

REVIEW OF MULTIPLE AWARD
SCHEDULE PROGRAM
CONTRACT WORKLOAD MANAGEMENT
REPORT NUMBER A060190/Q/6/P07004
JULY 31, 2007

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U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

Date : July 31, 2007

Reply to
Attn of : Acquisition Programs Audit Office (JA-A)

Subject : Review of Multiple Award Schedule Program Contract Workload Management
Report Number A060190/Q/6/P07004

To : James A. Williams
Commissioner, Federal Acquisition Service (Q)

We have completed a review of contract workload management for the Multiple Award Schedules Program (Schedules program). We determined that Federal Acquisition Service (FAS) management endeavors to ensure that Schedules program workload is fairly balanced. However, we found that FAS could improve the quality and accuracy of data related to contract modifications in the automated system FAS uses to manage Schedules program work, adopt a more structured approach to reduce underutilized contracts, consider increasing the \$25,000 minimum sales threshold for the Schedules program, and adopt a more strategic approach to managing the Schedules program.

To ensure that contracting actions meet minimum standards, FAS has implemented training, developed guidance, and instituted quality reviews. However, FAS could improve guidance for contracting personnel, especially related to negotiations and determining price reasonableness and establish performance measures related to price analysis.

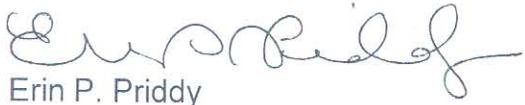
Cycle time related to processing contracting actions is one of the primary measures FAS uses to gauge efficiency of operations. We encourage FAS to expand the use of successful practices and develop standard operating procedures for transferring contract files. In addition, FAS should balance its focus between timeliness and quality of contract awards and give equal attention to timeliness for all types of contracting actions.

While Schedules program sales and revenues have increased more rapidly than program costs in recent years, FAS has recently taken action to reduce program costs. FAS may be able to further reduce program costs by adopting the strategic approach to the Schedules program that we recommend. FAS could also increase emphasis on costs through enhancements to program performance measures.

Your response to the draft audit report is included in its entirety as Appendix A of this report.



If you have any questions or would like additional information regarding the report, please contact John Pollock, Laurel Caes, Michelle Westrup, or me at 816-926-7052.



Erin P. Priddy
Audit Manager
Acquisition Programs Audit Office

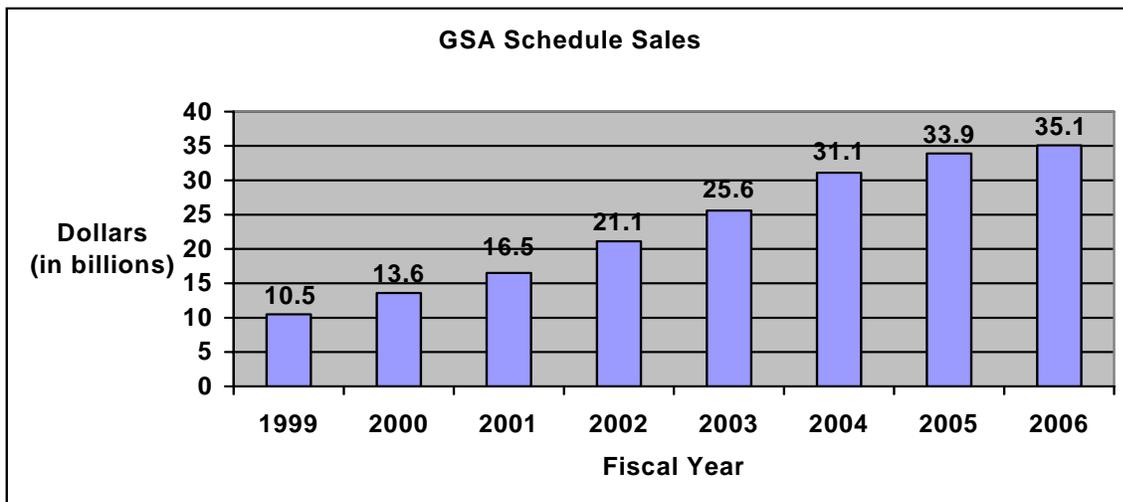
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INTRODUCTION

Background

Under the Multiple Award Schedules Program (Schedules program), GSA's Federal Acquisition Service (FAS) establishes long-term government-wide contracts with vendors to provide Federal agencies access to over 10 million commercial supplies and services. GSA negotiates the contracts with the objective of achieving the vendors' most favored customer (MFC) pricing/discounts under similar conditions. The MFC benchmark reflects GSA's mission to leverage the collective buying power of the government to obtain volume discounts. The Schedules program allows agencies to place orders directly with MAS vendors with the assurance that GSA has already determined pricing to be fair and reasonable¹. In addition, the Federal Acquisition Regulation (FAR) provides that agencies may seek additional discounts before placing an order. The simplified purchasing method affords agencies the benefit of speed and cost savings in obtaining the products and services needed to fulfill their missions. Agencies have only to make a determination that the selected vendor represents the best overall value to the government. GSA collects a .75 percent fee from vendors on all MAS contract sales in order to fund its operation of the program.

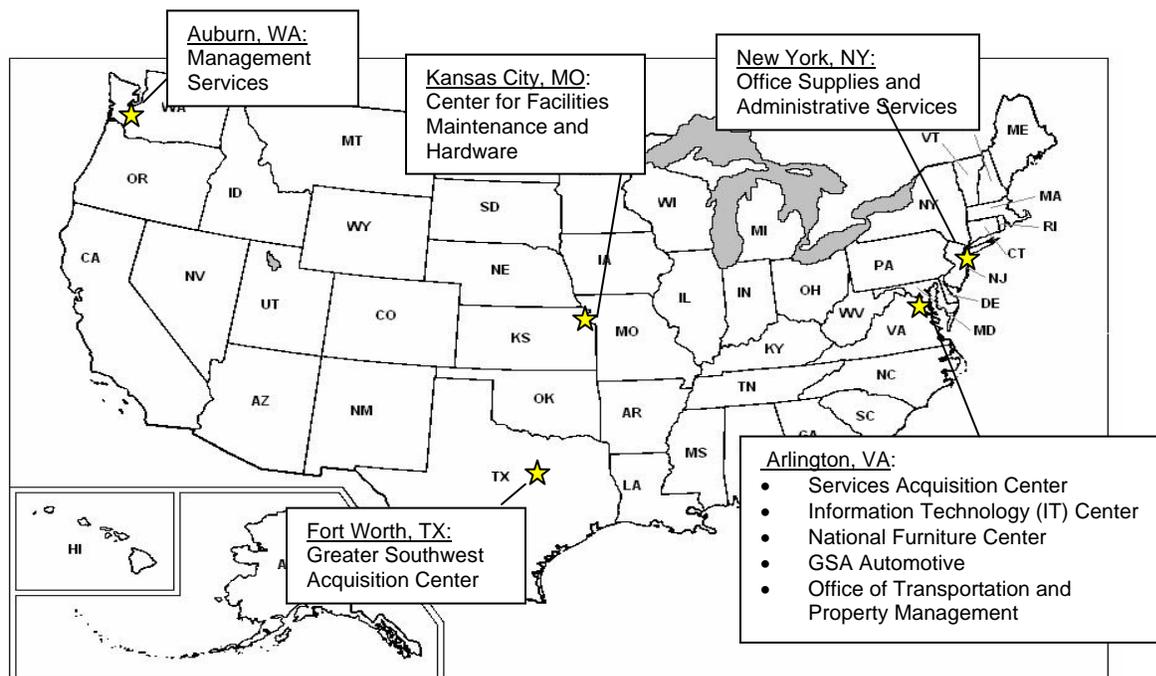
The Schedules program is one of the largest contracting activities in this nation and has experienced significant growth over the past decade. From Fiscal Year (FY) 1999 through FY06, schedule sales increased from \$10.5 billion to \$35.1 billion, as shown below.



