable items	The total Government estimate as the ceiling and 10% less that this as the floor.
M055	Broken out by individual labor CLINs.	The Government estimate calculated for each CLIN as the ceiling and 10% less than this as the floor.
M057	For the total estimated cost including all optional tasks and cost reimbursable items.	Unable to tell, estimate incomplete.
M058	For the total estimated cost of the including ODCs, tools and Travel.	The total Government estimate as the ceiling and 10% less that this as the floor.

APPENDIX C

DESCRIPTION OF RANGES CONTAINED IN FEDSIM SOLICITATIONS

(Continued)

Task	The range communicated in Section L of the solicitation was:	The range was determined as: (all were rounded)
M060	For the total estimated cost excluding travel, tools, and ODCs.	No embedded calculations in estimate to determine methodology. Appears to be Government estimate for all labor CLINs (\$19.1 M rounded up to \$20 M) plus 10%.
M061	Broken out for labor CLIN as well as provided for entire task including other cost CLINs.	Approx/rounded labor CLIN and total Government estimate as the ceiling and 10% less that this as the floor.
M062	For the total estimated cost of the task order including all transition costs, ODCs, and travel	Total estimated cost plus 10% as the ceiling, total estimated cost less 10% as the floor.
M063	For the total estimated cost of the task order including all transition costs, ODCs, tools, and cost reimbursable items	The total Government estimate as the ceiling and 10% less that this as the floor.
M064	For the total cost of the task order, including all ODCs, tools, and cost reimbursable items.	Estimate does not match, but embedded formulas indicate that total estimate is the ceiling and 10% less is the floor.
M065	For the total cost of the task order, including all ODCs, tools, and cost reimbursable items.	Total estimate is the floor and 10% more is the ceiling.
M066	For the total cost of the task order, including all ODCs, tools, and cost reimbursable items.	Estimate does not match, but embedded formulas indicate that total estimate is the ceiling and 10% less is the floor.

REVIEW OF
FEDERAL SYSTEMS INTEGRATION AND MANAGEMENT CENTER (FEDSIM)
REPORT A050078/T/5/Z06015

MANAGEMENT RESPONSE



GSA Federal Technology Service*

JUL 7 2006

MEMORANDUM FOR DAVID K. STONE
REGIONAL INSPECTOR GENERAL FOR AUDITING
GREAT LAKES REGION (JA-5)

FROM: G. MARTIN WAGNER *G. M. Wagner*
ACTING COMMISSIONER, FEDERAL ACQUISITION
SERVICE (Q)

SUBJECT: DRAFT REPORT: REVIEW OF FEDERAL SYSTEMS
INTEGRATION AND MANAGEMENT CENTER (FEDSIM)
REPORT NUMBER A050078

Thank you for your review of the Federal Systems Integration and Management Center (FEDSIM) program. I am pleased to see the audit findings confirm that FEDSIM is in compliance with the Federal Acquisition Regulation (FAR) and that FEDSIM continues to adhere to GSA policies and regulations. Overall the report presents a picture of an organization continuing to improve its service offerings to provide IT solutions and professional services task order acquisition and management support to Federal agencies.

The results of the audit appear to be positive and the program has made significant accomplishments in project management and in efforts to encourage competition on task orders. FEDSIM's ongoing efforts in both of these areas demonstrate continuous improvement in the program. The report is a useful tool to validate FEDSIM's effort to pursue continuous improvements in its acquisition operations and project management expertise. FEDSIM has reviewed the report in depth and will develop a comprehensive action plan to address two of the three recommendations to the FEDSIM program.

I would like to highlight several critical FEDSIM initiatives that are best practices in the organization and throughout the Federal Government. Many of these were recently recognized by other oversight organizations reviewing FEDSIM operations and they directly relate to the subject matter of this report.

- The FEDSIM Project Review Tool. This tool is a Lotus Notes based system that provides FEDSIM management a twice yearly scheduled review for each project. It documents cost, schedule, and performance, review for each interagency agreement (IA). This is a key system that

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MANAGEMENT RESPONSE
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provides significant management oversight into each task order and its relative progress.

- The FEDSIM Project Management Professional (PMP) Initiative. At present FEDSIM has 60 Certified Project Management Professionals and 70 employees who have graduated from the George Washington University Project Management Certificate Program. Another twelve employees are currently working on their Certificates. FTS recognized the value of the FEDSIM program and began to offer the training to the entire FTS organization.
- FEDSIM Specialized Personnel. FEDSIM has developed several specialized job series that have proved critical to improvements in organizational performance the Acquisition Project Manager (APM), and the Project Performance Manager (PPM). The APM is skilled in requirements analysis and developing acquisition documentation. They implement best practices into the Task Order Requests (TORs) and help to assure acquisition compliance in the source selection process. The PPMs work to develop financial reporting, invoice processing, schedule, overall project performance, and Earned Value Management reporting.
- The FEDSIM Risk Management Initiative. FEDSIM contracted for a risk management study on its most difficult projects. The results of this study were used to develop training for all project managers and contracting professionals on risk management issues on task orders.
- Due Diligence. Due Diligence is a highly interactive one on one industry/Government information exchange during the solicitation. FEDSIM's due diligence processes were singled out in a recent Procurement Management Review as a best practice that improved industry partner bid participation on task order, as well as improving small business participation.
- Invoice Processing. FEDSIM has developed new formal invoice review process and internal training to assist with the critical invoice processing on its task orders. The FEDSIM processes were recognized in a recent Procurement Management Review as a best practice and especially its task order oversight in that process. Furthermore, FEDSIM has incorporated into its training isolated issues identified in the report and has already completed training of all personnel prior to the receipt of this report.

Please find a point by point response to Report A050078 attached.

If you have any questions please contact Ms. Lisa Akers, FEDSIM Director at 703-306-7620.

MANAGEMENT RESPONSE
(Continued)

I. Introduction The Report's Findings

FEDSIM accepts Finding 1 of the report confirming FEDSIM's compliance with the FAR and all regulations. FEDSIM refutes the Finding 2 and disagrees with the conclusions presented in the report and the Recommendation resulting from the Finding. FEDSIM also responds point by point to each observation accompanying Finding 1 refuting many of the observations and some of the facts as described in the observations. FEDSIM believes these observations are in most cases highlight proper exercise of discretion, fail to identify the objective criteria as a basis for conclusions in the report, requires consideration of additional factual information which should be considered, or involves issues where corrective action has already occurred.

The report states "FEDSIM had implemented various controls to improve the procurement process. Fair opportunity was provided to GWAC contractors and schedule holders who were apprised of contracting opportunities." This positive finding validates FEDSIM's ongoing process improvements. Finding 1 is accompanied by a list of observations relating to project management that identify areas for improvement in the project management arena. FEDSIM believes it has sufficient internal controls over its internal processes and the Finding appears to validate that. FEDSIM continues to strive for continuous process improvement and routinely addresses issues discovered on individual task orders, corrects them, and improves its acquisition practices and the project management support it provides to customers. Several of the observations identify areas where the program needs to refocus its efforts to improve the program. These observations are responded to in a point by point response after the discussion relating to the two findings.

Finding 2 discusses FEDSIM's use of best value procurements where technical merit is weighted more heavily than price. The report takes exception to FEDSIM's business practice identifying a range in procurements. FEDSIM asserts that the FAR establishes and encourages the criteria for selecting best value procurements where technical merit is weighed more heavily than price. FEDSIM follows that practice and has valid business reasons for utilizing ranges in support of those procurements. The resultant procurements followed all rules and regulations and reflected appropriate exercises of discretion. Each procurement referenced was completed in full accordance with the FAR, GSA policies, and established FEDSIM business practices which are based upon expertise and experience that have served the organization well. FEDSIM will continue to adjust its processes to assure it maintains procurement integrity, streamlines all processes, and assures appropriate oversight of financial matters to assure best return on taxpayer investment.

II. Finding 1 – Internal Controls over the Contracting Process

MANAGEMENT RESPONSE
(Continued)

FEDSIM accepts this Finding and agrees with the conclusions in the report. Finding 1 states, "FEDSIM had implemented various controls to improve the procurement process. Fair opportunity was provided to GWAC contractors and schedule holders who were apprised of contracting opportunities." This is positive finding and validates FEDSIM's ongoing process improvements. Finding 1 is accompanied by a list of observations relating to project management that identify areas for improvement in the project management arena. FEDSIM addresses these observations point by point in part IV of the Response.

III. Finding 2 – Business Practices for Providing Competition Among Highly Qualified Vendors.

FEDSIM refutes Finding 2 and the conclusions contained in the Finding. The Finding suggests that FEDSIM's practices limited the benefit of price competition. The Finding relies upon the argument that best value contracting limited price as a competitive factor. The report also concluded that the use of ranges also contributed to limiting price as a competitive factor.

In refuting Finding 2 FEDSIM relies upon the FAR guidance as a basis for its procurement practices. FEDSIM also relies upon the FAR in establishing the use of ranges as a best practice and well reasoned business practice. Lastly, the conclusions in the report are not supported by either sound analysis or facts.

A. FEDSIM's Best Value Methodology is Supported by the FAR

The report states that best value procurements where technical merit is weighted more heavily than price limits price as a competitive factor. The FAR establishes several criteria for conducting best value procurements and specifically describes instances when technical merit should be weighed more heavily than price. FEDSIM followed FAR guidance. FEDSIM exercised appropriate discretion in accordance with the FAR, GSA policies, and established FEDSIM business practices. FEDSIM will continue to refine its processes to assure it maintains procurement integrity, streamlines processes, and provides appropriate oversight of financial matters to assure the best return on taxpayer investment.

Best value is a procurement technique requiring a cost and technical tradeoff to ensure the Government awards contracts or task orders to the most advantageous offeror. The criteria for determining the best value continuum between cost and technical in procurements is discussed in the FAR. FAR Part 15.101 provides guidance on the appropriate use of best value source selection approaches,

An agency can obtain best value in negotiated acquisitions by using any one or a combination of source selection approaches. In different types of

MANAGEMENT RESPONSE
(Continued)

acquisitions, the relative importance of cost or price may vary. For example, in acquisitions where the requirement is clearly definable and the risk of unsuccessful contract performance is minimal, cost or price may play a dominant role in source selection. The less definitive the requirement, the more development work required, or the greater the performance risk, the more technical or past performance considerations may play a dominant role in source selection.

Specifically, the FAR states that a Contracting Officer procuring highly technical, developmental, less well defined, or tasks with high risk of technical performance, should select a best value trade off where technical merit is more important than cost. FEDSIM has followed this direction for its most highly complex technical, high risk tasks reviewed in this audit. Each of the task orders discussed in the report were among the most complex, high value, high risk task orders awarded by FEDSIM over the past two years. The report correctly points out FEDSIM clearly advises prospective industry partners that "Technical merit is more important than cost." Moreover, in these solicitations FEDSIM states, "Award may be made to other than the lowest priced technically acceptable proposal."

