
Office of Inspector General

E-Mail System Replacement Contracts

Federal Railroad Administration

Report Number: FI-2001-057

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Memorandum

U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION**: Report on E-Mail System
Replacement Contracts, FRA
FI-2001-057

Date: May 3, 2001

From:

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Reply To

Attn. of: JA-20:x61496

To: Acting Deputy Federal Railroad Administrator

In November 2000, the Office of Inspector General (OIG) initiated a review of the process used by the Federal Railroad Administration (FRA) to award contracts for replacing its e-mail system. Our objective was to determine whether FRA complied with the "full and open competition" process in awarding the contracts, as required by the Transportation Acquisition Regulation and the Federal Acquisition Regulation.

BACKGROUND

FRA has been using the Novell GroupWise e-mail system, which is supported by an independent contractor. FRA's plan was to have the GroupWise e-mail system replaced in early 2001. Following the direction of the Department of Transportation (DOT) former Chief Information Officer, FRA decided to switch from the GroupWise e-mail system to Microsoft Exchange e-mail system and contract for all support functions. In September 2000, FRA awarded two contracts—one to assist FRA's conversion from GroupWise to Microsoft Exchange, and one to support the Microsoft Exchange e-mail system after conversion.

As of January 26, 2001, FRA had not started transitioning any users to the Microsoft Exchange e-mail system because of delays in the conversion work and a security concern expressed by the Department's Transportation Administrative Service Center (TASC). TASC is responsible for maintaining DOT Mail*Hub, which provides Internet connections and facilitates messaging exchange among different DOT Operating Administration e-mail systems. To communicate with the rest of DOT, FRA's new e-mail system needs to interface with Mail*Hub.

On November 27, 2000, the DOT former Chief Information Officer issued a memorandum directing TASC to proceed with the interface.¹ On January 16, 2001, TASC issued a memorandum listing the information needed for evaluating the contractor's security for interface with Mail*Hub. On March 29, 2001, TASC granted access to Mail*Hub, and FRA started transitioning to the Microsoft Exchange e-mail system. FRA expects to complete the transition by July 2001. Until the conversion is completed, FRA has to continue using the existing GroupWise e-mail system to support its operations.

SCOPE AND METHODOLOGY

We reviewed related e-mail service contracts, FRA's e-mail system requirements, and the justification for selecting vendors and awarding contracts. We interviewed FRA information technology and procurement representatives, as well as contractor representatives. We also independently researched e-mail service providers listed on the General Services Administration (GSA) procurement schedule and had discussions with GSA staff concerning how the schedule is maintained. The review was performed during November and December 2000 at DOT Headquarters in Washington D.C.

RESULTS

The Federal Acquisition Regulation requires that purchases over \$2,500 be acquired through reasonable competitive procedures, which generally includes soliciting at least three sources. Procurement officials can limit solicitation to one source if that is the only source reasonably available. When making a noncompetitive selection, the procurement official has to document the justification in the contract file. Furthermore, the Federal Acquisition Regulation requires procurement officials to determine whether prospective contractors are qualified to receive contract awards.²

The two contracts FRA awarded in September 2000 were to contractors on the GSA schedule and were over \$2,500 individually. FRA did not receive competitive bids for either contract.

- Supporting the new Microsoft Exchange e-mail system: FRA awarded this contract for about \$760,000 to USinternetworking, Incorporated (USi). The contract covers 1 base year and 2 optional years. FRA inappropriately awarded a noncompetitive contract to USi as a result of using a flawed selection criterion. FRA also did not

¹ The DOT former Chief Information Officer issued guidance to the TASC Director, entitled "FRA E-Mail Directory Synchronization," dated November 27, 2000.

² The Federal Acquisition Regulation requires the contracting official to determine whether the contractor is responsible. The responsibility check assesses the vendor's financial condition, performance, technical abilities, and organization structure to pre-qualify them to receive contract awards.

perform any check to determine whether USi was financially qualified to perform this work prior to contract award. In fact, USi's stock price decrease significantly prior to FRA's contract award. USi's stock was posted at \$70 in March 2000, but was down to \$10 before the contract award in September 2000. The stock has since dropped to \$1.69 as of May 1, 2001.

