

Audit Report

**REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER
CONTROLS AND TESTING OF CONTROLS
PACIFIC RIM REGION
REPORT NUMBER A050009/T/9/Z05020
MAY 18, 2005**

**Office of Inspector General
General Services Administration**



Office of Audits

**REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER
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PACIFIC RIM REGION
REPORT NUMBER A050009/T/9/Z05020
MAY 18, 2005**

Field Audit Office, Pacific Rim Region (JA-9)
450 Golden Gate Avenue, Room 7-5262
San Francisco, CA 94102-3434

Date: May 18, 2005

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

Subject: Review of Federal Technology Service's
Client Support Center Controls and Testing of Controls
Pacific Rim Region
Report Number A050009/T/9/Z05020

To: Peter G. Stamison
Regional Administrator (9A)

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

This report presents the results of the Office of Inspector General's audit of the Federal Technology Service (FTS) Client Support Center (CSC) in the Pacific Rim Region (Region 9). The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) directed the Inspectors General of the General Services Administration and the Department of Defense to jointly perform a review of each FTS CSC and determine whether each CSC is compliant, not compliant, or not compliant but making significant progress with Defense procurement requirements.

Objectives, Scope and Methodology

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed between August 1, 2004 and October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders. For the Pacific Rim CSC, our sample included 16 new awards and four existing orders, valued at \$9 million and \$544 million, respectively. The audit was conducted between October 2004 and March 2005, in accordance with generally accepted Government auditing standards.

Results of Audit

We determined the Region 9 CSC to be not compliant but making significant progress. Region 9 has implemented national controls identified in the Administrator's Get It Right Plan, and has improved its overall contracting practices, compared with our past audit findings. For example, we did not find any instances of non-compliance with the competition requirements of Section 803 of the National Defense Authorization Act for FY 2002. While we did find seven new orders that had procurement compliance deficiencies, none of the deficiencies resulted in potential financial impact. Our review of existing orders revealed three orders with prior procurement deficiencies. The CSC had not made adequate remediation progress for two of the three existing orders with prior deficiencies. For the third order, FTS issued a modification with inadequate price support. In addition, the DOD OIG identified a significant funding issue for one task order.

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

Procurement Compliance Deficiencies

We identified seven new orders with various procurement compliance deficiencies, of which none had a potential financial impact. Examples included:

- A \$855,327 8(a) set-aside order for servers and computer component equipment and a \$487,150 competitively bid award for commodities had no acquisition plans.
- A \$825,397 GSA Schedule 70 order for computer components did not include a signed Memorandum of Understanding between GSA and the client agency;

Existing Orders Procurement Deficiencies

For three task orders, we determined that remediation efforts and/or price support were inadequate. The first order with a potential value of \$250 million for the upgrade of information technology infrastructure had problems at award that included inadequate price support and no legal review. In the current review period, we noted inadequate price support for a \$1.9 million modification to this order. The second order for \$58 million was to provide call center support, which constituted an inappropriate use of the IT fund. In addition, an inadequate best value determination had been made. Further, there was inadequate price support for the other direct costs (ODCs) associated with this order, which comprised 36 percent of the \$58 million total order value. Also, the CSC had not documented a justification for use of a time-and-materials type contract. At the time of our review the CSC had not initiated remediation efforts for these task orders.

For the third order with prior deficiencies, the CSC had remediation plans in place, but the plans had not yet been fully implemented at the time of our review. Deficiencies included: (i) no support for fair and reasonable pricing for the ODCs originally proposed

(76 percent of the total \$158 million task order value); (ii) no justification for use of a Time and Materials task order, (iii) an inadequate Statement of Work; (iv) use of incorrect contract vehicle; (v) improper period of performance extensions; and (vi) no quality assurance plans. In addition, the task order did not have price support for the two of the three modifications issued during our review period.

Significant Funding Issue

The DOD OIG identified a significant funding issue associated with a \$213,000 task order for printer supplies purchased at the end of FY 2004. The DOD OIG determined that there was no bonafide need. The procurement was made with FY 2004 funds in FY 2004, but the actual supplies were needed in FY 2005. Therefore, FY 2005 funds should have been used for this procurement.

Conclusion

While not fully compliant, we found that the Pacific Rim Region CSC has made significant progress in implementing controls to ensure compliance with procurement regulations. The CSC has implemented national controls identified in the Administrator's Get It Right Plan and improved its overall contracting practices. Although we found procurement compliance deficiencies in seven new orders, none of the deficiencies resulted in potential financial impact. We also found problems with three existing orders, including two with prior procurement deficiencies where the CSC had not made adequate remediation progress. In addition, we noted that the CSC did not have pricing support for modification(s) processed during the review period for two of the three existing task orders.

As stated in the January 2004 OIG report on the FTS CSCs, we believe that steps to remedy the CSC procurement problems require a comprehensive, broad-based strategy that focuses on the structure, operations and mission of FTS as well as the control environment. Based on the comprehensive recommendations contained in that report, no further overall recommendations are deemed necessary at this time.