FEDSIM has made an appropriate discretionary decision to select a continuum for best value procurement where technical was given more weight than cost. This was an appropriate and valid exercise of discretion in accordance with the guidance in the FAR. This decision was based upon the technical complexity of the task, the developmental nature of the tasks, or other factors that establish risk. The report suggests that price ought to be a more prevalent factor. However, the report does not state the reason why cost should be more important. Nor does the report identify any basis for suggesting the selection of this criterion based upon any rule, regulation, or law with respect to the implementation of the best value practice or procurements generally.

B: The Use of Ranges is Allowed Under the FAR and is a Best Practice

The report takes issue with the FEDSIM practice of providing a range to potential offerors, noting that "it does not provide for meaningful price competition or assurance of price reasonableness." FEDSIM has developed its Task Order Request (TOR) procedures including the use of ranges based upon thirty plus years of experience in the field of IT procurements. The use of a range is within the ambit of FAR 16 governing the award of task orders under GWACs. FAR Part 16.505(b)(1)(ii) states,

The contracting officer may exercise broad discretion in developing appropriate order placement procedures. The contracting officer should keep submission requirements to a minimum. Contracting officers may use streamlined procedures, including oral presentations.

MANAGEMENT RESPONSE
(Continued)

Contracting officers are given extraordinary latitude and leeway in crafting procedures to facilitate awards under **GWACs** in order to streamline and facilitate efficient procurements. The use of ranges is one option and in line with the exercise of this kind of discretion. The ranges are determined by FEDSIM in part based upon the Independent Government Cost Estimate (IGCE). FEDSIM has expertise in estimating value of task orders. The ranges are developed based upon reliance of other factors as well, including: input from the client experts; expertise and experience utilizing the contract vehicle itself (in the instant case Millennia); and budgetary information relating to the amount of funding the project is expected to receive over the life of the task order.

The range provides several very important distinctive benefits to the procurement process at FEDSIM. First and foremost, it allows contractors to compete more on technical merit. This allows for the development of better technical solutions in response to TORs. The use of the range also encourages proposals with innovative solutions. Additionally, contractors are free to propose their best technical experts and technical approaches within the range provided.

A second business reason is that the range sets outlying parameters that establish what the agency is authorized and appropriated to spend. In most cases the budgets of these projects are publicly available data. The range also provides some background to the potential offerors, so that if the agency's expectations far exceed the budget offerors may make that known to the Government prior to proposal submission and evaluation. An offeror with no idea of the budget for a proposed project may have great difficulty in determining the cost of a competitive proposal for a particularly complex project. The result in such a situation is often that the Government will receive proposals in excess of twice or more the cost of the lowest cost proposal. In this case the evaluators are faced with the unenviable task of attempting to compare diverse technical solutions at vastly different prices with the hope of negotiating one of the proposals to the appropriate level for the task within the available budget. In those situations the contracting officer may also face the dilemma of deciding whether they did in fact receive adequate price competition when they are in receipt of two or three proposals with disparate cost proposals.

Finally, a range streamlines the process by preventing multiple rounds of negotiations and proposal resubmissions in order to get to award. This saves valuable Government contracting resources. In the Government Wide Access Contract (GWAC) environment it also saves valuable contractor bid and proposal costs, so that they are more likely to propose, may direct these limited resources to other efforts, or pass these savings on to the Government.

The use of a range does not restrict price competition. In fact the use of the range does not restrict the contractors from bidding outside the range. In each procurement using a range the evaluation factors presented in Section M of the procurement merely state that proposals offered outside the range must explain

MANAGEMENT RESPONSE
(Continued)

the variance. FEDSIM does receive proposals that are outside the range, both high and low. One recent example was Millennia procurement M069. In this procurement a range of approximately \$18 - \$20 Million was established for a task in Battle Creek, Michigan. In this case, two companies proposed on this task order. Both proposals were more than \$2 Million below the range. Both proposals stated they were able to provide services below the range due to the historical and actual labor market in the Battle Creek area. Both contractors proposed rates which were significantly below those typically found in other areas of the United States. They adequately explained the basis for the proposals outside the range. This demonstrates that the process does work and that the contractors do not blindly follow the range as suggested by the report.

The use of a range is a tool that the report concedes "is not prohibited by regulation." FEDSIM's use of the range is a business practice within the discretion granted by Part 16 of the FAR. This practice is in furtherance of streamlined procurements and best practices established by FEDSIM to procure the best value technical solutions for its clients. FEDSIM awarded task orders in all cases that are lower than the actual IGCE. The FEDSIM Contracting Officer has also made a determination that the costs are reasonable and making award is in the best interests of the Government. There is no finding presented in the report that the costs in any of the procurements were unreasonable or that value was not received by the Government in any of the procurements.

The FAR also suggests in its guiding principles that use of practices such as a range are to be encouraged. FAR 1.102(d) states,

The role of each member of the Acquisition Team is to exercise personal initiative and sound business judgment in providing the best value product or service to meet the customer's needs. In exercising the initiative, Government members of the Acquisition Team may assume if a specific strategy, practice policy or procedure is in the best interests of the Government and is not addressed in the FAR, nor prohibited by law (statute or case law), Executive order or other regulation, that the strategy, practice, policy or procedure is a permissible exercise of authority.

The underlying principles of the FAR support and encourage this type of initiative and exercise of business judgment. Again FEDSIM was exercising proper business judgment in the use of ranges. Use of ranges has now become common practice as demonstrated by FEDSIM's recent participation in a Performance Based Acquisition Shared Interest Group meeting where acquisition directors from Army, Federal Emergency Management Agency, Education and Veteran's Affairs all indicated that they routinely include ranges in their solicitations.

The report does not provide a basis for the criteria it applies to determine that "price" should be a more important factor in the procurements audited. Common

MANAGEMENT RESPONSE
(Continued)

sources for criteria include laws, regulations, policies, procedures, and best or standard practices. None of them are referenced here as the basis for the analysis in this portion of the report. The reader is left to assume that the sole basis for this finding is the opinion of the auditor.

C. The Report Reaches Conclusions Without Factual Support

FEDSIM does take issue with conclusions drawn in the report. First the IG notes that the ranges provided by FEDSIM are narrow. The ranges provided in the procurements audited in this report were between \$2 Million and nearly \$50 Million on procurements ranging from \$15 Million to \$350 Million. In a typical procurement with an estimated value of a task order of about \$50 Million the range would likely be \$45 Million to \$50 Million or about 10% of the total estimated value of the procurement. The ranges are determined based upon expertise in estimating value of the task order based upon the requirements, input from the client experts, expertise with utilization of the contract vehicle (in the instant case Millennia), and lastly budgetary information. The report does not state what criteria were employed to make the determination that the ranges were narrow.

The report states that the use of ranges is further impacted by the fact that the "Millennia contract program is not a highly competitive arena." The sole basis for this subjective statement is that on the task orders reviewed FEDSIM received "an average of about two proposals each and 38 percent received only one proposal." The FAR Part 16.505 requires that FEDSIM provide "fair opportunity" to each vendor on the GWAC. The National Defense Authorization Act, Section 803 establishes that so long as each GWAC holder is given fair opportunity to bid on a task order there has been adequate competition. The report has already established in Finding 1 that this standard had been met in that on each and every Millennia task order where each vendor is given the opportunity to bid on each and every task order. Thus it appears that the statement that Millennia is not a highly competitive arena is not based upon any criteria supported by factual analysis. Further the eight competitors holding Millennia contracts are among the top systems integrators in the country. Even the report notes that the Millennia contractors are "world class industry leaders that are all premier providers of IT solutions." Again, this is an indication of highly competitive contractors competing under Millennia.

The Finding rests upon several mathematical calculations, suggested as criteria, for the condition that there is no meaningful price competition or assurance of price reasonableness due to the use of ranges. The initial statement in the report is that "Published Estimates Drive Millennia Contractor Proposals." The report's conclusion is that when FEDSIM provides ranges that the contractors follow them. The fact that the contractors bid in the range does not suggest the absence of meaningful price competition or price reasonableness. In every case contractors provide some discount off of ceiling rates, in some cases substantial

MANAGEMENT RESPONSE

(Continued)

discounts. The report provides no analysis of the prices of proposal in relation to the technical solutions proposed in this report. In fact the report offers nothing more than analysis of bottom line prices without investigation of the component pricing, relative value of proposals, technical solutions or innovations, or relative pricing versus other vehicles. Previously in the response FEDSIM provided an example in M069 where contractors ignored ranges in their proposals. The report does not provide any factual analysis or conclusions to support the statement that there is no meaningful price competition or price reasonableness in the procurements audited.

The report also offers a similar unsupported conclusion regarding the standard deviation with respect to the Level of Effort. The report notes that measures of central tendency relating to Level of Effort are broader when no estimates given. Simply stated, when FEDSIM provides estimates as to the Level of Effort on task orders, contractors use them and overall fluctuations are minimized. This stands to reason and is in part why these estimates are provided on occasion, and this is FEDSIM's intended result. There is nothing sinister or unexpected with this result. When estimates are provided, whether they are cost ranges or hour ranges, contractors rely upon them and the corresponding measures of central tendency subsequently contract reflecting the uncertainty removed from the equation.

Lastly the report attempts to use an anomaly on one task order to make an observation. Basically the report contends that given an alleged mistake in some spreadsheet which was corrected in an amendment the auditor found other than expected data in the submission of the contractor's proposal. Specifically, the auditor states, "Since this amended solicitation represented a straight scope reduction and not a shift in labor mix among critical performance areas we would not expect little variance in the average labor rates between the contractors' initial and amended proposals." The report suggests one would expect larger average reduction in labor rates on the final proposals. The premise of this whole discussion is called into question due to the fact that the Government provided a list of suggested skill levels and hours mapped to the task order in amendment issued after the initial proposals. This fact and data drove the offerors to the resultant rates. Thus the Government's release of the amendment and the proposed skill level mix drove the proposals rather than the range. The variable introduced by the Government and documented in the Price Negotiation Memorandum calls into question the analysis provided in this instance by the report.

In response to this Finding it must be noted that the report is completely void of any analysis regarding the relative value or technical merit of any solution of any audited task order. In the report there is:

- No analysis of the relative value of proposed technical solutions.
- No discussion of the oral presentation process or the technical evaluation process.

