

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTERS
REPORT NUMBER A020144/T/5/Z04002
JANUARY 8, 2004

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TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| REPORT LETTER | 1 |
| EXECUTIVE SUMMARY | 2 |
| INTRODUCTION | 4 |
| Background | 4 |
| Objectives, Scope and Methodology | 6 |
| RESULTS OF AUDIT | 8 |
| Sole Source Awards | 8 |
| Misuse of Small Business 8(a) Sole Source Authority | 10 |
| Work Outside of the Contract Scope on Other Contracts | 18 |
| Inappropriate Use of the IT Fund | 19 |
| Improper Order Modifications Extended the Time Period For Re-Competition and Resulted in Cost Growth | 20 |
| Frequent Use of Time and Materials Tasks | 22 |
| Documentation Lacking to Assure Reasonable Pricing | 23 |
| Questionable Contracting Practices | 24 |
| Causes of Improper Procurement Practices | 27 |
| Performance Measures | 29 |
| Conclusions | 30 |
| Recommendations | 31 |
| Management Response | 31 |

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S
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TABLE OF CONTENTS
(Continued)

| | <u>Page</u> |
|--|-------------|
| Internal Controls | 32 |
| Appendices | |
| A. Schedule of Orders Reviewed in Region 6 | 33 |
| B. Schedule of Orders Reviewed in Region 10 | 40 |
| C. Schedule of Orders Reviewed in Region 4 | 45 |
| D. Schedule of Non-IT Orders | 48 |
| E. List of DOD Inspector General Audit Reports Relating to DOD Purchases from GSA | 52 |
| F. FTS Commissioner's Response to the Draft Report | 53 |
| G. Report Distribution | 56 |



U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

DATE: January 8, 2004

REPLY TO

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

SUBJECT: Audit of Federal Technology Service's
Client Support Centers
Report Number A020144/T/5/Z04002

TO: Sandra N. Bates, Commissioner
Federal Technology Service (T)

This report presents the results of the Office of Inspector General's audit of Federal Technology Service's Client Support Centers in Regions 4, 6, and 10.

This audit was conducted as part of the Office of Inspector General's annual audit plan. Our specific audit objective was to answer the following question: Did the Client Support Centers make procurements in accordance with the Federal Acquisition Regulation (FAR) and the terms and conditions of the contracts utilized?

The audit identified numerous improper task order awards, such as misuse of small business contracts, and ordering work outside the scope of a contract and the Information Technology Fund. As a result, the contracting practices did not provide reasonable assurance that the Government received supplies and services at a fair and reasonable price. We identified several factors that contributed to these problems, including an ineffective system of internal management controls, personnel accommodating customer preferences, and an emphasis on revenue growth. Based on our audit findings, FTS officials in regional offices and Central Office have taken prompt actions to begin correcting the problems identified and have asked for our assistance.

We have included your written response to the draft report as an appendix to this report.

Sincerely,

JOHN LANGELAND
Audit Manager
Great Lakes Region

230 South Dearborn Street, Suite 408, Chicago, IL 60604

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AUDIT OF FEDERAL TECHNOLOGY SERVICE'S
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EXECUTIVE SUMMARY

Purpose

The objective of the review was to determine if the Client Support Centers (CSCs) made procurements in accordance with the Federal Acquisition Regulation (FAR) and the terms and conditions of the contracts utilized.

Background

The core business of the Information Technology (IT) Solutions business line is the reselling of private sector solutions that are obtained through the award and administration of contracts with the private sector. CSCs issue and manage task and delivery orders against existing contracts, manage projects, and maintain a staff of IT managers and project managers.

Revenues from CSC procurements have increased in recent years from \$3.8 billion in fiscal year 2001 to \$4.7 billion in fiscal year 2002, and \$5.8 billion in fiscal year 2003. Department of Defense (DOD) customers represent over 85 percent of the business of the regional CSCs. Task and delivery orders written against FSS Schedules represent approximately 60 percent of the CSCs' business, on a dollar basis. Tasks for services represent the majority of CSC business.