¹ For services, GSA ordering guidelines require agencies to consider labor mix and level of effort and make a determination that the total price is fair and reasonable.

The number of schedule contracts, contracting actions, and staff also increased during this period. As of FY06, there were 17,643 contracts in the Schedules program. During FY06, acquisition personnel processed 4,929 offers and 22,783 contract modifications. As of FY06, 529 people made up the Schedules program staff.

GSA has nine Acquisition Centers, as shown below, that award and administer 37 schedules.



Objective, Scope and Methodology

The objective of the review was to determine if the FAS is effectively managing the workload associated with processing contract actions (offers and modifications, including options to extend existing contracts) in the Schedules program.

We conducted the review from June 2006 through January 2007. To accomplish our objective, we performed site visits to the Greater Southwest Acquisition Center and the Management Services Center. In addition, we performed limited survey work of the IT Acquisition Center, National Furniture Center, and Center for Facilities Maintenance and Hardware, and met with acquisition officials in FAS Central Office and the Office of the Chief Acquisition Officer.

We also performed the following steps:

- Reviewed relevant Office of Inspector General (OIG) and Government Accountability Office (GAO) audit reports from FY92 through FY07.

- Reviewed other reports related to reviews of the Schedules program, including Office and Management and Budget's Program Assessment Rating Tool from 2004 (PART), Program Management Review (PMR) reports from 2006, and SiloSmashers' Multiple Award Schedule Program Research and Analysis from 2005.
- Reviewed relevant Procurement Information Bulletins (PIB) and Procurement Information Notices (PIN) from FY97 through FY07.
- Reviewed applicable provisions of the Federal Acquisition Regulation (FAR).
- Reviewed information about the Schedules program on various GSA websites.
- Held discussions with Center officials and staff regarding responsibilities, program goals, methods and processes for work distribution and balance, and the effects of recent schedule transfers.
- Reviewed Center organizational charts and staffing information for the Management Services Center, Greater Southwest Acquisition Center, Center for Facilities Maintenance and Hardware, Office Supplies and Administrative Services, Services Acquisition Center, Information Technology (IT) Center, and National Furniture Center.
- Analyzed and evaluated workload distribution statistics for the Schedules program for FY99 through February 2007.
- Reviewed FAS' use of various automated systems to monitor and assess the workload associated with the Schedules program.
- Reviewed a sample of contracts eligible for renewal in FY06 in the Management Services Center and the Greater Southwest Acquisition Center.

The review was conducted in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW

Brief

FAS management endeavors to ensure that MAS workload is fairly balanced by adjusting workload within the Centers and between the Centers to improve workload balance. However, FAS could facilitate workload distribution by improving the quality and accuracy of data related to contract modifications in the automated system used to manage MAS work. In addition, while FAS has taken action to reduce the number of underutilized schedule contracts, a more structured process could enhance these efforts. Further, by adopting a more strategic approach to managing the Schedules program, FAS may be able to more effectively utilize its resources to enhance customer and vendor satisfaction.

To ensure that contracting actions meet minimum standards, the Centers we visited have implemented training, developed guidance, and instituted quality reviews. Our review of contract file documentation indicated that the Centers generally complied with administrative policies and procedures related to approvals and followed Center templates for exercising contract options. However, FAS could improve consistency and effectiveness in achieving best value for customer agencies and taxpayers by improving guidance for contracting personnel and establishing performance measures related to verifying vendor commercial sales practice (CSP) disclosures, considering field pricing assistance, and conducting effective price analyses and negotiations.

Cycle time related to processing contracting actions is one of the primary measures used by the Centers to gauge efficiency of operations, and FAS has been able to reduce cycle times in recent years. FAS may be able to further reduce cycle times by expanding use of practices used by some Centers, such as performing an initial screening of incoming offers. In addition, development of standard operating procedures for transferring contract files when schedule reassignments occur could help ensure a smooth transition. Further, FAS needs to ensure that its recent focus on the timeliness of offer processing does not lead Contracting Officers/Contract Specialists (CO/CS) to sacrifice quality or timeliness of modifications and options.

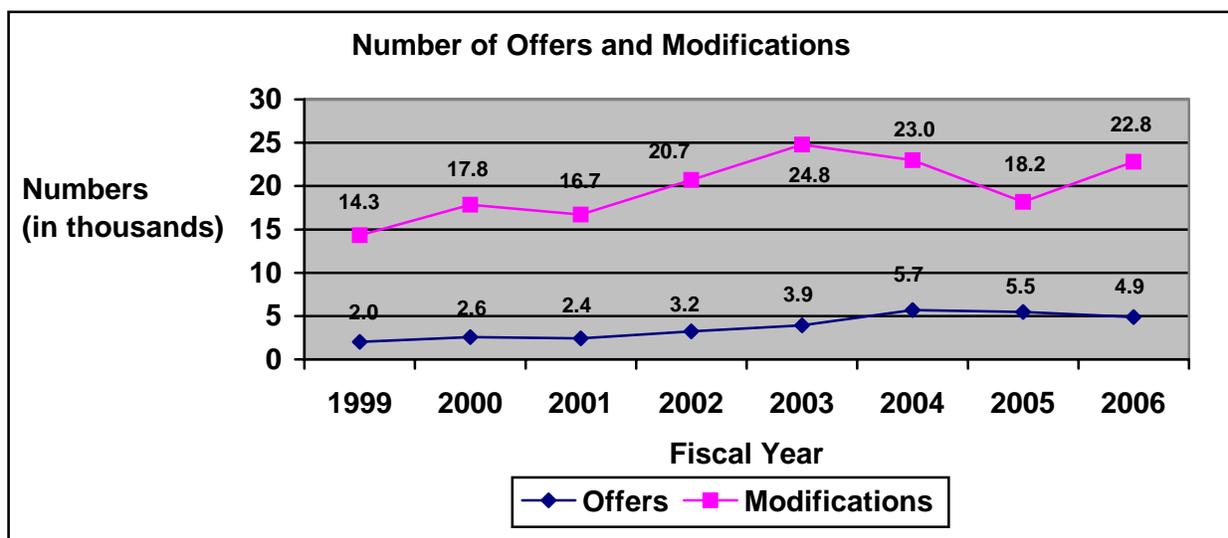
While MAS sales and revenues have increased more rapidly than program costs in recent years, FAS has recently taken action to reduce program costs. FAS may be able to further reduce program costs by adopting the strategic approach to the Schedules program that we recommend. FAS could also increase emphasis on costs through enhancements to program performance measures.

Workload Quantity and Distribution

Center management and Central Office FAS officials endeavor to ensure that workload is fairly balanced. Improving the quality and accuracy of data in the principal automated

system used to manage work (FSS Online) could facilitate these efforts. In addition, while FAS has taken action to reduce the number of underutilized contracts, a more structured process could enhance these efforts. Further, FAS may be able to more effectively utilize its resources to enhance customer and vendor satisfaction by adopting a more strategic approach to managing the Schedules program.