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- No discussion of the relative value of the proposals received under Millennia itself or comparison to any other contract or procurement process.
- No discussion of the relative pricing competitiveness of procurements where there is one proposal versus procurements receiving multiple proposals.
- No discussion or analysis relative to the value of technical proposals in a best value procurement scenario versus a low cost technically acceptable scenario.
- No discussion or factual data to support the conclusion that the process used by FEDSIM does not provide for meaningful price competition or assurance of price reasonableness.

The analyses and conclusions are incomplete and do not support the conclusions offered.

Lastly the report's unjustified over-reliance on price as an evaluation factor as proposed in the report has been losing favor in the procurement community. As the Government has increased its relative procurement spending to services vice goods, it has shifted its evaluation to a best value paradigm. Awarding to the low cost or even low cost technically acceptable offeror has often cost the Government more in the long run. This is largely borne of experience with awarding to low cost (low results) service providers. In such cases the Government has encountered poor service, increased incidents of terminations, cost overruns due to buy in cost proposals, and failure to receive value or results in the procurement.

The use of best value procurement and ranges brings a level of rationalization to the proposal process, encourages contractor participation, and allows for innovation in the design of solutions.

The adoption of Recommendation 3 of the report (the elimination of ranges and increasing the prominence of cost in the best value continuum) would result in two unintended consequences. First, there would be less innovation as the contractors would begin to submit proposals that were low cost, technically acceptable. This would effectively lower both the innovation of the overall solutions and the capabilities of the task personnel proposed on each task. Secondly, there would be less incentive to propose on the tasks lowering the average number of proposals received and decreasing the overall competition for Millennia task orders. Thus, the end result eliminating the use of ranges would be a less competitive environment and increased risk of performance on Millennia task orders.

D. Conclusion on Finding 2

In conclusion, the FAR provides definitive guidance which FEDSIM relied upon in selecting the appropriate Best Value Continuum in FAR Part 15. FEDSIM

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selected the Best Value Cost Technical trade off where technical merit is more important than price exercising proper discretion. Furthermore, the use of a range in the GWAC procurements is supported by strong business reasons and justified as part of the streamlined ordering procedures and discretion granted to Contracting Officers in FAR Part 16 and FAR Part 1. In contrast, the analysis provided in the audit report supporting Finding 2 appears based upon opinion and flawed, incomplete, or reflexive analysis. As a result, FEDSIM is rejecting the conclusions presented in Finding 2 and the Recommendation that flows from this analysis.

IV. Project Management Observations Discussed in Conjunction with Finding 1

Finding 1 states that FEDSIM has implemented various controls to improve the procurement process and that it provided fair opportunity to GWAC and schedule holders in its processes. The Finding is followed by several observations which identify potential areas for improvement in task order management. FEDSIM acknowledges that project management is a difficult science and that it must be ever vigilant in improving its processes to assure excellent value to its customer base. FEDSIM responds below to the issues raised as observations relating to project management. In a point by point discussion of the observations FEDSIM identifies that five of the observations were actually a proper exercise of discretion. In three other cases the observations are based upon unclear criteria and FEDSIM cannot adequately respond to the observations. In other cases the observation is unsubstantiated by the facts as presented. Lastly, in the remaining observations these were aberrations that have been addressed in training or changes in procedures.

A. Observations Relating to a Proper Exercise of Discretion

The report identifies five different observations that FEDSIM asserts were proper exercise of discretion. In each case FEDSIM or contractors exercised proper discretion and therefore there is no basis for including the issues in the report. In two instances FEDSIM contracting officers issued award in accordance with the FAR. In another instance a proper Limited Acquisition Plan was developed and approved in accordance with the FAR and program guidance. Lastly, in two instances a contractor and FEDSIM appeared to follow both the contract and the FAR with respect to documenting a subcontract and a purchase of an Other Direct Cost (ODC) and approval of the corresponding invoice. In each of these observations the FEDSIM Contracting Officer or Project Manager followed the guidance of the FAR and exercised proper discretion.

1. Proper Exercise of Discretion - Re-Competing Two Amended Solicitations

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The report identifies *two* separate procurements where it alleges FEDSIM should have cancelled solicitations and issued a new solicitation. In the first instance after receipt and evaluation of proposals the client encountered budget cuts and the two contractors that had responded to the solicitation were sent amended Task Order Requests (TORs). In the second instance the report alleges that a deficient proposal was received and the TOR should have been cancelled the procurement and re-solicited. In each case FEDSIM asserts the Contracting Officer exercised proper discretion and the actions taken were proper.

a. Task Order [REDACTED]

In the first instance on task order [REDACTED] just prior to the award a decrease in budget caused the Contracting Officer to amend the TOR, and seek a second proposal from the offerors on that task order. The report states, "FEDSIM contracting officers chose not to re-solicit to all Millennia contractors after materially amending the requirement." FEDSIM asserts that the Contracting Officer stated in this case that she could have gone out and re-competed the task or might have given notice of the amendment to all Millennia contractors of the change. FEDSIM's recollection of the discussion as reported by the auditor differs from the statement alleged in the report. The Contracting Officer decided to amend the TOR and request revised proposals only from those that had bid on this task. That decision was based upon the nature of the procurement, the schedule requirements, the judgment of the interest level of Millennia contractors in the procurement, and the fact that this procurement involved a decrease in scope.

The report cites part of the FAR to make the case that the Task Order should have been cancelled and re-competed. The report fails to quote the entire applicable provision deleting the key statement that the need to re-solicit is discretionary. FAR 15.206(e) (emphasis added) notes,

If, in the judgment of the contracting officer, based on market research or otherwise, an amendment proposed for issuance after offers have been received is so substantial as to exceed what prospective offerors reasonably could have anticipated, so that additional sources likely would have submitted offers had the substance of the amendment been known to them, the contracting officer shall cancel the original solicitation and issue a new one, regardless of the stage of the acquisition.

The FAR, as stated in the report, leaves out the important first portion of the text thereby changing the meaning. A reading of the entire section leads to *two* important distinctions. First this is FAR Part 15.206 which applies to negotiated procurements is not applicable to processes governing awards under GWACs for task orders. Task order awards for GWACs are governed by procedures prescribed in FAR Part 16. Under FAR 16.505 (b)1(ii) governing award under GWACs the Contracting Officer enjoys great discretion. Specifically, "The

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contracting officer may exercise broad discretion in developing appropriate order placement procedures." In this case after proposals had been received the Contracting Officer sought to amend rather than cancel the procurement and issue a second TOR. Secondly, the report fails to quote the important introductory section which notes that even if FAR 15 did apply the discretion is given to the Contracting Officer to determine if cancellation is warranted. Stated another way even if this provision applies there is no requirement to re-compete.

In this case, all vendors were given fair opportunity to offer a proposal at the outset. Four of the vendors clearly stated they were not interested in competing on the initial task order. Two did not respond to the solicitation at all. The contracting officer and the project managers involved have a good sense of the interest of the Millennia contractors in a particular procurement. The lead time and costs for proposing on a typical Millennia task is substantial. Given the size and capabilities of the Millennia contractors it is extremely unlikely that vendors who were not interested in investing time and bid and proposal costs on a \$44 Million dollar task effort would not be likely to bid on a effort that was now scoped at \$31 Million. Further, since there were already two vendors competing and both submitted responses to the amended TOR there was competition for the task. While the Contracting Officer could have cancelled the solicitation and issued a second solicitation, it was within the discretion of the contracting officer to do just what was done in this case. It is unclear and highly unlikely that any other course of action would have had any other effect on this task order other than to further delay the task order award and cost more money to the client.

FEDSIM asserts that in this case all Millennia contract holders were given fair opportunity to bid as required under the FAR in the first instance. FEDSIM firmly stands behind Contracting Officers exercising discretion at the time and does not support after the fact revisiting of decisions that were properly made. FEDSIM contends the Contracting Officer exercised proper discretion.

b. Task Order [REDACTED]

The report states the proposal received in [REDACTED] was materially deficient. This assertion is directly contradictory to all evidence in the files. The Technical Evaluation Board (TEB) Report for that task order and the price negotiation memorandum (PNM) both find that the proposal from the vendor was technically acceptable. In the PNM, the Contracting Officer documents the **weaknesses** that the evaluation team found in the proposal and in accordance with FAR 15.306 negotiated with the otherwise acceptable vendor to improve the value of the proposal for the Government. In no instance in this procurement did the technical evaluation team, in their technical evaluation report, or the contracting officer in the PNM find the proposal to be technically deficient. At no time in either report is the word deficiency even uttered. The PNM and TEB Report document multiple strengths identified in the proposal. To cancel a solicitation and re-compete would do serious harm to the integrity of the

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solicitation process and open the FEDSIM organization to a valid complaint to the ombudsman who provides oversight to the GWAC process.

FEDSIM finds the facts as described are incontrovertible. Both the PNM and TEB Report identify that the proposal was acceptable from a technical perspective. It is highly unusual for an auditor to substitute his opinion for the technical evaluation team that properly and accurately documented their findings. This is even more unusual as the response to the TOR was an oral proposal presentation of the contractor and essentially unavailable for review by the auditor. This conclusion was made without the benefit of observing the actual technical oral presentation.

In this instance the Contracting Officer in accordance with direction in FAR 15.306 negotiated with the only offeror to obtain and improve the value of the proposal for the Government. Specifically, the task order was a performance based task order where the contractor was responding to a Statement of Objectives (SOO). The Contracting Officer found it necessary to clarify sections in the contractors proposed Statement of Work. This again was valid exercise of discretion as supported by criteria identified in the FAR. The report's conclusion is not supported by the facts.

2. Proper Exercise of Discretion - A Limited Acquisition Plan in Developed in Accordance with Regulation and Guidance

The report observes that a limited acquisition plan for task order [REDACTED] had "limited value." The report alleges that the Limited Acquisition Plan did not fully delineate the acquisition history. Specifically the report states that a subcontractor on the previous task order was not identified in the Limited Acquisition Plan. In accordance with GSA Order OGP 2800.1 establishing policy on the development of acquisition plans, a fourteen page Limited Acquisition Plan was prepared, reviewed, and duly signed by the Contracting Officer, Project Manager, FEDSIM Management, and Legal Counsel.

The audit report states, "The effect is that meaningful discussion of the impact of prior acquisitions on feasible acquisition alternatives could not have occurred based on the acquisition plan's content". FEDSIM disagrees with the observation. The plan included a section on the prior history which was noted in the plan in section 2.2 Applicable Conditions. The discussion outlined, in accordance with the guidance issued by FEDSIM, the engineering services in the proposed acquisition were currently being provided by the incumbent contractor on a schedule order issued by another contracting authority outside GSA. That fact was considered and documented in the plan. Further, the plan identified that the existing task order would be expiring in June of 2004. The plan also provided a robust discussion of potential contract alternatives and notes that the Professional Engineering Services (PES) contract is the only contract available for support for the services stated in the aptly described statement of need.