Management Comments

We obtained agency comments throughout our audit work, providing a draft written summary of our findings on each order to FTS regional officials for their written comments, which we incorporated into our analysis as appropriate. We also provided a draft of this letter report to Regional officials. With the exception of one finding, the Regional Administrator was in general agreement with the findings of the report in his response dated May 10, 2005.

The Regional Administrator stated that although a Memorandum of Understanding or Interagency Agreement was not signed at the time of award, compliance requiring a reimbursable agreement was, however, achieved for the task order (\$825,397 GSA Schedule order for computer components) with the acceptance of the client's funding document. The Region contended that accepting the client's funding document met the guidelines for a reimbursable agreement based on the June 7, 2004 memorandum.

Management's response is included in its entirety as Attachment 1 to this report

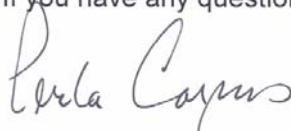
Office of Inspector General's Response

We recognize that the FTS June 7th guidance on reimbursable agreements may not have been clear, however, we disagree with the Region's position that a client's funding document was acceptable. While the acceptance of the client's funding document represents a validly recorded obligation, it does not meet the requirements of a reimbursable agreement as outlined in the FTS Central Office guidance. Reimbursable agreements must include a clear, concise statement identifying the requesting agency's specific need and clearly establishing the financial arrangements between the requesting agency and FTS. The reimbursable agreement provides written documentation to ensure there is a formal offer and acceptance between the federal agency and FTS.

Internal Controls

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

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



PERLA CORPUS
Audit Manager
San Francisco Field Audit Office



GSA Pacific Rim Region

May 10, 2005

MEMORANDUM FOR: JOSEPH J. BREWSTER
REGIONAL INSPECTOR GENERAL FOR AUDITING
PACIFIC RIM REGION (JA-9)

FROM:  PETER G. STAMISON
REGIONAL ADMINISTRATOR (9A)

SUBJECT: Response to Draft Report on Review of FTS' Client Support Center
Controls and Testing of Controls, Pacific Rim Region Assignment
Number A050009

Thank you for the opportunity to review the subject Draft Report which comprises the audit of the Federal Technology Service (FTS) Client Support Center, Pacific Rim Region.

I am in general agreement with the overall findings delineated in the draft audit report. However, FTS would like to provide additional clarification for one of the unidentified task orders which were described under the section entitled, "Procurement Compliance Deficiencies."

Draft Report Finding: A \$825,397 GSA Schedule order for computer components did not include a signed Memorandum of Understanding between GSA and the client agency.

Response: *While we acknowledge that the Memorandum of Understanding ('Interagency Agreement') was not available at the time of award, the acceptance of the client's funding document accompanied by its requirement also serves as an Interagency Agreement (or Memorandum of Understanding) per the June 7th Guidance Memo (please refer to page 25, V., n.). In addition, action was taken to establish a formal Interagency Agreement with this client, which was signed in February 2005. We have included this Interagency Agreement as an attachment to this memorandum.*

Thank you for acknowledging in the Draft Report that the Pacific Rim Region has made significant progress in the area of acquisition excellence as it directly pertains to the "Get It Right" initiative. It should be noted that the Region has implemented various internal controls within a check and balance framework which are actually more stringent than those promulgated by Central Office. These additional enhancements will ensure that we continue to provide assisted acquisition services to our clients while performing our mission with primacy placed on acquisition compliance and procurement excellence.

Attachments

U.S. General Services Administration
450 Golden Gate Avenue
San Francisco, CA 94102-3434
www.gsa.gov

MANAGEMENT RESPONSE

FEB-09-2005 15:33 From:

To: 95413684

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Interagency Agreement

**Interagency Agreement
Between
Joint Intelligence Command, Pacific (JICPAC)
and
General Services Administration (GSA)
Federal Technology Service (FTS)**