There are 11 regional CSCs, which are located in every GSA region. CSCs perform direct interface with customer agencies to define requirements.

Results-in-Brief

The audit identified numerous improper task order and contract awards. In making these awards, CSC officials breached Government procurement laws and regulations, and on a number of occasions, processed procurement transactions for goods and services through the Information Technology Fund that were well outside the fund's legislatively authorized purposes. Inappropriate contracting practices included: improper sole source awards, misuse of small business contracts, allowing work outside the contract scope, improper order modifications, frequent inappropriate use of time and materials task orders, and not enforcing contract provisions. Although their procurement authority is restricted to acquiring information technology equipment, software and related services, we identified CSCs making procurements for such things as: floating marine barriers; construction of classrooms and office buildings; and pathogen detection devices and services. In making several of these awards, millions of dollars were wasted by compensating the contractors for doing little more than placing orders with other favored contractors to do the actual work. Competition, or otherwise permitting vendors a fair opportunity to be considered, was absent from many of the transactions

examined. As a result, the procurements did not provide reasonable assurance that the Government received supplies and services at a fair and reasonable price and the fundamental objectives underlying the federal procurement process were not achieved.

Several factors contributed to the problems we identified: an ineffective system of internal management controls, CSC personnel sacrificing adherence to proper procurement procedures in order to accommodate customer preferences, and a culture that emphasized revenue growth. These factors created an environment that fostered client-driven decisions and inattention to laws and regulations, increasing the program's vulnerability to fraud, waste and abuse. We also determined that FTS' performance measures do not adequately promote competition. Therefore, we conclude that the internal controls that were established were not always effective and did not provide assurance that Government funds were reasonably protected.

Recommendations

We recommend that the Commissioner, FTS, analyze the problems identified and determine what changes are needed in the structure, operations and mission of the CSCs, mix of resources, and management control processes to align policies and procedures with laws and regulations and GSA's own core values in ensuring the Government obtains best value. We also recommend that the Commissioner, FTS develop additional performance measures for the CSCs that promote competition and other sound procurement practices.

Management Response

The Commissioner, FTS concurred with the report recommendations. She stated that FTS has begun to implement a series of actions and initiatives to improve acquisition quality and integrity across the organization.

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INTRODUCTION

Background

The Information Technology (IT) Solutions business line within FTS is a fully cost-reimbursable solutions provider to the Federal IT community. The core business of the IT Solutions business line is the reselling of private sector solutions that are obtained through the award and administration of contracts with the private sector. Under FTS' Office of Information Technology Integration, there are 11 regional Client Support Centers (CSCs) and several national CSCs providing support to the Federal IT community.

The regional and national CSCs rely on a variety of contract vehicles to engage private sector services to satisfy client agency requirements: FTS contracts,¹ Federal Supply Service (FSS) Schedules, and Government-wide contracts awarded and managed by the contracting offices of other agencies.

Regional CSCs

Our review focused on 3 of the 11 regional CSCs, which are located in every GSA region. CSCs perform direct interface with customer agencies to define requirements, identify sources of the needed products or services, prepare task and delivery orders, and manage projects, depending on the level of support that the client requires. The established duties, authorities, responsibilities, and funding of the regional CSCs are as follows:

- Issue and manage task and delivery orders against existing contracts, manage projects, and maintain a staff of IT managers and project managers. CSCs require technical, project management, and contracting expertise;
- Work directly with Federal clients to deliver services and products after sales have been made. The level of involvement depends on the complexity of the task; e.g., commodity purchases often require less support than services tasks;

¹ FTS provided Solution Development Centers (SDCs) as centers of contracting expertise that the regional CSCs can rely on. As an example, the Small Business SDC provides a suite of competitively awarded contracts set aside for 8(a) program certified small and disadvantaged businesses. (FTS SDCs are now part of the Federal Supply Service.)