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After careful review of the entire acquisition plan it is unclear how the fact that the Limited Acquisition Plan did not actually name an individual subcontractor or note how long that subcontractor had been supporting the client on previous efforts would have any material effect on any acquisition strategy suggested to support this client. Further, the Limited Acquisition Plan appears to be otherwise complete and logically reasoned. Omission of this fact does not seem to affect any issue suggested in the procurement strategy. A full report on the market survey is included as well.

FEDSIM has published a guide on how to draft an acquisition plan in accordance with the GSA Order OGP 2800.1. It was explicitly followed in this case to the letter. The acquisition team exercised proper discretion and developed an appropriate acquisition plan in accordance with guidance in GSA regulations and guidance issued by FEDSIM.

3. Proper Exercise of Discretion - Contractors Exercising Appropriate Discretion in Award and Documentation of Subcontracts and FEDSIM Exercising Appropriate Review of Invoices

In two instances the report observes issues relating to subcontracting and Other Direct Costs (ODCs) under a task order. In one instance, it alleges that a contractor did not have appropriate documentation in the file for a subcontract. In the second instance, the report alleges the contractor did not have appropriate documentation for ODCs relating to the purchase of satellite support services.

a. Task [REDACTED] - Subcontract for Financial Application

The first observation surrounds support for the client's financial application. This task was previously awarded under the mandatory Financial Management Systems Software (FMSS) contract. Prior to the award of the FEDSIM task order a decision was made by the client to incorporate support for this work into the FEDSIM task. In this observation the report notes that the contractor did not provide satisfactory documentation at a site visit to satisfy the auditor as to the reasonableness of the charges under the task order for this subcontract. The report notes that contractor supported its pricing by relying on an expired contract.

FAR Part 31, Cost Principles, requires contractors to properly account for costs incurred on contracts and to maintain records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred are reasonable, are allowable and are allocable to the contract including costs related to subcontractors. As required by the FAR FEDSIM does provide a price reasonableness determination at contract award and throughout the task order when appropriate. In accordance with the contract and the FAR, FEDSIM also

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relies upon the approved purchasing system of Millennia vendors when appropriate. The auditor states that documentation provided by the contractor did not support all invoiced costs.

According to the subcontractor, the rates bid on the task order subcontract were those that were being charged under the previous FMSS task order (the expired contract documented in the file) and were adjusted upward in accordance with typical escalation at the time the subcontract was issued. The documented rates were those previously charged directly in support of the previous task under the mandatory schedule contract which is why the file at the contractor site had the expired FMSS contract as documentation. This would suggest that the file documentation based upon the expired FMSS contract rates would be appropriately included in the file as they were rates established by a previous mandatory contract.

In this case the subcontractor could not possibly be bound by Millennia cost ceiling rates because this is a Time and Material subcontract and the Millennia contract does not offer Time and Material ceiling rates. Recently, the FEDSIM organization has required that all Millennia prime contractors must notify FEDSIM of all subcontracts where the rates are in excess of their ceiling rates and that FEDSIM Contacting Officers must document the file. This internal requirement was not yet in place at the time of the subcontract or at the time of audit. This change was made only to provide more documentation.

FEDSIM agrees that it maintains responsibility to determine the reasonableness of all funds spent under each cost type contract. FEDSIM takes exception to the conclusion that there was a "potential overcharge of \$1.48 million" for work on the financial task involving the Momentum COTS application integration work accomplished under the client task order. Momentum is a highly complex and specialized financial systems software. The comparison of rates charged in this subcontract to those offered under Schedule 70 is misplaced. When properly compared to the rates under an appropriate schedule rather than Schedule 70 the rates invoiced and accepted appear to be reasonable.

In accordance FAR 44.203(a) "The Contracting Officer's consent to subcontract or approval of the contractor's purchasing system does not constitute a determination of the acceptability of the subcontract terms or price, or of the allowability of costs." With respect to this individual subcontract, it is FEDSIM's intent to ensure proper reasonableness, allowability, and allocability of all costs incurred under the task order via the DCAA final closeout audit that must be conducted on all cost type contracts. The GSA IG does hold the agreement with DCAA for the conduct of this closeout audit for all FEDSIM task orders issued on behalf of Civilian agencies. At closeout, an audit will be conducted on this charge and all others under this task order. Each cost contract will be audited in accordance with DCAA practices at the close of the contract. This audit will include subcontractors as well. Should there be a determination at that time that

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any costs are not allowable an appropriate accounting will be made. FAR Part 44.203(a) states,

If the contractor has an approved purchasing system, consent is required for subcontracts specifically identified by the Contracting Officer in the subcontracts clause of the contract. The Contracting Officer may require consent to subcontract if the Contracting Officer has determined that an individual consent action is required to protect the Government adequately because of the subcontract type, complexity, or value or because the subcontract needs special surveillance.

In this case neither the Millennia basic contract nor the task order required consent to subcontract for this industry partner.

Senior Managers from the subcontractor suggested that an elementary review of the skill level descriptions under their IT Schedule 70 contract by anyone with experience in the financial application development field would find the skill levels described are inadequate to support a Momentum implementation. Determination of price fairness and reasonableness can only be made after examining the nature of the work being performed and the qualification requirements for a particular labor category to ascertain whether or not the rate being paid is commensurate with the work being performed. These skill levels identified in the report compared from IT Schedule 70 are not the functional equivalent to those in the subcontract; it is not reasonable or appropriate to compare the IT Schedule 70 rates to the Millennia subcontractor rates applied.

In fact, the FEDSIM Contracting Officer made a cursory review of the subcontractor's MOBIS contract and found that the appropriate IT related labor rates ranges from \$94.73 to \$172.40 an hour as compared to similar labor categories invoiced by the vendor under this task order ranging from \$105.52 to \$170.40 an hour. Rates for SMEs under the MOBIS contract ranged from \$224.33 to \$241.95 an hour compared to invoiced amounts of \$221.37 and \$232.84 respectively. Given that the MOBIS schedule rates are commercial rates available to the Government, it would seem at first blush that the rates appear on their face to be reasonable particularly in so far as a COR's responsibility in approving an invoice. Incidentally the MOBIS schedule contract and FABS schedule contract were the follow on contracts to the FMSS.

b. Task [REDACTED] – Other Direct Costs for Satellite Services

The auditor identified another issue on the same task order relating to a \$4 million effort to secure Satellite Services. In this case the auditor questions the contractor's costs for satellite services under the task order. FEDSIM also disputes the basis for this finding. Specifically in this instance, the subcontractor provided both labor support and bandwidth under this task order. The labor

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rates evaluated at the time of award strictly pertained to the labor provided by this subcontractor. The cost of bandwidth was billed to the Government as an Other than Direct Cost (ODC). Approval to incur ODC costs require an advance approval by the Contracting Officer's Representative (COR) prior to incurring costs throughout the administration of the task order. Under this task order, approval of an ODC is presented to the COR in the form of a Request for Authorization to Procure Parts and tools (RAPP) approval on an as needed basis throughout the life of the task order.

The RAPP process for determining the price reasonable under this ODC is appropriate. The Government on this task order has a very specialized process it uses to determine price and support for the purchase of bandwidth. With regard to the reasonableness of those bandwidth costs, the Government conducts a semi-annual review of bandwidth costs by site, reliability, and performance by the ISP providers under several contracts, VSAT and DTS-PO (two different contracts providing satellite services). In this task order support is required worldwide and specifically in dangerous or remote locations throughout the world, so in many cases there are limited sources. This analysis is conducted by the client agency by an individual with specialized expertise in this area. This analysis is supplied to FEDSIM as evidentiary data supporting the invoiced costs and the RAPPs. As an example, the case for using the subcontractor for support for the Hanoi bandwidth showed that the costs for using the subcontractor would be approximately \$57,000 versus the estimated DTS-PO cost of \$177,000 which resulted in estimated savings of approximately \$120,000. The support may be procured by the Government under either contract in accordance with best pricing available at the time the services are required.

The determination of reasonable, allocable, and allowable costs is not only a pre-contract award function under a cost reimbursable type contract. These determinations are made on an ongoing basis through extensive monthly invoice reviews. FEDSIM provides a review of the invoices to ensure that: proper rates are billed for the prime contractor for each labor category; subcontractors charging are in fact performing work in support of the task order; ODC and Tools have been approved: costs are supported by the approved RAPP; and supported by supplementary data when appropriate.

Lastly, FEDSIM questions why the statement that an individual contractor's approved purchasing system was rescinded is included in this report. First it occurred outside the time period of this audit (March 13, 2006), and the rescission was formally rescinded less than three weeks later. FEDSIM submits the auditor was aware of this fact and failed to include this relevant fact in the audit. The rescission was not material or relevant to any transaction reported in this audit. Additionally, the issue was quickly resolved at the Defense Contract Management Agency (DCMA). Lastly, the ACO responsibility discussed by the auditor is held by the FSS GWAC center not at FEDSIM. Parenthetically, the

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ACO had reviewed the purchasing authority recently when options for the Millennia Contract holders were exercised less than three years ago.

FEDSIM continues to appropriately manage the contractor under this task order and its subcontractors. In this case the review of the ODC's appears to be proper and there are significant controls over the review and authorization for ODC's relating to bandwidth or Satellite Services on this task order.

B. Failure to Provide Criteria upon which Observations are Based

In several instances the auditor makes observations based upon vague statements that are not related to any identifiable criteria. These observations related to statements discussing Metrics and Deliverables and Task Objectives. In each case the audit report fails to identify any criteria that forms the basis for the observations. Furthermore FEDSIM is left to question what possible corrective action it might be able to take to correct the alleged observations.

1. Failure of the Report to Identify Criteria upon which Observations are Based - Discussion of Metrics and Deliverables

The report discusses alleged difficulties of a contractor to provide one deliverable in task order GST0004AJM049 where the contractor was required as part of a \$300 Million task order to provide a "Full IT Asset Inventory Report."

In this case a review of the issues surrounding this task order identifies significant and proactive project management on an award fee task order that had positive results in the end. Specifically, the award fee board in its review of this very issue relating to the development of a Full IT Asset Inventory Report" in award fee period one gave the contractor an unsatisfactory score for this measure citing inaccurate inventory data as a basis for the score. In award fee period two the board noted improvements, but identified major issues still remaining and awarded the vendor the second lowest possible score and directed the vendor to focus on this issue. In award fee period three, the contractor had presented a plan to clean up the remaining issues and continued to show improvement and received a satisfactory score. In award fee period four, the contractor received a good rating noting that the contractor had adequate processes in place and accurate reports could be provided from the database with confidence in their accuracy.