FAS Efforts to Balance Workload. FAS officials have made efforts to equitably distribute the MAS workload among and within the Centers. Prior to our field visits to the Centers, we analyzed FSS Online workload statistics and other FAS data to understand workload issues and assess whether workload appeared to be balanced within and among the Centers. FSS Online statistics indicated that the volume of offers and modifications has increased in recent years, as shown in the chart below.



FSS Online data also indicated that the number of contracting actions processed varied considerably among the CO/CSs in the Centers we visited, as did the number of schedule contracts assigned to each CO/CS. However, we determined that the workload statistics do not provide an accurate indication of workload balance.

One reason for the disparity in the number of contracting actions processed per person is that CO/CSs in some Centers specialize in certain types of contracting actions. Also not reflected in the statistics is the fact that some contracting actions and schedules are more complex than others and therefore, take longer. Further, some vendors generate significantly more modifications than others, making it reasonable to assume that there would be differences in the number of contracts assigned to each person.

Each CO/CS is generally assigned a specific schedule or portion of a schedule. However, Center managers consider other factors, such as existing workload and individual skills, when assigning work. In addition, when the workload has shifted disproportionately toward one schedule or branch, the Centers have adjusted work assignments as necessary.

To further balance workload among the Centers and also to improve operational efficiencies, the FAS Office of Acquisition Management reassigned several schedules during FY06 and FY07, including the transfers shown in the following table. FAS advised us that additional schedule transfers may occur.

Schedule Number	Description of Products and/or Services	From	To	Number of Contracts ²
70	Information Technology	Information Technology Acquisition Center	Center for Facilities Maintenance and Hardware ³	183 ⁴
871 II	Energy Management	Management Services Center	Center for Facilities Maintenance and Hardware	46
871	Professional Engineering Services	Services Acquisition Center	Management Services Center	750
78	Sports, Promotional, Recreation, Trophies, Signs	Greater Southwest Acquisition Center	National Furniture Center	665
541	Advertising and Integrated Marketing Solutions	Services Acquisition Center	Greater Southwest Acquisition Center	700

Staffing has increased somewhat in recent years, and the FAS Office of the Controller has recently granted some of the Centers approval to hire additional contracting personnel. FAS noted in the October 2006 Business Plan for the Schedules program that hiring experienced contracting personnel remains a challenge as the number of offers and modifications increase. A fairly high percentage of FAS personnel are eligible for retirement within five years (for example, 27% in one Center and 43% in another), but FAS has controls to identify these dates, and the Centers are aware of the potential impact on their operations.

² Approximate number of contracts transferred

³ Some Center for Facilities Maintenance and Hardware personnel were detailed to the IT Acquisition Center to manage these contracts.

⁴ The IT Acquisition Center retained responsibility for approximately 5,200 contracts. The 183 IT contracts transferred represent approximately 3.4 percent of the total IT schedule contracts.

Automated Systems. By clarifying policy regarding the input of contract modifications to FSS Online and enhancing the way the system classifies modifications, FAS could improve the accuracy of the data used by Center managers to distribute work.

When assigning incoming work, Center managers refer to FSS Online data for information on the number of contracting actions processed by each CO/CS, their average cycle times, and their current workload. In addition, Central Office FAS management considers FSS Online data when analyzing Center activity.

During our interviews, we learned that the processes to enter modification information into FSS Online were not consistent. Specifically:

- Some Centers centrally log modification requests immediately upon receipt, while others delay entry until the CO/CS processes the modification. Therefore, the data in FSS Online may not accurately reflect the volume of work, overall and by CO/CS, at a particular point in time. Further, the cycle times to process modifications shown in FSS Online may not be accurate.
- CO/CSs use different methods to input modifications into FSS Online. For example, a vendor may request multiple contract changes at one time (e.g., changing address, adding items, and changing prices). One CO/CS may input these changes as one modification, while another CO/CS may input the changes as three modifications. This difference can distort production statistics and affect workload assignments.

Center personnel were unaware of any centralized guidance regarding the preferred method and timing of entering modification actions into FSS Online.

FSS Online also does not classify modifications by the type of contracting action. In discussions with CO/CSs, they informed us that certain administrative modifications such as changes in vendor point of contact or address can be processed quickly, while other modifications such as price changes and options generally take longer to process.

The accuracy of modification data in FSS Online could be improved if Central Office FAS established a consistent policy regarding entering modification information. In addition, the data FAS managers use to assign and manage work could be enhanced if modifications were classified according to relative complexity.

Recommendations

We recommend that the Commissioner, FAS:

1. Develop policy to standardize Center processes regarding the method and timing of entering modification information into FSS Online.
2. Amend FSS Online to classify modifications according to relative complexity.

Management Comments

In his July 17, 2007 response to the draft report, the Commissioner indicated partial agreement with these two recommendations. The response stated that changes to the contract modification process would be considered as part of FAS' broader reengineering process for the Schedules program. We reaffirm the recommendation. The Commissioner's comments are included in their entirety as Appendix A to this report.

Underutilized Contracts. FAS has instituted procedures to cancel schedule contracts that do not meet the minimum sales threshold and educate vendors about program expectations and requirements. We believe that FAS could further reduce the number of underutilized contracts by implementing a more structured process and considering an increase in the threshold amount for minimum sales requirements.

Currently, FAS policy requires all vendors on schedule to generate \$25,000 in sales within the first two years of their contract and \$25,000 annually thereafter. GSA's Chief Acquisition Officer estimated that it costs an average of \$5,000 per year to administer a schedule contract. To generate \$5,000 in revenue, a schedule contract would need annual sales of \$666,667 ($\$666,667 \times .75\% = \$5,000$). Given that \$25,000 in sales generates only \$187.50 in revenue for FAS ($\$25,000 \times .75 \text{ percent} = \187.50), FAS should consider increasing the current minimum sales threshold. As part of this consideration, FAS may want to assess whether different thresholds would be appropriate for different schedules.

In an attempt to reduce the number of schedule contracts with little or no sales, FAS has taken the following actions:

- Since November 2005, the Business Management Division in the Office of Acquisition Management has reported canceling 855 contracts with low sales or no sales. We sampled 171 of those reported cancellations and found that approximately 95 percent of these contracts had, in fact, been cancelled.
- PIB 97-9, dated June 2, 1997, states that costs associated with every contract are significant, and that when it is time to exercise an option, the CO must review sales data to determine whether the amount of sales justifies the expense of exercising the option and continuing to administer the contract.
- PIN 2007-03, issued February 27, 2007, states that for contracts not meeting contract sales criteria, the CO/CS needs to consider a variety of factors, such as the nature of the product or service and whether the vendor has any imminent or unreported sales, and make a business decision whether to cancel the contract.

In addition, in the interest of preventing award of underutilized contracts, FAS has recently implemented procedures to ensure that vendors submitting offers fully understand the requirements and expectations of the program; specifically:

- In FY06, FAS developed a letter for all prospective offerors that explains vendor responsibilities associated with having a schedule contract, including sales requirements and asks the vendors to consider whether a schedule contract is in their best interests.
- In FY07, FAS developed an educational seminar, “Pathway to Success,” as a requirement for all vendors interested in participating in GSA’s MAS Express Program. The MAS Express Program is associated with the GSA Administrator’s initiative for awarding contracts in 30 days, discussed later in this report.
- FAS encourages all prospective vendors to take an online course, “How to Become a Contractor—GSA Schedules Program,” through GSA’s Center for Acquisition Excellence.