- Assisting FRA to convert its e-mail system to Microsoft Exchange: FRA awarded this contract for about \$120,000 to Intellisys³, which subcontracted all the work to Visalign. USi recommended that FRA use Visalign—a company USi usually works with—to assist in the conversion work. However, Visalign was not listed on the GSA schedule. FRA solicited offers from three GSA contractors--Intellisys, Electronic Data System, and Universal System. Intellisys was a product dealer that specialized in finding other service providers that could meet agency needs. Conversely, Electronic Data System and Universal System were service providers. Based on FRA's recommendation, Intellisys worked with Visalign in submitting the bid to FRA. According to FRA, Electronic Data System and Universal System did not respond to FRA's offer, and FRA awarded the conversion contract to Intellisys.

Flawed Criterion Used to Justify Noncompetitive Contract Award

FRA was looking for a service provider capable of providing full e-mail services with Microsoft Exchange. The service provider would be responsible for (1) maintaining hardware and software suites on the provider's premises, to which FRA would access through networking connections and (2) providing operational support to FRA, such as managing e-mail directory services, trouble-shooting operational problems, and maintaining the e-mail address listings. In return, FRA would pay the service provider an agreed-upon monthly fee.

Such an arrangement is commonly adopted when dealing with "Application Service Providers" (ASP). While the term ASP is relatively new, the concept is not. In essence, use of ASPs is outsourcing technical services and support to contractors. ASP services have gained increased attention in recent years because of the availability of high-speed networking connections over the Internet.

FRA consulted with DOT's former Chief Information Officer about its e-mail requirements and service needs, who referred USi to FRA as a viable ASP candidate to meet its e-mail requirements. FRA then performed a search of the GSA schedule and found 55 e-mail service providers—one of which was USi. After confirming with GSA that USi was the only service provider identifying itself as an ASP, FRA concluded that no additional search for competition was necessary and awarded the contract to USi.

³ The company's name recently has been changed to Planetgov.

We confirmed that USi was the only e-mail service provider identifying itself as an ASP on the GSA schedule. However, the use of ASP as a selection criterion was flawed because there are no industry standards or certification programs to designate service providers as ASP. It is up to service providers to decide whether they want to be identified in the industry or on the GSA schedule as an ASP.

We found that other GSA approved e-mail service providers, that did not identify themselves as ASPs, were capable of providing the services FRA required. In December 2000, we identified 69 e-mail service providers on the GSA schedule. We randomly selected seven providers to determine whether they could meet FRA service objectives and requirements. Based on our inquiries, we determined that four providers could satisfy the defined requirements (see Exhibit).

Therefore, use of ASP as a criterion to justify noncompetitive contract award to USi was flawed and inappropriately excluded other vendors from consideration. This exclusion occurred because of procurement officials' lack of understanding of technical service requirements. Because USi had no competition, FRA may not have obtained the lowest cost alternative to meet its needs.

Qualification Check not Performed before Contract Award

We also found FRA did not perform any check on USi's qualifications prior to contract award, as required by the Federal Acquisition Regulation. FRA deemed the check was not necessary because USi was listed on the GSA schedule. The use of GSA's screening as a substitute for the pre-award check was not justified because GSA's screening was a one-time check.

We discussed with GSA its procedures to ensure qualifications of contractors on the GSA schedule. According to GSA, prospective contractors are screened for financial solvency, product and service offerings, and performance and capabilities before being placed on a schedule.⁴ However, there are no procedures to warn agencies when GSA contractors later experience financial difficulties or instabilities.

After a company is placed on a GSA schedule, no additional screening is performed unless a complaint is made about the contractor. However, during the duration of the GSA-certified period, which was 5 years for USi, a contractor's financial position could change significantly. For example, while listed on the GSA schedule, USi's stock price

⁴ Letter of Certification is awarded to a provider after the provider has successfully passed the GSA one-time screening.

decreased significantly before FRA's contract award. USi stock was posted at \$70 in March 2000, but was down to \$10 before the contract award in September 2000.⁵

FRA also was not aware that the Federal Aviation Administration (FAA) was using USi's services. Had FRA consulted with USi's existing customers for the qualification check, it would have learned about USi's financial health. After we brought this concern to FRA's attention, it consulted with FAA for its experience in using USi services and performed additional checks on USi's financial condition.