In this case active project management via the award fee process focused attention on the issues, provided negative incentives to the contractor, and eventually provided the Government with the reliable deliverables required. Essentially the task order was aptly managed to produce the end result required from the contractor in accordance with the statement of work. FEDSIM is proud of its attention to detail and administration of its award fee tasks to assure results

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on its task orders. FEDSIM is at a loss to understand what could be corrected or why this observation was included in the report.

2. Failure of the Report to Identify Criteria upon which Observations are Based - Development of Task Objectives.

In another observation the report discusses FEDSIM's development of task objectives. The report alleges that "objectives were not well defined in 5 of the 14 task orders specifically reviewed for this purpose." It is impossible from the discussion in the report for the reader to understand the standard used by the auditor, the significance of the issues discussed, and most importantly the audited entity is left with significant questions as to what possible corrective action they might be able to take to correct the alleged deficiencies identified in the undisclosed task orders.

The auditor did not identify anywhere in the report which task orders were not well defined. The report merely states that the "Objectives were not well defined in 5 of the 14 task orders." Specifically the report does not identify which were the offending task orders anywhere in the report. Secondly the reader is left to question what standard the auditor applied to make the determination that a statement of work or statement of objectives was "well defined." The report provides neither notice as to which task orders offended the auditor's standards nor even more basic which standards were applied to the unidentified task orders.

The one alleged offending task order that is identified in the report demonstrates this lack of criterion. FEDSIM is left questioning what standard is applied or how to meet the standard. The auditor states that the "objectives and/or statement or work contained in Section C of the solicitation were very generalized." The report states that the contractor would "assess, support, or monitor." A FEDSIM review of the GST004AJ053 finds the statement of work cogently identifying nine very specific and identifiable tasks including such items as Configuration Management Technical Support, Information Assurance Technical Support, and System Life Cycle Technical Support. The task order request then continues to delineate 20 different subtasks, that are further described, under the tasks. These subtasks were then broken down further to sub-elements. In some cases these subtasks have as many as seventeen sub-elements and numbering nearly 175 sub-elements in all. The SOO portion of the task order spans ten pages of single spaced, documented requirements that identified a task order for the quality assurance and oversight of a major Department of Defense system development effort. In support of the program office, the contractor personnel on this task were assessed on the progress of the task, supporting the organization in meeting the program objectives, and monitored performance of all organizations providing support to the program office. It is hard to understand how this task is not "well defined." In review of this task order FEDSIM believes it is

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extraordinarily and painstakingly defined in terms of scope and the audit report fails to offer any assistance.

FEDSIM continues to improve its task order request management process. This includes the use of Acquisition Project Managers (APM) to develop the more complex projects. The APMs are specially trained, experienced, and versed in requirements analysis determination, drafting both statements of work and statements of objectives, development of performance based acquisitions, development of service level agreements, and infusion of best practices into the task order process. The FEDSIM organization also continues to improve its review process to include Contract Review Panel oversight on all major task orders at the pre-solicitation stage to assure that the statements of work or statements of objectives are sufficient and well defined. The organization continues to strive for excellence in this regard and will be incorporating technical writing training for many of its associates in the next fiscal year to improve the organization's writing skills.

3. Failure of the Report to Identify Criteria upon which Observations are Based - Failure to Produce Deliverables.

In another case the report fails to identify criteria that forms the basis for their observation. This relates to Task T0001AJM029. The auditor notes that deliverables requested were not able to be produced. In relation to this task order the auditor notes, "Nine performance metrics identified in the task order could not be produced as required output of the client agency's Network Management Center (NMC)." The report further concludes that these metrics were missing primarily because the Government furnished phone system could not produce them. The report states the task order had very few deliverables.

Again, FEDSIM is unable to respond to the observation. The report does not document the reference for the alleged performance metrics or identify them. A review of the statement of work for Task T0001AJM029 finds eleven separate tasks, thirty-four separate subtasks, and many of the subtasks broken down into even further detail some numbering as many as sixteen or more sub-elements to each subtasks. This data is detailed in a statement of work that is over 35 pages single spaced detailing the specifics of the scope to be delivered under this task order. It is neither alleged nor documented that the contractor did not provide the actual support required under this task order as stated in the statement of work, save for the alleged failure to produce reports on some performance metrics.

The report notes that the task order did not identify specific items required under this task specifically noting the alleged absence of metrics or deliverables required for the NMC. FEDSIM finds this assertion in opposition to the facts, the task order sets forth the delivery of a Monthly Status Report in Subtask 2.3 that requires "workload statistics and metrics". Further, the task order in Section

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C.4.3.1.2 in a Section named Performance Metrics requires that “the contractor shall be able to diagnose 95% of the network anomalies at first contact with the caller” and that the contractor shall open a trouble ticket within 15 minutes of a network circuit outage” among others. In Section C.4.3.1.4 “Metrics” establishes other metrics including: “Total number of queries to the NMC, Total number of queries to the NMC that result in a trouble ticket, Total number of queries that resolved during initial contact” among others.

It is unclear from the report which “nine metrics” identified in the task order the auditor could not be produced as a result of a government furnished phone system that was incapable of providing these results. Since the report does not identify which metrics are in question it is difficult to respond to this issue. Further it is not alleged in the report that the requirements of the task order were not met. Nor it is alleged that value was not received. In this instance it is alleged that merely some “metrics” pertaining to a NMC could not be produced due the inadequacy of a Government furnished phone system.

The report concludes overall that the technical requirements of the contracts were generally in place and met in the task orders reviewed. FEDSIM has made strides in its task order development process to assure that task orders are well defined and that objectives are clearly delineated and described in the contracts. The organization continues to focus on improving task order management as a competence. As stated earlier, nearly 60 FEDSIMPMs are currently certified Project Management Professionals. FEDSIM continues to encourage the use of performance based acquisition including a relatively large number of award fee contracts.

C. Remaining Observations Detailed in Report

1. Unsubstantiated Observation Relating to Contractor Travel

The report makes several observations regarding travel on a schedule task order [REDACTED]. In this case each observation is unsubstantiated by the facts.

The auditor reviewed a number of trips taken by the contractor. The report notes that the approval documents provided were “vague” and contained “questionable” costs. The report did not identify what costs were vague or questionable. These allegations are completely without merit and unsupported by any evidence presented in the report. The report references a range of sample fares to Dallas/Fort Worth out of Dulles. The range of the fares were audited were \$277 to \$1146. The auditor does not identify why these costs are questioned. In each case the auditor was shown the invoices for the tickets. The primary reason that there was disparity in the costs for the tickets was that at the request of the Government some of the tickets were purchased as refundable. This fact increases the cost, but in return allows for greater flexibility. In this case the Government directed the contractor to purchase of refundable

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tickets. This request was made due to the uncertainty of meetings, and the potential that travel would have to be rescheduled. The contractor reported to FEDSIM that the files were complete and reviewed to the apparent satisfaction of the auditor. In this case the contractor did have available for its employees the use a travel agency to book tickets. Further the contractor explained that any fares in excess of \$1000 needed an additional review within the contractor's organization.

The dynamic nature of airfares requires that any determination of reasonableness and allowability be based upon the circumstances existing at the time of travel. Fares vary significantly from day to day and it is nearly impossible to identify the factors that might have significantly contributed to higher costs of travel segments. It is impossible to identify all of the relevant factors that might contribute to higher costs including events occurring in either city or other factors that might be contribute to these fares. Further, the report does not provide anything more than vague allegations and unsupported conclusion relating to questionable costs.

With respect to the general and administrative fees identified in the report, the auditor was notified on multiple occasions and from multiple sources that the contractor in this case had proposed a [REDACTED] general and administrative fee as part of its proposal to the MAS program. This proposal was accepted and incorporated along with that general and administrative fee into the contractor's **MAS** contract. This was verified several times by the awarding contracting officer with the schedule contract contracting officer. As such the general and administrative fees are appropriately burdened in accordance with the awarded schedule contract.

The report states that several of the trips were verbally authorized and properly documented. The contractor and the COR had agreed to this change at the kick off meeting at the request of the client agency. The contractor anticipated last minute trips during the task order. Subsequent to the auditor's visit that authorization was rescinded and all travel is now required to be authorized in writing in advance. In each and every case where this verbal authorization had occurred was subsequently documented in writing and the file was properly documented for all travel. The audit does not identify any instance of travel without consent of the Government or exceeding the ceiling identified in the contract.

In conclusion, there are no facts alleged in the report to identify any questionable costs. There are no facts to support the observations stated.

2. Observations related to Invoicing Issues

a. Contractor Invoice GST0004AJM055

MANAGEMENT RESPONSE
(Continued)

On three separate task orders the report observes three issues relating to invoice processing. In each case the issues have been resolved and the result is noted below.

With respect to Task Order GST0004AJM055 additional information that was disclosed in the original cost proposal and in the monthly status reports to the Project Manager provided the details that were necessary for the PM to review the invoices and assure that they were within the ceiling rates of the contract and the task order. Specifically the contractor provided a breakout of unburdened rates and overhead, fringe and G&A for each ceiling rate at the time a cost proposal was submitted for this task order. The PM was able to compare the unloaded rates billed on the invoice to the unloaded rates in the proposal as well as comparing the percentages billed for fringe, overhead, and G&A to the original cost proposal to assure the rates were proper. Additionally the contractor had certified that the rates were billed in accordance with the Millennia task order basic contract and the task order. These rates of course will be fully audited at the close of the contract by **DCAA** as well.

FEDSIM acknowledges that the invoices referenced do not provide the supporting documentation as noted by the auditor. However, the monthly status reports which are reviewed monthly by this project manager with this project provide a breakout by labor category and hours for each contractor (prime and all subcontractors). The PM relies on this information to determine if the invoice is reasonable and for authorizing payment. The contractor must and does in fact invoice in accordance with their disclosed practices in accordance with the cost accounting standards.

b. Contractor Invoice GST0004AJM061

All Millennia subcontractors on this task are charging in accordance with their own ceilings on task order **M061** as required by the contract. The issues identified in the report have been rectified.

c. Contractor Invoice GST0004AJM066

On task order M066 the subcontractor and contractor were immediately notified that the information provided was insufficient for proper invoice review. The invoice in question was the first one with substantial subcontractor invoicing on this project and the some of the subcontractors did not want to disclose proprietary information to the prime. An arrangement was worked out where appropriate back up documentation is sent directly to the COR for review and is maintained in the project files.

d. Contractor Invoices - Conclusion

MANAGEMENT RESPONSE

(Continued)

In general lessons learned on subcontractor invoicing and review were incorporated into this year's invoice training at FEDSIM to assure that this issue was not widespread in the organization. FEDSIM continues to take its responsibility as CORs seriously and perhaps in no area greater than invoicing.