Even with these procedures in place, many schedule contracts have minimal sales. Of the 11,828 MAS contracts that had been in effect at least two years as of September 30, 2006, 3,117 contracts (26%) had reported sales of less than \$25,000, which included 1,976 contracts (17%) with no sales.

FAS may be able to further reduce the number of underutilized contracts by adopting a more structured approach to identify contracts with sales below the minimum threshold. FAS could institute a control whereby total sales are automatically computed on each contract’s two-year anniversary. If the sales are below the minimum threshold, an automated system could generate a letter to the vendor and a notice to the CO/CS. Unless a CO/CS intervenes based on vendor feedback, the contract would be cancelled after a reasonable period of time. After the first two years of the contract, this process could be repeated to ensure the vendor is meeting the minimum annual sales requirement.

Recommendations

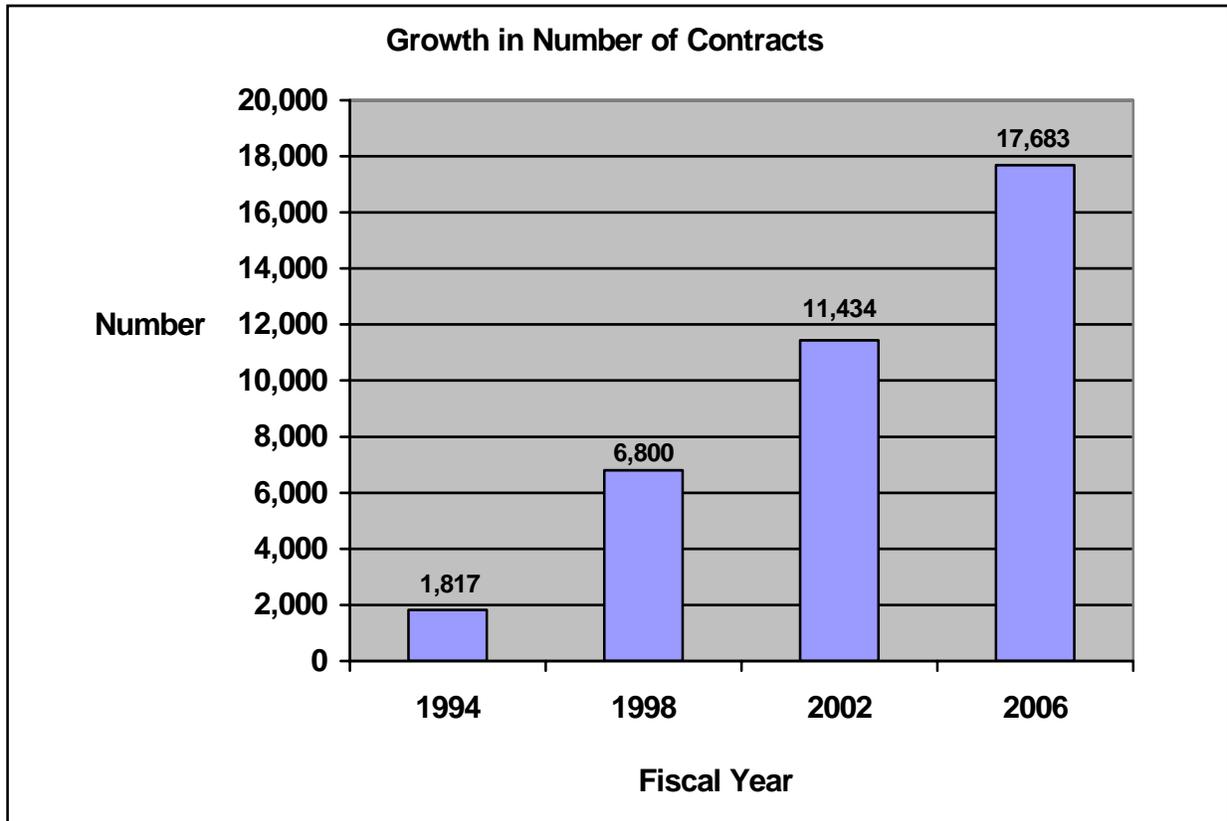
We recommend that the Commissioner, FAS:

3. Adopt a more structured approach to reduce the number of existing underutilized schedule contracts.
4. Consider increasing the minimum sales threshold for schedule contracts from the current minimum (\$25,000 for the first two years, and \$25,000 annually thereafter).

Management Comments

In his July 17, 2007 response to the draft report, the Commissioner concurred with these two recommendations. The Commissioner’s comments are included in their entirety as Appendix A to this report.

Strategic Approach. The evolution of the Schedules program has contributed to the significant increase in the number of schedules, contracts, and contracting actions. This increase has also contributed to the large number of underutilized contracts that generate additional work for FAS, which does not benefit customer agencies, taxpayers, or vendors. By adopting a more strategic approach to managing the Schedules program, FAS may be able to more effectively utilize its resources to enhance customer and vendor satisfaction.



Public Law 103-286, which Congress passed in 1994, required GSA to phase in reimbursable funding for the Schedules program over a three-year period starting in FY95. Under this funding mechanism, vendors collect money from customers and remit the money quarterly to GSA to cover the cost of operating the program. GSA initially set the fee at one percent of sales, but lowered it to .75 percent as of January 1, 2004. Prior to the passage of Public Law 103-286, the program was funded through annual appropriations. In 1996, the Schedules program also converted from mandatory use to a non-mandatory program.

The industrial funding business model, conversion of the Schedules program to non-mandatory status, and customer needs have led GSA to consider ways to expand revenue and the products and services offered under the Schedules program, as follows:

- In 1997, GSA began awarding multiple contracts for identical items. This allowed FAS to award more contracts.
- During FY98 through FY00, GSA developed a number of additional schedules for services, as demonstrated in the table below, and they continue to try to identify additional opportunities for growth. For example, the FY06 Business Plan for the Schedules program stated that the Office Supplies and Administrative Services Acquisition Center was reviewing the addition of Administrative Support Services.

Fiscal Year	Schedules Added
1998	Auditing, financial management services, and financial asset services
1999	Marketing, media, and public information services; professional engineering services; environmental advisory services; security; energy management; human resources; mail management; and translation and interpretation services.
2000	Debt collection and financial-related legal services; recovery auditing services; move management services; logistics and supply/value chain management. Also, added services related to energy, geographic information, program integration and project management, alternative dispute resolution support, mailroom ergonomic analysis, and human resources.

Large numbers of schedule contracts naturally increase work for many areas of FAS. Not only are more resources required to evaluate more offers, but more contracts mean more modifications must be processed, as well as other administrative functions, such as visits by FAS Industrial Operations Analysts that monitor contract compliance, including vendor controls over sales reporting. Also, as noted in the FY07 Business Plan for one of the Centers, the large number of vendors on each schedule makes it difficult for customer agencies to narrow down vendors when performing market research and making a best value determination. Further, unlimited contracts, as well as large numbers of underutilized contracts, suggest that FAS may not be effectively leveraging the government's buying power.

We believe that FAS could use its acquisition resources more efficiently and effectively and improve the Schedules program outcomes by implementing a more strategic approach. For example, it may be desirable to strategically limit the number and/or type of vendors (manufacturer vs. reseller, small vs. large, etc.) offering identical goods or services, while still providing customer agencies with sufficient selection. Similarly, it may not be advantageous to award fixed-price contracts for certain types of products and services. Specific strategies would emerge from extensive analysis of various

product and service groups including thorough market research and analysis of commercial practices in conjunction with an examination of government customer buying patterns, including the level of meaningful competition occurring at the order level.