Control Number: 9T4H016

1. **Purpose.** This Interagency Agreement (IA) constitutes an agreement between the client and the GSA Federal Technology Service (FTS). This agreement becomes effective when signed by both the client and FTS.
2. **Authority.** FTS' authority for providing the services described herein is derived from 40 USC 501, 40 USC 1401(3), and the OMB executive agent designation made pursuant to 40 USC 1412(e). These statutory authorities are independent of the Economy Act and therefore, the Economy Act does not apply to this agreement.
3. **Scope.** Under this IA, FTS, in consultation with the client, will utilize its expertise to select the optimal procurement alternative to satisfy the client's requirements. Specific requirements (bona fide need) as well as funding will be defined and provided on individual funding documents.
4. **FTS Responsibilities.** FTS will assign the necessary contracting, technical, and financial personnel determined by the contract used and the level of services identified by the client. FTS will:
 - a. review and evaluate requests for service to determine if the requests are within the scope of existing contract vehicles or if additional vehicles need to be sought or established;
 - b. provide assistance to client officials seeking and receiving services;
 - c. issue delivery or purchase orders, as well as any necessary change orders;
 - d. resolve contractual problems or issues, and adjudicate disputes with the industry partner;
 - e. ensure the industry partner complies with the terms and conditions of the contract;
 - f. pay invoices for services that flow through one of the FTS revolving funds and bill the client for reimbursable services;
 - g. assign in-house technical, contracting, and financial personnel depending on the level of services required by the client.
5. **Client Responsibilities.** The client will:
 - a. ensure that this IA is signed by an official who is authorized to sign interagency agreements;
 - b. comply fully with applicable procurement regulations and policies in all matters related to this IA;
 - c. identify and document its requirements for submission to FTS;
 - d. provide full funding for costs described in paragraph 7 (Costs) for all products and services ordered, ensuring that the funding document is signed by an official who is authorized to certify funds;
 - e. advise FTS immediately of any problems that affect performance by the industry partner;
 - f. receive, inspect, and accept services in a timely manner;
 - g. execute all responsibilities in a timely fashion so that all provisions of the Prompt Payment Act can be met.
6. **Funding.**
 - a. All funds identified by the client are identified for one of the FTS revolving funds pursuant to this agreement upon the issuance of a funding document by the client. FTS will not issue any delivery/purchase orders prior to its receipt of a funding document. The funding document will cite the amount being obligated by the client and will describe the client's requirement that will be met by the order(s). The amount being obligated by the client includes the anticipated value of the order(s) to be issued to the industry partner plus any applicable FTS charges for recovery of FTS's costs of doing business. FTS will not issue a delivery/purchase order in excess of the funds obligated by the client. The funding document will contain a certification signed by a client official having authority to certify the funds, and cite the office to contact if there is a need to discuss payment problems.
 - b. Credit cards are recommended for delivery/purchase orders under one hundred thousand dollars per order. FTS will charge the amount of the industry partner's invoice plus any applicable FTS charges to the client's credit card.
7. **Costs.** The client will reimburse FTS for costs of services provided by each delivery/purchase order (reimbursable funds). Costs of services include the amounts due the industry partner under the delivery/purchase order plus any applicable charges for recovery of FTS's costs of doing business on behalf of the client. The client shall provide FTS with the necessary receiving/inspection

MANAGEMENT RESPONSE

FEB-09-2005 15:33 From:

To: 95413604

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information within 5 days of receipt of the goods or services. If interest penalties are incurred, because the client has not provided timely receiving/inspection information, the client agrees to compensate FTS for the resultant interest penalties.

8. FTS Billing and Payment.

- a. FTS will pay all charges for delivery/purchase orders from one of the FTS revolving funds on a reimbursable basis, unless other agreements have been made (described in paragraph 6, Funding). Report of IIF Services Performed, GSA 789 Voucher or TFS Form 7306, Intragovernmental Payment and Collection (IPAC), as applicable, will be used and shall be paid as rendered within 15 days.
- b. The client is responsible for prompt payment of all billings. All reimbursable billings are delinquent when they are 45 or more days old (from date of the billing).
- c. When billings remain delinquent over 90 days and the client has not indicated a problem regarding services, FTS will not issue any new orders or modifications to existing orders for the client, and termination of existing services will be considered by FTS and negotiated with the client.

9. Cancellation. This agreement or any delivery order/purchase order issued under this agreement may be canceled in 30 calendar days by written notice by either party. If this agreement is canceled, any implementing purchase/delivery order may be cancelled. If this agreement, or any order under this agreement, is canceled by the client, the client assumes responsibility for all costs resulting from the cancellation.

10. Disputes and Protests. If a dispute or protest arises from the specifications, solicitation, award, performance or termination of a delivery/purchase order and the industry partner appeals or protests to a forum such as the General Accounting Office or a Federal Court, and the forum makes an award in favor of the offeror or industry partner, the client shall provide sufficient funds to cover all costs associated with the dispute/protest.

11. Small Business Credit. Any orders executed by FTS on behalf of the client will allocate the Small Business acquisition credit to the lowest FIPS 95-2 Agency/Bureau component as identified by the client to FTS or, at a minimum, FTS will allocate Small Business acquisition credit back to the highest client agency FIPS 95-2 Code.

CLIENT OFFICIAL:

Signature: *Karen Doyle* Date: 9 Feb 05

Name: KAREN A. DOYLE, COL, USA

Title: Deputy Commander, JICPAC

Agency: Joint Intelligence Center Pacific

Address: 352 Halawa Dr.
Pearl Harbor, HI 96860-3120

Phone: (808) 473-6000

FTS OFFICIAL:

Signature: *Kit Lee* Date: 2/9/05

Name: Kit Lee

Title: Director, Hawaii Area Office

Agency: GSA - FTS

Address: 3375 Koupaka Street, Suite B225, Honolulu, HI 96819

Phone: (808) 541-3140

ATTACHMENT 2

REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER CONTROLS
AND TESTING OF CONTROLS
PACIFIC RIM REGION
REPORT NUMBER A050009/T/9/Z05020

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