Over the last several years FEDSIM internal training has focused on the assurance that all personnel understand the requirements, complexity, and issues relating to invoicing and responsibilities for review and processing. Two years ago a training presentation was developed and presented to each division within FEDSIM to ensure that all PM's, CORs, and employees understood these responsibilities. In fact, the Procurement Management Review for FEDSIM in January of 2005 found, "The invoice process utilized by FEDSIM emphasizes task order oversight. The PMR team considers the invoice process a best practice that should be share with all Regional and National FTS contracting offices." Indeed, given this finding, there are still areas where we find improvements and issues and incorporate them into our reviews and processes. Specifically, the entire organization was given training on invoice processing and procedures in December, 2005, and several issues noted in this section were discussed with the entire organization in that training.

To professionalize and improve the processing of invoices, the organization is in the process of implementing Project Performance Managers. Among the duties of these individuals is the processing and review of invoices. They are responsible for tracking invoices, financial tracking, and performance tracking. As part of their responsibility they will be reviewing invoices utilizing standard checklists to assure that all relevant contractual issues are checked, verified, and reviewed in the invoice approval process. Additionally all Millennia Industry Partners were recently invited to a meeting with FEDSIM to discuss changes in the invoice management and review process; follow up meetings to discuss their cost accounting disclosure statements with each company have begun so improvements can be made in the invoicing procedures.

3. Issues Identified Outside the Span of Control and Management of FEDSIM -Security Clearances.

FEDSIM notes that the oversight and responsibility for oversight of Federal Government classified information has been assigned to the Defense Security Service. The report identifies a statement that the Government Contracting Activity is responsible to protect and safeguard classified information. It is important to note that in no case listed below is there any allegation that classified data was mishandled or contractors without proper clearances were given access to classified material. The report states in a heading that "Not adhering to security procedures led to problems" is not followed up with any real problems other than paperwork not being properly maintained by the Cognizant

MANAGEMENT RESPONSE

(Continued)

Security Offices's contractor. FEDSIM would counter that the facts demonstrate than no access to classified materials were at issue rather the failure of client offices or contractors to manage paperwork issues. In each case with the contracts reviewed by the report a proper DD254 was issued in accordance with the Cognizant Security Office (CSO) and had been duly executed as required. FEDSIM had taken its responsibility seriously and had established safeguards in its contracts as identified by the CSO for each client.

It appears that contractors in their interaction with the CSO's, subcontractors, or in the processing of paperwork did not follow the guidelines or procedures outlined in either the tasks or in accordance with the CSO. In some cases the responsible security offices did not maintain records in accordance with their own policies and procedures. In each case the FEDSIM PM followed up to correct the deficiencies in paperwork or processes.

In the future FEDSIM will identify the responsibility for monitoring security issues as a responsibility of the client agency in the Interagency Agreement. FEDSIM will discuss the proper procedures in the kick-off meeting and remind the contractor of their responsibilities. Periodically the issue of security management will be addressed in Interim Project Reviews.

V. Recommendations

FEDSIM will accept and implement Recommendation One as FEDSIM is dedicated to continuously improving project management performance.

FEDSIM will continue to develop and implement controls that seek to attract more proposals to solicitations in accordance with Recommendation Two.

FEDSIM will not accept or implement Recommendation Three. FEDSIM's current practices provide adequate price competition and fair opportunity on each and every task. FEDSIM will review its processes and continue to improve acquisition processes in order to improve overall service offerings to its customers and drive value into each transaction it manages.

REVIEW OF
FEDERAL SYSTEMS INTEGRATION AND MANAGEMENT CENTER (FEDSIM)
AUDIT REPORT A050078

AUDITOR'S ANALYSIS OF MANAGEMENT RESPONSE

In his general comments, the Acting Commissioner, Federal Acquisition Service, stated that our report overall presents a picture of an organization continuing to improve its service offerings to federal agencies, and highlighted several FEDSIM initiatives that are best practices. In his detailed comments, he agreed with our finding on internal controls over the contracting process, but disagreed with our finding on business practices for providing competition among highly qualified vendors. The Acting Commissioner also disagreed with a number of our identified deficiencies in individual task orders. We have made some changes to our report to clarify our position on certain points, and have modified our recommendation on the second finding for further clarification. Our overall response to the Acting Commissioner's comments are below, followed by our detailed responses to his detailed comments to our identified deficiencies on specific task orders.

Finding 2 – Business Practices for Providing Competition Among Highly Qualified Vendors

In our finding on business practices for competition, FEDSIM states that best value is a procurement technique requiring a cost and technical tradeoff to ensure the Government awards contracts or task orders to the most advantageous offeror. FEDSIM also stated that its procurements were in full accordance with the FAR, GSA policies, and established FEDSIM business practices. FEDSIM states that our report takes exception to this best value practice and FEDSIM's practice of identifying price ranges in its solicitations.

We do not disagree with the use of best value procurements. Procurement history is replete with instances of the lowest bid being accepted by the Government only to result in substandard contractor performance and unfulfilled contract requirements. We recognize that best value procurements include the elements of technical merit as well as price, where technical merit can be weighted more heavily than price. Contrary to FEDSIM's comments, our report does not state that price should be a more important factor than technical merit. However, price still needs to be considered as part of the best value decision.

FEDSIM comments that the use of ranges provides important benefits to the procurement process, allowing for the development of better technical and innovative solutions. FEDSIM states that the ranges also provide the parameters for what the agency is authorized and appropriated to spend, and explains that an offeror with no idea of the budget for a proposed project may have great difficulty in determining the

AUDITOR'S ANALYSIS OF MANAGEMENT RESPONSE
(Continued)

cost of a competitive proposal for a particularly complex project. In our report, we do not state that the use of ranges is inappropriate, and we state that the use of ranges is not prohibited by statute or regulation. We have made some edits in our final report to make this clearer.

Our concern is the basis and approach for FEDSIM's developing the suggested cost ranges and estimated level of effort to be included in the solicitation. Our point is that by narrowly constraining the range to, in the majority of the cases, 10 percent below the independent government cost estimate, FEDSIM may be missing opportunities for further cost savings that could accrue if the suggested cost range was wider.

FEDSIM states that vendors can bid outside the range, but our analysis found that only happened once in 28 cost proposals. We found in 20 of 28 cost proposals reviewed, proposals typically varied only 6 percent, clustering around the midpoint of the cost ranges contained in FEDSIM's solicitations. Twenty-seven (27) of the 28 cost proposals reviewed were within 5 percent of the midpoint of the cost range contained in solicitations.

Contrary to FEDSIM's comments, we do not state in our report that the use of ranges limits price competition. We have made some edits to our final report language to make this clearer. Our concern is over the narrowness of the range and the basis for the range. For an average of procurement of over \$100 million, a 10 percent range only provides for a \$10 million difference in proposed prices.

We do not understand FEDSIM's argument that the ranges used streamline the process by preventing multiple rounds of negotiations and proposal resubmissions in order to make the award. As we state in our report, and as FEDSIM agrees, the contractors under the Millenia contract are world class industry leaders that are premier providers of IT solutions and are capable of performing any task within the scope of the contract. Thus, we would expect that any proposals submitted, whether under a suggested cost range or not, would represent quality bids based on a complete understanding of the statement of work. Any negotiations that may be necessary would seem to us to be a natural course of the source selection process that FEDSIM provides for clients to ensure best value.

FEDSIM states that the ranges are determined based on expertise in estimating value of the task order based upon the requirements, input from the client experts, expertise with utilization of the contract vehicle (such as Millenia) and budgetary information. Yet we found that the cost ranges for projects are typically 10 percent below the independent government estimate. In oral discussions, FEDSIM officials told us that this 10 percent is based on historical experience, but they commented to us that there was no analytical basis for the percentage and perhaps different percentages should be

AUDITOR'S ANALYSIS OF MANAGEMENT RESPONSE
(Continued)

used. In addition, FEDSIM estimators told us that their estimates represented a valid representation of what the task, as outlined in the statement of work and other

documents, would cost. No one told us that the estimate was to approximate the client agency's budget. Considering the average cost of a FEDSIM Millennium project

exceeds \$100 million, we would strongly suggest that FEDSIM perform the analysis needed to determine what would be the appropriate approach for setting suggested cost ranges, as we state in our reworded recommendation.

FEDSIM's position regarding publishing narrow cost ranges is further impacted by the fact that the Millennium contract program is not a highly competitive arena. Our comment is based on the fact that on average, FEDSIM receives only two bids for each of its average \$100 million Millennium procurements. FEDSIM argued that the fact that all Millennium contractors receive an opportunity to bid on task orders indicated the competitive nature of Millennium task orders. We did not comprehend how receiving an opportunity to bid, but not bidding, made Millennium task orders competitive.

In our reworded recommendation, we also recommend that FEDSIM analyze the basis and approach for including estimated level of effort in solicitations. In discussions with FEDSIM officials, they raised the question of whether publishing the estimated level of effort in the solicitation is advantageous to the Government. In our analysis, we identified that where level of effort was provided, 68 percent of the labor hour proposals were within 5.6 percent of the labor hours provided in FEDSIM's solicitations, whereas with no level of effort identified in the solicitation, the figure became 14.6 percent. This would tend to indicate that vendors are constructing their proposals to meet the estimates contained in the solicitations. We identified particular concerns with one such procurement. We found that the vendors who responded to this solicitation estimated the number of hours and skill mix very close to what was provided in the solicitation. But when the solicitation was amended to remove a 40,000 hour error and incorporate a significant straight scope reduction, the vendors still met the revised cost and hour estimates almost exactly, but accomplished this feat by shifting hours into less skilled labor categories. Since the amended solicitation represented a straight scope reduction, the same skill set could have been proposed originally, saving the Government \$3 million. We question whether, if the estimated level of effort had not been provided and a wider suggested cost range was provided, whether the vendors would've offered more competitive costs given that they were apparently able to bid lower labor rates in their revised proposals. FEDSIM refers to our example as an anomaly. We believe it is an anomaly only from the standpoint that it may be unusual for FEDSIM to need to materially change the estimated level of effort. But it does demonstrate that at least in this case, vendors are bidding labor rates based on the estimates included in the solicitation, and that there may be more innovative approaches and lower prices

AUDITOR'S ANALYSIS OF MANAGEMENT RESPONSE
(Continued)

attainable if such information was not disclosed. We of course do not know how many other procurements may experience these same concerns.