Through the Services Acquisition Reform Act of 2003, Congress chartered a panel to study current laws, regulations, and government-wide acquisition policies. This panel was to recommend appropriate reforms to ensure the effective and appropriate use of commercial practices to government acquisitions. The panel issued its Final Draft report in December 2006. A key finding of the panel was that competition is the bedrock of commercial practice. The panel recommended a new services schedule for information technology that would reduce the burden on vendors of negotiating labor rates with GSA and at the same time improve competition. The panel stated that labor rate negotiations produce little meaningful price competition because services of this type are requirement-specific. They stated that meaningful competition results from an offeror responding to a specific order requirement with an appropriate and well-priced labor mix resulting in a quality solution, and stated that competition should be required at the order level. We believe this principle may apply to other types of services and perhaps some products, as well.

Imperative to the success of a strategic approach is the availability of comprehensive data regarding usage of the schedules. Currently, FAS only requires MAS vendors to report total contract sales quarterly by Special Item Number. Therefore, FAS does not have information on the specific products and services individual customers are buying, nor can FAS analyze order size and frequency. FAS is aware of the limitations of its data and is trying to extract data from *GSA Advantage!* to try to improve the quality of its data regarding customer purchases. To assist in evaluating schedule use in order to implement a strategic approach, FAS should expedite efforts to obtain more comprehensive data regarding customer agency buying patterns at the order level.

Recommendation

We recommend that the Commissioner, FAS:

5. Begin to implement a more strategic approach for the Schedules program with a focus on determining the best methods to leverage the government's requirements for different types of products and services to obtain best value for customer agencies and taxpayers. The strategy should include thorough market research and analysis of commercial practices of products and services offered under the Schedules program in conjunction with an extensive analysis of government customer buying patterns, including the level of meaningful competition occurring at the order level.

Management Comments

The Commissioner's July 17, 2007 response to the draft report concurred with the recommendation. The Commissioner's comments are included in their entirety as Appendix A to this report.

Quality of Contracting Actions

The Centers we visited have established policies and procedures to ensure the overall quality of contracting actions, including training and guidance, and quality reviews. Our review of contract file documentation indicated that the Centers generally complied with administrative policies and procedures related to approvals and followed Center templates for exercising contract options. However, we noted variances in the level of documentation related to price analysis and negotiations.

While FAS considers a more strategic approach for some schedule items, as discussed in the previous section of this report, FAS could improve consistency and effectiveness in achieving best value for customer agencies and taxpayers by (1) providing improved guidance to contracting personnel that describes specific documentation requirements related to price analysis and policies and techniques related to negotiations, and (2) establishing performance measures that encourage CO/CSs to verify commercial sales practices disclosed by vendors, give due consideration to findings of pre-award attestation reviews and other field pricing assistance, and conduct effective price analyses and negotiations.

Importance of Price Analysis and Negotiations. FAR 8.404(d) states that, "GSA has already determined the prices of supplies and fixed-price services, and rates for services offered at hourly rates, under schedule contracts to be fair and reasonable." Quality price analyses and negotiations are key factors to ensure that the Schedules program fulfills this value proposition. The significance of price has been previously well documented, as evidenced by the following:

- ◆ GSA has identified the Schedules program as a Major Management Challenge in its Annual Performance and Accountability Report for the past 7 years. GSA's concern is that, as the Schedules program has grown, the importance of certain program fundamentals, such as price analysis and negotiations have diminished.
- ◆ In June 1997, the Director of FSS' Acquisition Management Center issued a PIB stating that merely exercising options without further evaluation or analysis is not adequate. This PIB also highlights the importance of constantly monitoring contract prices.
- ◆ In March 1999 and August 2004, the Director of FSS' Acquisition Management Center issued additional PIBs emphasizing the importance of prices, not only at award, but also throughout the life of the contract. The 1999 PIB states that the prices and terms agreed to in modifications can become more important than those negotiated at contract award. These PIBs reflect FAS' recognition that

over extended periods of time, a vendor's pricing practices are expected to change, and therefore, the vendor assertions that no changes have transpired should be questioned.

- ◆ In a July 2005 report, GAO cited documentation weaknesses related to price analysis and negotiation and stated that for more than 25 years, it has reported on GSA's Schedule program pricing problems. GAO concluded that GSA continues to miss opportunities to save hundreds of millions of dollars.
- ◆ In August 2001, the GSA OIG issued a special report⁵ that emphasized price analysis as the key substantive step a CO performs to arrive at a fair and reasonable price. The OIG found that 44 out of 80 schedule contracts reviewed were extended without a meaningful or vigorous price analysis.
- ◆ In addition, GSA OIG attestation reviews of schedule vendor pricing information continue to identify problems. Over 75 percent of pre-award MAS attestation reviews issued by the GSA OIG from FY05 through the first quarter of FY07 indicated that the vendor's CSP was not current, accurate, or complete. For the same time period, the GSA OIG recommended over \$2.3 billion in savings as a result of these reviews.

Quality Reviews. Central Office FAS and the Centers have implemented procedures to help ensure overall contract quality, including MFC pricing. In some Centers, if discounts negotiated are less than the vendor's disclosed MFC, the CO/CS must obtain management approval. In addition, all of the Centers are subject to annual review by the Office of the Chief Acquisition Officer (OCAO) through the PMR process.⁶ The Centers we visited have also established various levels of internal quality reviews, including reviews of contract files to assess compliance with the FAR and other requirements. The Centers use checklists to evaluate the various components of the contract file, including the presence and sufficiency of key documents such as acquisition plans and price negotiation memoranda. Further, as an additional control for high-risk awards, Centers have implemented evaluation panel reviews for all awards expected to exceed a certain dollar threshold. These thresholds vary from Center to Center.

Contract Documentation Review. For the two Centers we visited, we selected a sample of 31 of the highest dollar value contracts eligible for renewal in FY06. The total cumulative sales for these 31 contracts exceeded \$2.1 billion as of 9/30/06, which represented 49 percent of the total cumulative sales for the contracts eligible for renewal in these regions for FY06. For these 31 contracts, we requested:

- ◆ Standard Form 30s (SF30), Amendment of Solicitation/Modification of Contract for the option and any temporary extensions prior to exercising the option.

⁵ General Services Administration, Office of Inspector General, *MAS Pricing Practices: Is FSS Observing Regulatory Provisions Regarding Pricing?* (August 24, 2001).

⁶ The OCAO reviews cover all GSA procurement activity and are generally performed on a regional basis.

- ◆ Pre-Negotiation and Price Negotiation Memoranda for the option.
- ◆ Documentation of internal quality reviews of these contract actions.

Our review of the information provided was limited to the contract file documentation as it related to the following:

- ✓ COs approved contracting actions
- ✓ Management officials approved temporary contract extensions
- ✓ Management officials approved awards resulting in discounts less than MFC
- ✓ An internal panel approved options meeting the Centers' sales thresholds
- ✓ CS/COs followed the Center's template guidance
- ✓ CS/COs documented price analyses and negotiations in accordance with FAR 15.406

Our review of contract file documentation indicated that the Centers generally complied with administrative policies and procedures related to approvals and followed Center templates for exercising contract options. However, as shown in the following table, as part of our contract documentation review, we noted variances in the level of documentation relating to price analysis and negotiations.