A pre-award check was not conducted because FRA relied on GSA to ensure prospective contractors were qualified. Because there was no pre-award check, the risk is greater that FRA may have to replace the contract before expiration, thus impacting the agency's performance and services.

Consideration of Contract Termination

Considering the circumstances surrounding these two procurements totaling \$880,000 (including contract options) and a flawed criterion used to award the noncompetitive contract, FRA should assess the feasibility of terminating the contract with USi. Although the contract was awarded in September 2000, FRA has not made any payments to USi. The contract specifies:

Product pricing is a recurring monthly fee, which is related to the number of users accessing the system each month. The monthly fees start on the date that the system goes into production. This date is defined by:

1. The completion/sign-off of user acceptance testing
2. Achievement of USi service readiness status for this CLIENT
3. The beginning of the CLIENT mailbox migration
4. The initialization of USi Exchange SMTP/Internet hub services

According to the GSA contract with USi, FRA can terminate its contract for the convenience of the Government⁶. Terminating the USi contract will not result in any major disruption to FRA because it can continue using the existing GroupWise e-mail system. Also, this will provide FRA with an opportunity to resolicit offers from

⁵ USi's stock dropped to around \$3 in November 2000. It secured additional funding and the stock was priced around **\$7 as of January 26, 2001**. Since then, the stock has dropped to \$1.69 as of May 1, 2001.

⁶ The termination for convenience clause for this contract is found at Title 48, Code of Federal Regulations, Section 52.212-4(L). The regulation states that pursuant to the termination for convenience clause the contractor shall be paid a percentage of the contract price reflecting the percentage of the work performed prior to termination, plus reasonable charges that the contractor demonstrates to the satisfaction of the Government resulted from the termination.

qualified providers with competition when it has a more definitive schedule for completing the conversion.

RECOMMENDATIONS

We recommend that the Acting Deputy Federal Railroad Administrator:

1. Consider terminating the contract with USi for the convenience of the Government, based on the circumstances surrounding the procurement and a flawed criterion used to award the noncompetitive contract. If termination is not deemed feasible, terminate the contract at the end of the 1-year base period and resolicit offers with competition.
2. Work with DOT's Office of the Chief Information Officer and the Senior Procurement Executive to identify training opportunities for enhancing procurement personnel's understanding of information technology service requirements and communications with program officials.
3. Direct FRA procurement personnel to perform responsibility (qualification) checks on prospective contractors on the GSA schedule before future contract awards.

MANAGEMENT RESPONSE

A draft of this report was provided to the Acting Deputy Federal Railroad Administrator on February 1, 2001. After review, FRA did not deem it feasible to terminate the contract for the convenience (T/C) of the Government, but agreed to secure competition for the ASP services at the end of the contract's base year of performance. FRA disagreed with Recommendations 2 and 3. FRA comments, keyed to the specific recommendations, and OIG responses follow. The complete text of management comments is the Appendix to this report.

Recommendation 1: FRA takes issue with OIG's conclusion that a flawed criterion was used to justify the noncompetitive contract award to USi. FRA stated:

In using FSS [Federal Supply Schedule] contracts, FRA is entitled to order, as it did, from any vendor on the schedule offering the service sought. . . . The ASP model provides a single point of responsibility for, and eliminates all up-front costs of hardware, software, network infrastructure support and security, as well as system maintenance. FRA determined that an ASP model was exactly what the agency required for its e-mail services. . . . Since the Department CIO [Chief Information Officer] has established Microsoft Exchange as the DOT e-mail standard application, a T/C would further delay our conformance to that standard.

Office of Inspector General Response: We do not dispute that FRA was "entitled" to order from any vendor in the GSA schedule offering the services sought. However, FRA's contract file documented that USi was the only service provider that claimed to be an ASP on the GSA schedule, and used that as its basis to justify a noncompetitive contract. FRA contract files contained no documentation indicating that FRA attempted to use its business requirements, which was to obtain a contractor as a single point of responsibility that would provide all up-front costs of hardware, software, network infrastructure support and security, as well as system maintenance, to identify competition sources. In today's highly competitive commercial e-mail market, FRA procurement officials should have suspected something was wrong when the search criteria identified only one qualified company on the GSA schedule, and that company happened to be the same company that was referred by DOT's former Chief Information Officer.