Finding 1 - Project Management Observations Discussed in Conjunction with Finding 1 (Observations Relating to a Proper Exercise of Discretion)

Re-Competing Two Amended Solicitations. FEDSIM argues that the contracting officer exercised proper discretion in sending an amended solicitation to only the two (2) Millennia Contractors who had responded to the original request for offers (task order [REDACTED]). FEDSIM claims that "The report fails to quote the entire applicable provision deleting the key statement that the need to re-solicit is discretionary."

Auditor's Analysis. The audit report clearly notes that the amended solicitation called for a [REDACTED].

Under FAR 15.206(e), the criteria of adverse effect (so substantial as to exceed what prospective offerors could have anticipated) was correctly stated in the report and necessitated a re-competition of the task order among all Millennia contractors.

FEDSIM, under task order [REDACTED], comments "The report states that the proposal received in [REDACTED] was materially deficient. This assertion is directly contradictory to all evidence in the files. The Technical Evaluation Board (TEB) and the price negotiation memorandum (PNM) both find that the proposal from the vendor was technically acceptable."

Auditor's Analysis. The audit staff relied on the contracting officer's Price Negotiation Memorandum, which represented sufficient and compelling evidence that the incumbent contractor's proposal was materially deficient. We reaffirm the comments made in our discussion draft report dated January 31, 2006, which were taken directly from the Price Negotiation Memorandum.

We fail to see how the technical evaluation score of "average" supports comments in the Price Negotiation Memorandum like "[The contractor] was told they should provide a SOW that informed the Government of how they were going to perform the requirement and not rely on their incumbency as explanation" or "relied on their status as the incumbent contractor to entirely mitigate the need for transition and did not address the transition to another contractor" or "[the contractor] was informed that it had not provided a sufficient PBSOW."

A Limited Acquisition Plan in (sic) Developed in Accordance with Regulation and Guidance. FEDSIM said "The report alleges that the Limited Acquisition Plan did not

AUDITOR'S ANALYSIS OF MANAGEMENT RESPONSE
(Continued)

fully delineate the acquisition history.” FEDSIM further declares “it is unclear how the fact that the Limited Acquisition Plan did not actually name an individual subcontractor or note how long that subcontractor had been supporting the client on previous efforts would have any material effect on any acquisition strategy suggested to support this client” (██████████).

Auditor's Analysis. FEDSIM's comments are incomplete. The report states:

The limited acquisition plan associated with task order ██████████ was not satisfactory because it did not fully delineate the acquisition's history. The acquisition plan did not note that the subcontractor currently performing the task had provided continuous customer support since 1994 on the then-current and predecessor contracts.³⁷ To reinforce this point, the subcontractor claimed, during technical evaluation, that certain contract risks were mitigated because they could provide uninterrupted execution following award.

The acquisition history is extremely important in ascertaining the impact prior acquisitions may have on feasible acquisition alternatives. The subcontractor had provided continuous support to FEDSIM's client since 1994. For example, repetitive acquisitions might indicate that a fixed price task order could be used instead of time and materials (██████████ used time and materials). To underscore the concept's importance, the draft report identifies four (4) instances where the FAR, the General Services Administration Acquisition Manual, or GSA Order OGP 2800.1 require acquisition background or history.

Proper Exercise of Discretion – Contractors Exercising Appropriate Discretion in Award and Documentation of Subcontracts and FEDSIM Exercising Appropriate Review of Invoices. Task order ██████████ dealt with a review of a subcontractor's hourly rates as reflected in invoicing from the prime contractor. The subcontractor had extensive experience with the client's procurement and financial management systems based on their commercial off the shelf software called ██████████. FEDSIM stated:

- “Prior to the award of the FEDSIM task order a decision was made by the client to incorporate support for this work into the FEDSIM task” and “As required by the FAR FEDSIM does provide a price reasonableness determination at contract award and throughout the task order.”

Auditor's Analysis. The Price Negotiation Memorandum revealed that the subcontractor in question was not approved (or mentioned) by the contracting officer at point of award. Our analysis revealed the contracting officer had a

³⁷ We confirmed the prior contracts with a representative of the ██████████.

AUDITOR'S ANALYSIS OF MANAGEMENT RESPONSE
(Continued)

chance to review the subcontractor's pricing for reasonableness (upon the addition of fixed price CLIN 13; Financial Applets to the task), this review did not occur.

- "In this case neither the Millennia basic contract nor the task order required consent to subcontract for this industry partner" and "In accordance with the contract and the FAR, FEDSIM also relies on the approved purchasing of Millennia vendors when appropriate."

Auditor's Analysis. The task order did not require consent to subcontract. We were told that reliance was placed on the prime contractor's approved purchasing system. However, the contracting and project management staff at FEDSIM could not answer our questions regarding the reasonableness and source of the subcontractor's hourly rates as shown on the prime contractor's invoicing.

- "According to the subcontractor, the rates bid on the task order subcontract were those that were being charged under the previous FMSS task order (the expired contract documented in the file) and were adjusted upward in accordance with typical escalation at the time the subcontract was issued."

Auditor's Analysis. We determined to test the prime contractor's approved purchasing system. The prime contractor did not support the hourly rates charged by the subcontractor. It offered as support a copy of an expired contract. The subcontractor also offered as support an official price justification memorandum that supported an indirectly related, smaller, and separately priced fixed-price CLIN (CLIN 13; Financial Applets). The work we were testing represented the procurement system improvement project under CLIN 1. The official price justification provided (relating to another CLIN) stated [The subcontractor] "proposed labor categories and rates from their existing contract with [the client agency] which was based upon their existing GSA FMSSS (sic) schedule contract [REDACTED]." We were given no explanation of how these documents were related. We were given no documentary evidence showing approved escalations for the contract, which expired on September 30, 1999. We were also not given the existing client agency contract (or escalations).

The prime contractor was asked specifically to support its pricing. Based on its response, we concluded that it was not invoicing at cost under a cost plus CLIN.

- "In this case, the subcontractor could not possibly be bound by Millennia cost ceiling rates because this is a Time and Materials subcontract and the Millennia contract does not offer Time and Material ceiling rates."

AUDITOR'S ANALYSIS OF MANAGEMENT RESPONSE
(Continued)

Auditor's Analysis. As stated in the prior section, the prime contractor supported the subcontractor's pricing with a price justification belonging to another CLIN stating "A determination was made that a fixed price task order is the most appropriate for the majority of the work to be performed by [the subcontractor] under this effort. This will enable [the prime contractor] to effectively manage and control subcontractor costs during contract performance without the risk of cost overrun." Since the subcontractor was not mentioned in the Price Negotiation Memorandum or prime contractor's proposal, we had little idea as to whether the subcontractor was operating on a fixed price, time and material, or cost plus fee basis.

- "FEDSIM takes exception to the conclusion that there was a 'potential overcharge of \$1.48 million' for work on the financial task involving the Momentum COTS application integration work accomplished under the client task order."

Auditor's Analysis. Based on the prime contractor's response to our tests involving its approved purchasing system, the subcontractor was not billing at cost under a cost plus CLIN, resulting in the overcharge of \$1.48 million. The work was not "accomplished" because the subcontractor could not deliver a new version of its software product on time.

- "When properly compared to the rates under an appropriate schedule rather than Schedule 70 the rates invoiced and accepted appear to be reasonable" and "it is not reasonable or appropriate to compare the IT Schedule 70 rates to the Millennia subcontractor rates applied." FEDSIM believes the subcontractor's MOBIS contract is the appropriate comparative vehicle.

Auditor's Analysis. The subcontractor's current FSC Group 70 contract no. GS-35F-4797H contains 80 pages dedicated to Momentum products. The client agency's procurement and financial management systems relied on Momentum, including the procurement system improvement project. The subcontractor's MOBIS contract no. GS-23F-9785H is a consulting contract and GSA's contracting officer told us that GSA stays away from software under this contract.

- "With respect to this individual subcontract, it is FEDSIM's intent to ensure proper reasonableness, allowability, and allocability of all costs incurred under the task order via the DCAA final closeout audit that must be conducted on all cost type contracts."

Auditor's Analysis. As stated in the report:

AUDITOR'S ANALYSIS OF MANAGEMENT RESPONSE
(Continued)

“The principal cause of the task order management problems was excessive reliance on outside parties for providing information. For example, FEDSIM placed reliance on a contractor’s approved purchasing system instead of taking a proactive approach and asking questions about invoiced charges that were easily discernible from even a cursory review. In another instance, FEDSIM officials, when discussing inadequately prepared invoicing under task order GST0004AJM055, stated that a DoD organization would eventually perform a contract close-out and the problem would be resolved. It is FEDSIM’s responsibility to ensure that there is a reasonable basis for accepting and paying invoices.”

Task [REDACTED] – Other Direct Costs for Satellite Services. FEDSIM declared that “FEDSIM also disputes the basis for this finding” and “The RAPP process for determining the price reasonableness under this ODC is appropriate.”

Auditor’s Analysis. FEDSIM could not provide information on over \$4 million in satellite services being provided under the task order and referred us to the prime contractor. The prime contractor’s attempt to document price reasonableness did not mask the fact that a sole source contract was provided the subcontractor, who has been providing services to the client agency since 1995. We never encountered a competitive procurement in our three (3) reviews of actions under this prime contractor’s approved purchasing system. The Price Negotiation Memorandum addressed the direct labor rates proposed by the subcontractor, which had no discernible relationship to the monthly fees for satellite services.

The request for authorization to procure parts and tools (RAPP), provided by the contractor to FEDSIM, simply refers to an open purchase order with the subcontractor for satellite services. The RAPP does not justify the price quoted, nor does it indicate that procurement professionals have reviewed the costs. The RAPP, in this instance, essentially informs the contracting officer of the contractor’s intent to subcontract.

Individual contractor’s approved purchasing rescinded. FEDSIM declares “Lastly, FEDSIM questions why the statement that an individual contractor’s approved purchasing system was rescinded is included in this report.”

Auditor’s Analysis. We were concerned with the quality of the prime contractor’s approved purchasing system. The prime contractor had provided us with documentation showing that their approved purchasing system was approved on December 30, 1998. The administrative contracting officer stated that “These reviews are good for a 3-year period unless extended by the Administrative Contracting Officer and I see no such extension in your file.” FAR 44.302(b) stated “Once an initial determination has been made under paragraph (a) of this section, at least every three years the ACO shall determine whether a purchasing system review is necessary.”

AUDITOR'S ANALYSIS OF MANAGEMENT RESPONSE
(Continued)

The field work with the ACO occurred long before the issuance of our draft report, dated May 5, 2006. Aside from fielding a phone call from concerned representatives of the prime contractor, our records indicate that the prime contractor's approval was rescinded on March 13, 2006.