Subject	FAR Requirement	Documentation Variances
Documentation of Negotiation Objectives	FAR 15.406-1(b), "The contracting officer shall establish prenegotiation objectives before the negotiation of any pricing action."	Several price analyses included negotiation objectives. However, some did not.
Documentation of Negotiations	FAR 15.406-3, "The contracting officer shall document in the contract file the principal elements of the negotiated agreement. The documentation shall include...prenegotiation objectives and the negotiated agreement including an explanation of any significant differences between the two positions."	Some files contained thorough documentation, including negotiation objectives and whether they were achieved, while others included no discussion of negotiations.
Discussion of Audit Findings	FAR 15-406(3)(a), "The contracting officer shall document in the contract file...a	The documentation related to audits ranged from

	summary of the contractor’s proposal, any field pricing assistance ⁷ recommendations, including the reasons for any pertinent variances from them, the Government’s negotiation objective, and the negotiated position.”	mentioning an audit on a SF30 to including the audit report and discussing the audit findings and the CO’s response
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FAR 4.8, *Government Contract Files*, requires that contract files be sufficient to comprise a complete history of the transaction, including support for actions taken. In conjunction with FAR 4.8, PIB 05-4, *Documentation, Documentation, Why It’s Important*, lists specific documents that should be contained in the official contract file, including price analysis and negotiation documentation. In addition, FAR 15.406 specifies requirements for documenting contract pricing.

We did not find evidence that the Centers’ internal quality reviews identified the need for improved documentation in these areas. However, some recent PMRs noted documentation inconsistencies and a need for improvement in documenting price analyses and negotiations. In addition to these documentation variances, our interviews of CO/CSs indicated substantial differences in negotiation philosophies. Some CO/CSs deem it important to always conduct negotiations with vendors, either in person or by telephone. Others prefer not to negotiate with vendors.

Opportunities to Improve Consistency and Quality. More specific guidance related to price analysis documentation requirements and negotiation policies and techniques, as well as performance incentives that encourage due diligence in these areas, could improve consistency and effectiveness and thereby enhance the Schedules program’s value to customer agencies, taxpayers, and vendors.

Training and Guidance. The Centers we visited provide their contracting personnel with a variety of formal training opportunities, including the Contracting Officer Warrant Program. These classes are attended by CSs working towards becoming warranted and by current COs as refresher training. In addition to formal training opportunities, the Centers provide on-the-job training. The majority of personnel we interviewed expressed satisfaction with current training programs. In addition to training, the Centers we visited have developed templates for awards and options, which are used as guidance to capture relevant policies and regulations and adequately document the contract file.

While CO/CSs have access to various training opportunities and contracting guidance (PIBs, PINs, FAR, Federal Acquisition Institute guidance, etc.), there is no nationwide desk guide that is tailored to provide in-depth, comprehensive, consistent, and readily accessible guidance on price analysis and negotiation of schedule contracts.

⁷ Field pricing assistance includes audit assistance and reports.

A September 2005 consultant's report⁸ on challenges facing the Schedules program identified that a MAS desk guide could provide a method for standardizing and formalizing procedures and practices. Supplying contracting personnel with readily accessible reference materials, especially those outlining and strengthening the documentation requirements related to price analysis, would enhance the ability of CO/CSs to achieve the best value for customer agencies and taxpayers. Achieving greater standardization could also increase vendor satisfaction with the program by clarifying expectations.

Recommendation

We recommend that the Commissioner, FAS:

6. Establish specific nationwide guidance related to price analysis documentation requirements and negotiation policies and techniques for schedule contracts.

Management Comments

In his July 17, 2007 response to the draft report, the Commissioner concurred with the recommendation. The Commissioner's comments are included in their entirety as Appendix A to this report.

Quality Measurement. CO/CS performance evaluations consider quality, as well as timeliness. Unlike the performance goals related to timeliness, which are well defined and specific, the method of evaluating quality is more subjective. The quality portion of evaluations is based on supervisory and other internal reviews of contract files previously described (see Quality Reviews section).

We do not believe the quality measures adequately emphasize verification of the accuracy of commercial sales practices disclosed by the vendor, the quality of the CO/CS' price evaluation and negotiation effectiveness, or consideration of field pricing assistance, including pre-award attestation reviews, which are paramount to the Schedules' current business model.

A key value proposition for the Schedules program is customer agencies' ability to order goods and services with the assurance that GSA has determined the prices to be fair and reasonable. Yet, the Schedules program is funded based on a percentage (.75 percent) of sales, providing an inherent disincentive related to pricing. Accordingly, having a well-defined quality measure that focuses on price evaluation and negotiations is important to ensure effectiveness in these areas. Because accuracy of vendor disclosures continues to be a problem, and OIG pre-award attestation reviews focus on verifying vendor disclosures, COs should be held accountable for verifying disclosures and providing due consideration to these reviews.

⁸ SiloSmashers, *Final Report: Multiple Award Schedule (MAS) Program Research & Analysis* (September 30, 2005).

Recommendation

We recommend that the Commissioner, FAS:

7. Establish performance measures that evaluate CO/CS' (a) verification of vendor disclosures related to commercial sales practices, (b) effectiveness in analyzing prices and conducting negotiations, and (c) consideration of the field pricing assistance.

Management Comments

The Commissioner's July 17, 2007 response to the draft report indicated partial agreement with the recommendation. The Commissioner said he agrees with the need for meaningful performance measures but is not convinced the recommended measures are appropriate for a CO/CS. The Commissioner's response stated that he does not believe verification of vendor disclosures related to commercial sales practices is a proper role for a CO/CS. In addition, the Commissioner stated, "Performing quantitative analysis during the process of analyzing prices and conducting negotiations is not appropriate." However, subsequent to our receipt of the Commissioner's response, FAS explained that this comment was intended to read, "Evaluating effectiveness in analyzing prices and conducting negotiations is not conducive to quantitative measurement." Further, the Commissioner expressed concern that establishing a specific performance measure would revoke the CO's right to exercise judgment.

We reaffirm our recommendation. Performance measures are key indicators of employee performance and a catalyst for change. The OIG is currently conducting a separate review of MAS performance measures, and we plan to further explore this issue during the course of that review.

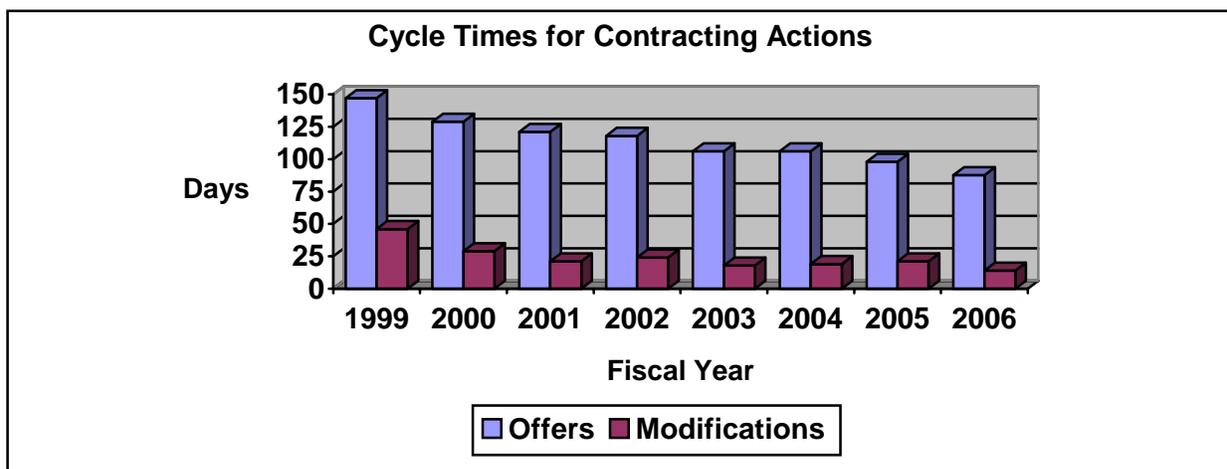
In addition, we believe it is a proper role for the CO/CS to verify vendor disclosures. As evidenced by the large percentage of CSP inaccuracies identified in OIG preaward attestation reviews compared to the relatively small number of offers that the OIG can review, this is a risk area that needs to be addressed.