FRA's comment that DOT's former Chief Information Officer has established Microsoft Exchange as the DOT e-mail standard application is inaccurate. As of May 1, 2001, the Office of the DOT Chief Information Officer has not established any e-mail standard for DOT.

Recommendation 2: FRA did not agree to identify training opportunities to enhance procurement personnel's understanding of Information Technology (IT) services. However, FRA stated:

In fact, such technical expertise is the responsibility of IT professionals. We do acknowledge that FRA procurement and program personnel should work more closely together in the procurement formation stages, thereby generating better procurement documents. This would lead to improved communications and a better understanding of the technical requirements and procurement procedures.

Office of Inspector General Response: The circumstances surrounding this procurement clearly demonstrate that FRA procurement officials need a better understanding of IT services so that they can ask better questions when soliciting IT contractors, especially with the trend toward more outsourcing of IT services. Notwithstanding its stated disagreement with this recommendation, FRA acknowledged that its procurement and IT staff should work more closely to generate better procurements. When FRA provides the specific action plan to accomplish this, we will consider whether its alternative plan satisfies the intent of our recommendation. Until then, this recommendation is considered unresolved.

Recommendation 3: FRA did not agree to perform responsibility (qualification) checks on prospective contractors on the GSA schedule before future contract awards. FRA stated:

FRA believes that the procedure recommended by the IG is counter to the streamlining philosophy of the FSS concept. The purpose of the FSS program is to 'provide agencies with a simplified process for acquiring commonly used supplies and services in varying quantities at volume discounts' (Federal Acquisition Regulation 38-101). . . . While FRA did not make a formal redetermination of the vendor's financial condition, it nevertheless had evidence based on its examination of the contractor's capability. In addition, upon receipt of negative information regarding the USi's stock price fluctuations, FRA, on its own initiative, contacted the Federal Aviation Administration (FAA), which had an on-going contract with USi. . . . In addition, FRA subsequently obtained a Dunn and Bradstreet report to determine if USi's ability to perform had been adversely affected.

Office of Inspector General Response: The intent of our recommendation was not to duplicate the full-scale qualification check done by GSA. Instead, FRA should establish, for ongoing service-oriented IT procurements, a process to assess the financial condition of perspective vendors in the volatile, high-risk, technology market before contract award. Recent failures by technology firms demonstrate how quickly company financial conditions could deteriorate in the IT industry.

FRA was not aware of the significant change in USi's financial condition until we brought this to its attention in December 2000. Once notified, FRA took immediate follow-up actions. Our point is that FRA should have known this information before it issued a contract, not after. Performing financial checks on perspective FSS vendors before contract award is not a regulatory requirement but good management practice.

OFFICE OF INSPECTOR GENERAL COMMENTS

The action planned by FRA for Recommendation 1 is reasonable. For Recommendation 2, we request that FRA provide a specific action plan and target date for completion for its proposed alternative solution. Concerning Recommendation 3, we request that FRA reconsider its position.

ACTION REQUIRED

In accordance with DOT Order 8000.1C, we would appreciate receiving your written comments within 15 days, to include specific actions taken or planned for Recommendations 2 and 3, and provide target dates for completion.

We appreciate the courtesies and cooperation of FRA and DOT representatives. If you have questions concerning this report, please call me at (202) 366-1992 or John Meche at (202) 366-1496.

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EXHIBIT**OIG's Inquiry of E-Mail Services Available on the GSA Schedule**

Providers on the GSA Schedule	(1)	(2)	(3)	(4)	(5)
Edge Technologies*	Y	Y	Y	Y	Y
Entecom, Inc.*	Y	Y	Y	Y	Y
Adeptech Systems, Inc.*	Y	Y	Y	Y	Y
NCI Information System, Inc.*	Y	Y	Y	Y	Y
Weblynx Network Resource, Inc.	Y	N	Y	Y	Y
ADF Corp. (ZIN Tech)	N	N	N	N	N
Secure Computing Corp.	N	N	N	N	N

*Company satisfies all FRA requirements.

- (1) Provide e-mail services with Microsoft Exchange
- (2) Charge clients based on a fixed monthly fee
- (3) Own and manage e-mail hardware and software licenses
- (4) Run the e-mail service from vendor facility
- (5) Manage e-mail services such as troubleshooting