Failure to Provide Criteria upon which Observations are based. In several instances, FEDSIM asserts that the audit staff makes observations based upon statements that are not related to any identifiable criteria. An example given was a contractor's inability to furnish the auditor with a comprehensive inventory report when it was due. FEDSIM declared that "FEDSIM is at a loss to understand what could be corrected or why this observation was included in the report."

Auditor's Analysis. The contractor could not produce a Full IT Asset Inventory Report, which was due July 19, 2005. The report, based on prototypes we were given, was to cover the client agency's assets world-wide. FEDSIM's project manager provided us with the status of the contractor's progress at the point of our on-site field work, occurring in August 2005. The documentation offered stated "At this time the reports they have don't even accurately report the data that is in the system or that was provided."

FEDSIM noted that there were positive results in the end and that "In award fee period four, the contractor received a good rating noting that the contractor had adequate processes in place and accurate reports could be provided from the database with confidence in their accuracy." The data given to us by FEDSIM's project manager contained comments from award fee periods one, two, and three; award fee period four results were not provided.

It is important to note that the prime contractor under task order GST0004AJM049 could not provide additional contract deliverables. The contractor could not produce security clearances for 51 percent of employees tested. Additionally, the contractor could not support its invoicing to the Government.

Failure of the Report to Identify Criteria upon which Observations are Based-Development of Task Objectives. FEDSIM asserts "It is impossible from the discussion in the report for the reader to understand the standard used by the auditor, the significance of the issues discussed, and most importantly the audited entity is left with significant questions as to what possible corrective action they might be able to take to correct the alleged deficiencies identified in the undisclosed task orders."

Auditor's Analysis. We agree that the formulation of criteria for what constitutes well-defined task order objectives can be problematic. However, we feel the issue is significant and that corrective action was actually highlighted in our prior discussion on FEDSIM's solicitation practices.

AUDITOR'S ANALYSIS OF MANAGEMENT RESPONSE
(Continued)

The report section was aimed at contracts that were more focused on obtaining a work force than on developing innovative solutions to specific information technology challenges. As an example, the program management plan for task order number GST0005AJM066 states that:

The majority of activities under this TO are day to day operational support tasks. The exception is the System Engineering task (Task 3). These developmental activities will be conducted according to a schedule and will have specific milestones.

The task's objective is to provide IT support and operations support services necessary to ensure the operational availability of the client agency's systems. The tasks were simply project management, system integration, system engineering, ashore operations, and global helpdesk operations. It was not necessary for the FEDSIM project manager to provide day to day technical direction for this sort of day to day operational support. This task was not atypical of others in our sample.

The solicitation stated that technical merit was more important than cost on this task order, and cited a cost range of between \$17.61 million and \$19.57 million and provided a level of effort estimate of 217,843 hours. The corrective action in this instance would be to compete this low-level task order on the basis of price among highly skilled Millennia contract holders.

Failure of the Report to Identify Criteria upon which Observations are Based – Failure to Produce Deliverables. In reference to task order GST0001AJM029, FEDSIM asserts “In another case, the report fails to identify criteria that forms the basis for their observations” and “The report does not document the reference for the alleged performance metrics or identify them.” FEDSIM also states “The report notes that the task order did not identify specific items required under this task specifically noting the alleged absence of metrics or deliverables required for the NMC. FEDSIM finds this assertion in opposition to the facts....” FEDSIM goes on to declare that the report does not state that the requirements of the task order were not met or value was not received, stating that “In this instance it is alleged that merely some metrics pertaining to a NMC could not be produced due to the inadequacy of a Government furnished phone system.” FEDSIM claims that there was an “alleged failure to produce reports on some performance metrics.”

Auditor's Analysis. We agree that the report, in the interests of brevity, did not identify the deliverables that were not produced during our on-site field work. They can be found under task number 3 in paragraphs C.4.3.1.2 (Tier I Performance Metrics) and C.4.3.1.4 (Metrics).

AUDITOR'S ANALYSIS OF MANAGEMENT RESPONSE
(Continued)

The contractor could not produce a Program Metrics Report, required under subtask C.4.4.6 because there were no metrics to report on.

The FEDSIM project manager corroborated the results of our tests in correspondence dated September 15, 2005.

FEDSIM adds that the report does not state that the requirements of the task order were not met or value was not received, stating "In this instance it is alleged that merely some metrics pertaining to a NMC could not be produced due to the inadequacy of a Government furnished phone system."

The requirements of the task order were not completely met because the contractor could not produce mandated deliverables. The task order had diminished value because the contractor could not produce the results the client agency wanted.

FEDSIM asserts "In another case, the report fails to identify criteria that forms the basis for their observations" and "The report does not document the reference for the alleged performance metrics or identify them."

The report correctly states that the task order required the deliverables (metrics). Furthermore, section 4.6 of the task order's Program Management Plan calls for a Metrics Program, stating that the creation of metrics information is an objective of the client agency's global network services program. Section 4.6 of the task order's Quality Plan calls for Quality Metrics, including trouble tickets reported.

FEDSIM added "The report notes that the task order did not identify specific items required under this task specifically noting the alleged absence of metrics or deliverables required for the NMC. FEDSIM finds this assertion in opposition to the facts...." FEDSIM lists, as proof that the task order contains specific deliverables, the very deliverables that could not be produced upon request.

The report stated "The task order had very few deliverables that identified a specific output or product." The audit staff reviewed the task order meticulously for specific deliverables or output that could be asked for.

Remaining Observations Detailed in Report

1. Unsubstantiated Observation Relating to Contractor Travel

FEDSIM asserts that "In this case each observation is unsubstantiated by the facts" and "Further, the report does not provide anything more than vague allegations and unsupported conclusion relating to questionable costs." The response goes on to say that "The report states that several of the trips were verbally authorized and properly documented." FEDSIM asserts "With respect to general and administrative fees

AUDITOR'S ANALYSIS OF MANAGEMENT RESPONSE
(Continued)

identified in the report, the auditor was notified on multiple occasions and from multiple sources that the contractor in this case had proposed a [REDACTED] general and administrative fee as part of its proposal to the MAS program. This proposal was accepted and incorporated into the contractor's **MAS** contract. This was verified several times by the awarding contracting officer with the schedule contracting officer."

Auditor's Analysis: The documentation provided by the contractor did not establish that a [REDACTED] percent general and administrative rate, or any general and administrative rate, was to be applied to travel costs associated with PES schedule contract no. [REDACTED]. On March 23, 2005, in response to our inquiries, we received the following correspondence from the procurement (GSA schedule) contracting officer's representative, which stated in part:

There is no mention of G&A on travel in contract [REDACTED]. Therefore, G&A on travel is not acceptable according to the above mentioned contract. Finally the contract has not been modified to add G&A on to travel at any time.

The procurement contracting officer's representative also provided us with the following correspondence on March 20, 2006:

Contract [REDACTED] was not awarded a specific G&A rate. In fact we do not allow specific G&A rates to be awarded – we award fully burdened rates. Neither the final proposal nor the contract award documents mentions G&A.

FEDSIM asserts that "In this case each observation is unsubstantiated by the facts" and "Further, the report does not provide anything more than vague allegations and unsupported conclusion relating to questionable costs." FEDSIM goes on to say "The audit does not identify any instance of travel....exceeding the ceiling identified in the contract."

In regard to travel, the audit report deals primarily with airfare. The report noted several similar trips to a single destination that were assessed greatly varying airfares:

Generally, we found almost no evidence to support the contention that much travel was "last minute". A sample of five trips to Dallas/Fort Worth (all out of Washington Dulles) found airfares of \$277, \$396, \$867, \$1146, and \$1734. All but one, was purchased at least one month in advance. We noted two separate trips to Dallas/Fort Worth that included Sunday travel, a non-stop leg, with scheduling at least a month in advance; however, the fares were \$277 and \$1146.

AUDITOR'S ANALYSIS OF MANAGEMENT RESPONSE
(Continued)

Working with both the FEDSIM and contractor project managers, we were able to identify the source of the problem as stated in the following correspondence from the FEDSIM project manager:

My research showed that a ticket with no restrictions came in at approx \$1,000 even with two week notice. A ticket with restrictions came in at only \$300. [The contractor] has been made aware of this and have now reduced the threshold for approval for ticket purchases.

The project managers further acknowledged that a control problem existed in the following correspondence:

[The two project managers] take note of your concern and she has indicated that she would advise travelers that per the task order 'airfare shall be at the prevailing rates for commercial airlines at tourist class.'

There was simply no assurance that task order requirements³⁸ for reasonably priced airfare were being met. The audit correctly identifies the cause of the problem:

Controls over contractor travel were bypassed. Four of the twelve trips were approved after the trip had occurred.³⁹ The [FEDSIM] project manager was receiving a trip report and a copy of an approval document⁴⁰ after the travel had occurred. The contractor told us procedures were changed due to the high number of last minute travel requests. The task order provides "All requests for travel and ODCs must be approved by the FEDSIM Program Manager (PM) prior to incurring costs." It was reiterated in the contractor's Project Management Plan.

The audit staff identified the condition, criteria, and cause, the project managers acknowledged the problem, and the contractor took action to correct the problem.

FEDSIM alleges "The report states that several of the trips were verbally authorized and properly documented." The report simply does not say this.

FEDSIM takes issue with the report comment that we found vague and questionable costs. Because the controls contained in the task order had been circumvented, our

³⁸ The task order requires that "Airfare will be reimbursed for actual common carrier fares, which are obtained by the most reasonable and economical means."

³⁹ The back-up documentation for several trips contained the statement "In accordance with AI-ES's new contract supporting the JPO, prior 'written' approval (email concurrence is fine) is required for travel."

⁴⁰ This invariably took the form of email traffic between the client agency's approving official and the requestor.

AUDITOR'S ANALYSIS OF MANAGEMENT RESPONSE
(Continued)

analysis of travel documents was replete with examples of travel costs that were questionable.

3. Issues Identified Outside the Span of Control and Management of FEDSIM – Security Clearances

FEDSIM asserts “The report states in a heading that ‘Not adhering to security procedures led to problems’ is not followed up with any real problems other than paperwork not being properly maintained by the Cognizant Security Offices’s (sic) contractor.

Auditor’s Analysis. We assert the report’s conclusion that FEDSIM was not properly managing its task orders concerning security clearances and that it is the responsibility of FEDSIM’s contracting officers to ensure that the requirements of its task orders are fully complied with. The fact that the audit report did not cite instances where security was compromised should not minimize the importance of ensuring that task orders’ security requirements are complied with.

REVIEW OF
FEDERAL SYSTEMS INTEGRATION AND MANAGEMENT CENTER (FEDSIM)
REPORT A050078/T/5/Z06015

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