Timeliness of Contracting Actions

Cycle time related to processing contracting actions is one of the primary measures used by the Centers to gauge efficiency of operation. Cycle times have declined in recent years, in part due to implementation of process improvements in some Centers. For example, as a means of expediting rejections of materially deficient offers, some Centers perform an initial screening of incoming offers. Expanded implementation of these practices could allow other Centers to improve efficiency of their operations. In addition, development of standard operating procedures for the transfer of contract files

when schedule reassignments occur could help ensure a smooth transition. Further, FAS should ensure that its recent focus on timeliness of offer processing does not lead CO/CSs to sacrifice quality or the timeliness of modifications and options.

Cycle Times. Cycle times for processing contracting actions have declined in recent years, as shown in the chart below. The decrease in contracting actions has occurred even as the volume of contracting actions has significantly increased.



Centers track cycle times for processing contracting actions using FSS Online reports. Currently, the Centers establish their own goals and as a result, the goals vary from Center to Center. Given the range of complexity among schedules, we believe this to be a reasonable approach.

In FY04, GSA implemented eOffer and eMod, two web-based applications that were designed to streamline the processing of contracting actions. In a recent review of eOffer and eMod, the OIG determined that utilization of the two systems remains low and that average cycle times for eOffers exceeded average cycle times for paper offers (7.2 days longer in FY05, and 34.6 days longer in FY06). The OIG's report recommended that the Commissioner of FAS take action to address these issues.⁹

Some factors affecting timeliness are outside of the CO/CS' control. For example, they have limited control or influence over timeliness of responses to their requests for information outside of the Center (e.g., Small Business Administration, vendors, other GSA offices).

Initial Review of Offers. Some Centers have implemented a procedure to expedite rejection of materially deficient offers. Expansion of this practice to other Centers could further reduce cycle times for processing offers, as it ensures that only responsive offers will be assigned to CO/CSs.

⁹ See report number A060149/Q/T/P07002, Review of eOffer./eMod, GSA's Electronic Contract Proposal and Modification System, dated March 6, 2007.

Current policy issued by the FAS Office of Commercial Acquisition recommends that within two days of receiving an offer, Centers should perform an initial screening of the offer for a limited number of mandatory elements. Some Centers have improved upon this concept by centralizing this review responsibility. For example, in the Centers we visited, a contract lead or branch chief performs the initial review. In another Center, specific staff members have this responsibility. In addition to centralizing the review, at least one Center conducts a more thorough review to identify other material deficiencies.

Recommendation

We recommend that the Commissioner, FAS:

8. Develop standardized procedures for the initial screening of offers to include 1) centralizing the reviews, and 2) expanding the reviews to identify additional material deficiencies.

Management Comments

In his July 17, 2007 response to the draft report, the Commissioner concurred with the recommendation. The Commissioner's comments are included in their entirety as Appendix A to this report.

Procedures for Transferring Contracts. During our review of contract documentation, we determined that the Centers generally exercised contract options in a timely manner. However, we noted that as a result of some recent schedule transfers, timeliness and productivity were affected. Developing nationwide standard procedures for future schedule transfers could minimize these problems.

Center personnel advised us that there was considerable confusion during a recent schedule transfer involving hundreds of contracts. PIB 97-4, dated February 19, 1997, states that COs should know where their contract files are at all times. Locating and organizing the transferred contract files took considerable time and effort that could have been spent processing contracting actions. There is also an increased risk that contracts could accidentally lapse during schedule transfers.

Central Office FAS officials advised us that there are no standard operating procedures governing the transition of schedules from one Center to another. However, we noted that there are procedures for transfer of administrative contract files. Since FAS is considering additional schedule transfers, we suggest development of standard operating procedures for the transfer of contract files.

Recommendation

We recommend that the Commissioner, FAS:

9. Develop standard operating procedures governing the transfer of contracts when schedules are reassigned from one Center to another.

Management Comments

In his July 17, 2007 response to the draft report, the Commissioner concurred with the recommendation. The Commissioner's comments are included in their entirety as Appendix A to this report.

30-Day Goal. In June 2006, GSA's Administrator established a goal of awarding schedule contracts within 30 days of offer receipt. This is a substantial reduction from the 87.7 days the Centers averaged in FY06.

In response to the 30-day goal, FAS studied its offer evaluation process to identify ways to expedite contract award. In January 2007, FAS initiated a pilot program to accelerate offer processing for specific special item numbers under five schedules. This program calls for prequalification of vendors and initial review of offers by designated staff located in Chicago, Illinois.

A concern with the 30-day goal is that the quality of contract awards may suffer because the CO/CS may not have sufficient time to fully evaluate incoming offers and negotiate best value. Another concern is that with the focus on offers, timeliness of processing other contracting actions may suffer. We encourage FAS to balance its focus between timeliness and quality of contract awards. In addition, FAS should give equal attention to timeliness for all types of contracting actions.

Program Costs

Costs of administering the Schedules program have risen substantially over the years, but program sales and revenues have risen even more dramatically. FAS has recently taken some actions which may help reign in program costs, and FAS may be able to achieve additional savings by adopting a more strategic approach to the Schedules program and also by enhancing program performance measures.

Program operating expenses were \$109.3 million in FY01 and had risen to \$165.4 million by FY06 (a 51% increase). Schedules program sales and revenues increased 114% and 54%, respectively, in this same period. The FAS Office of Controller compares actual revenues and expenses with those that were budgeted.

In addition, the Office of Controller annually develops an efficiency ratio for each center based upon cycle times and program costs. These ratios assist in determining appropriate staffing levels.

As explained in other sections of this report, FAS is taking several actions that may reduce the cost of administering the Schedules program. For example, FAS efforts to

expedite award of some MAS contracts and educate vendors regarding program requirements and expectations may ultimately reduce costs to award contracts. In addition, FAS efforts to reduce the number of underutilized contracts and implementation of the strategic approach discussed earlier in this report should result in cost savings.

Performance plans for Center management address program cost effectiveness, but GSA's nationwide performance measures do not. For example, the performance plan for one of the Center Directors states that 24% of his or her annual performance rating will be based on program management. Factors included in this critical element are quality, timeliness and cost effectiveness. FAS drafted a FY07 MAS Scorecard that incorporates a performance measure related to cost. In addition, it is expected that FY07 performance plans for FAS Assistant Commissioners will include an incentivized measure regarding cost.

While GSA has established a nationwide strategic goal of operating efficiently and effectively, the key performance measures related to this goal do not specifically address costs for the Schedules program.

Recommendation

We recommend that the Commissioner of FAS:

10. Establish a nationwide performance measure for the Schedules program related to program costs.

Management Comments

In his July 17, 2007 response to the draft report, the Commissioner concurred with the recommendation. The Commissioner's comments are included in their entirety as Appendix A to this report.

Internal Controls

We evaluated FAS management controls related to workload quantity and balance, work quality, and the timeliness of contract actions in the Greater Southwest Acquisition Center and the Management Services Center. While we also performed limited work in the Center for Facilities Maintenance and Hardware, the National Furniture Center, and the IT Acquisition Center, our review did not include an assessment of controls over workload management in these Centers. The Results of Audit and Recommendations sections of this report outline specific improvements needed to strengthen controls over workload management in FAS acquisition Centers.

APPENDICES

REVIEW OF MULTIPLE AWARD SCHEDULE PROGRAM
CONTRACT WORKLOAD MANAGEMENT
REPORT NUMBER A060190/Q/6/P07004

APPENDIX A
Management Comments

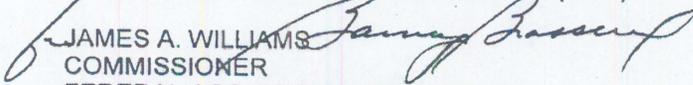


GSA Federal Acquisition Service

JUL 17 2007

MEMORANDUM FOR KENNETH L. CROMPTON
DEPUTY ASSISTANT INSPECTOR GENERAL
FOR ACQUISITION PROGRAMS AUDITS (JA-A)

FROM:


JAMES A. WILLIAMS
COMMISSIONER
FEDERAL ACQUISITION SERVICE (Q)

SUBJECT:

OIG Draft Report: Review of Multiple Award Schedule Program
Contract Workload Management (A060190), dated April 30, 2007

Thank you for the opportunity to review the above draft audit report. Comments on the report's findings and recommendations are attached.

Please call me at (703) 605-5400 if you have any questions. Your staff may contact Ms. Cathy Fick at (703) 605-5452 or catherine.fick@gsa.gov for additional information.

Attachment

cc: Andrew Patchan
Assistant Inspector General for Auditing (JA)

U.S. General Services Administration
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Arlington, VA 20406-0003
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**Federal Acquisition Service (FAS) Comments on OIG Draft Report:
“Review of Multiple Award Schedule Program
Contract Workload Management” (A060190)**

General Comments

The Background section of the draft report oversimplifies the ordering procedures for the Multiple Award Schedule (MAS) program. The report fails to note that prices established at the schedule contract level provide a starting point from which agencies can seek further price reductions through competition at the ordering level. The ability to seek further price reductions allows ordering agencies to leverage their requirements to take advantage of flexible and dynamic pricing in the commercial marketplace. GSA strongly encourages its customer agencies to seek further discounts when placing orders against schedules.

The draft report remarks on the significant increase in the number of schedules and contracts, and that the industrial funding business model and conversion of the schedules program to nonmandatory status has led GSA to consider ways to expand revenue. Revenue is not the principal driver for the expansion of the schedules program. Rather, the program has expanded in response to our customers’ needs for a broad suite of products and services to meet their mission requirements.

In that same vein, FAS disagrees with the implication on page 10 that programmatic decisions are based on increasing revenue. Schedule program expansions are improvements driven by customer need and by the identification of areas where FAS can best add value by leveraging Governmentwide needs. As markets evolve and change, FAS’s buying strategy changes. While the program does need to cover its costs, the primary considerations are service to Federal agencies and value for taxpayers—not revenue for FAS.

FAS takes strong exception to the statement on page 17 of the draft report that the funding of the schedules program through a percentage (.75 percent) of sales provides “an inherent disincentive related to pricing.” The schedules program competes with alternative contracting vehicles available to our customer agencies, and FAS is mindful that our customers are sensitive to pricing. In an environment characterized by price elasticity of demand, FAS has every incentive to aggressively negotiate pricing. Failure to do so risks a loss of revenue through diminished sales that exceeds any gain in revenue resulting from the application of .75 percent to a higher price.

Comments on Specific Recommendations

Recommendation Nos. 1 and 2:

1. *Develop policy to standardize Center processes regarding the method and timing of entering modification information into FSS Online.*

2. *Amend FSS Online to classify modifications according to relative complexity.*

FAS Response:

Partially agree. FAS has begun a strategic process improvement project for schedule contract modifications. Specific recommendations related to the modification process should be formulated in the context of this broader reengineering process.

Recommendation No. 3:

Adopt a more structured approach to reduce the number of existing underutilized schedule contracts.

FAS Response:

Agree. We have already begun this process with the issuance of PIN 2007-3, which provides guidance to assist in this process. The Center for Facilities Maintenance and Hardware also offers assistance before canceling a contract to ensure that small businesses have a chance to grow their contracts. Nevertheless, we agree with the need to develop a more structured approach.

Recommendation No. 4:

Consider increasing the minimum sales threshold for schedule contracts from the current minimum (\$25,000 for the first two years, and \$25,000 annually thereafter).

FAS Response:

Agree. “Pathway to Success” and “How to Become a Contractor – GSA Schedules Program” are relatively new initiatives, and it is still too early to determine if these programs will have an impact on reducing the number of underutilized MAS contracts. Consideration of changes in the threshold must take into account the need to balance the concerns of the small business community.

Recommendation No. 5:

Begin to implement a more strategic approach for the Schedules program with a focus on determining the best methods to leverage the government’s requirements for different types of products and services to obtain best value for customer agencies and taxpayers. The strategy should include thorough market research and analysis of commercial practices of products and services offered under the Schedules program in conjunction with an extensive analysis of government customer buying patterns, including the level of meaningful competition at the order level.

FAS Response:

Agree. FAS is preparing to issue a request for quotations (RFQ) for market research, analysis, benchmarking, and management consulting services related to MAS contract pricing. The requirements outlined in the statement of objectives encompass the scope of this recommendation.

Recommendation No. 6:

Establish specific nationwide guidance related to price analysis documentation requirements and negotiation policies and techniques for schedule contracts.

FAS Response:

Agree.

Recommendation No. 7:

Establish performance measures that evaluate CO/CS' (a) verification of vendor disclosures related to commercial sales practices, (b) effectiveness in analyzing prices and conducting negotiations, and (c) consideration of the field pricing assistance.

FAS Response:

Partially agree. While FAS agrees with the need for meaningful performance measures, we are not convinced that the measures listed in the draft report meet the need to continuously evaluate contract quality. We do not believe that verification of vendor disclosures related to commercial sales practices is a proper role for a contracting officer/contract specialist (CO/CS). Performing quantitative analysis during the process of analyzing prices and conducting negotiations is not appropriate. Finally, before we measure CO/CS use of field pricing assistance, the OIG and FAS need to better define that working relationship; there are many variables to be considered. Establishing a specific performance measure would make the negotiation process more of a "cookie cutter" approach and would revoke the CO's right to exercise independent judgment. FAS would welcome suggestions from the auditors on how performance measures could be structured to accurately reflect the CO's performance.

Recommendation No. 8:

Develop standardized procedures for the initial screening of offers to include 1) centralizing the reviews, and 2) expanding the reviews to identify additional material deficiencies.

FAS Response:

Agree.

Recommendation No. 9:

Develop standard operating procedures governing the transfer of contracts when schedules are reassigned from one Center to another.

FAS Response:

Agree.

Recommendation No. 10:

Establish a nationwide performance measure for the schedules program related to program costs.

FAS Response:

Agree. FAS strongly agrees that schedules program costs should be measured at the nationwide level, not at the center level. FAS also strongly advocates a focus on strategic investment in the schedules program rather than simple cost-cutting.

REVIEW OF MULTIPLE AWARD SCHEDULE PROGRAM
CONTRACT WORKLOAD MANAGEMENT
REPORT NUMBER A060190/Q/6/P07004

APPENDIX B
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