- Conduct pre and post order processing activities and maintain their own contracting staffs; and
- Develop the capability to resell all SDC contracts and solutions and are evaluated on the ability to do so.

Authorities

CSCs are authorized to maintain their own contracting staffs and to award small contracts (under \$5 million) and blanket purchase agreements for specific clients wherein the customer agency pays for all contracting and acquisition costs. However, the CSC must first consider all existing FTS and FSS contracts to determine if the customer can be served effectively using an established contract vehicle. The awarding of open market contracts by the CSCs is the least preferred option when providing a solution for a client agency. CSCs are specifically not authorized to award Government-wide contracts or large IT contracts for specific clients without prior approval of the FTS Office of IT Integration.

Responsibilities

CSCs are responsible for understanding clients and their missions, goals, objectives, and requirements. The CSCs must develop teams that are knowledgeable of all FTS product and service offerings.

Performance appraisals of employees within a CSC are based primarily on client satisfaction levels and how well assigned work is performed. Evaluation criteria include client agency satisfaction and work product excellence.

Funding

CSCs have profit and loss responsibility. Client agencies are assessed fees for the services provided. Our review found that these fees generally ranged from one to four percent of product cost. Typically, the client provides FTS with a Military Interdepartmental Purchase Request (MIPR) or other reimbursable funding document, which obligates funds for GSA’s use. GSA pays the contractor from the IT Fund as invoices are received and GSA bills the customer.

Revenue and Additional Information

The regional CSCs have had marked revenue growth in recent reporting periods, as shown below:

| Period | Revenue |
|------------------|-----------------|
| Fiscal Year 2001 | \$3,845,698,700 |
| Fiscal Year 2002 | \$4,722,820,600 |
| Fiscal Year 2003 | \$5,833,842,800 |

The level of contracting activity varies among the regional CSCs. For example, fiscal year (FY) 2002 revenues ranged from \$133.65 million (Region 2) to just over \$1 billion (Region 6). Likewise, FY 2002 funded full time equivalent (FTE) employees ranged from 10.8 FTE in Region 1 to 62 FTE in the National Capitol Region.

Department of Defense (DOD) customers represent over 85 percent of the business of the regional CSCs. Task and delivery orders written against FSS Schedules represent approximately 60 percent of the CSCs' business, on a dollar basis. Data we received from the Region 6 CSC (the largest revenue region) indicated that services tasks represented approximately 65 percent of revenues, which we believe is typical of other CSCs.

In addition to our audit of CSCs, the DOD Inspector General (DOD-IG) performed several audits during 2002 and 2003 of DOD purchases from GSA. The DOD-IG identified problems in: contracting for professional, administration and management support; use and control of Military Interdepartmental Purchase Requests; contract actions awarded to small businesses; and procurement of the Seat Management initiative. (See Appendix E for a list of related DOD-IG audit reports.)

Objectives, Scope and Methodology

In a meeting with the Assistant Commissioner for IT Solutions regarding possible audit areas for FY 2002, an audit of CSC procurement practices was mutually agreed upon.

The objective of the review was to determine: Did the CSCs make procurements in accordance with the Federal Acquisition Regulation (FAR) and the terms and conditions of the contracts utilized?

To accomplish the objective, we:

- Obtained, prior to commencing audit field work, databases covering all CSC orders and modifications initiated during FY 2002, for selected regions;
- Obtained, as part of our survey work, program data from FTS Central Office officials;
- Reviewed orders and related procurement documentation contained in the Information Technology Solutions Shop (ITSS) database;
- Performed the audit fieldwork in Region 4, Region 6, and Region 10, including on-site work at Camp Murray and Fort Lewis (State of Washington) and contractors' headquarters located in Colorado Springs, Colorado; and Bremerton, Washington;
- Reviewed 50 orders valued at \$227,937,414 in Region 4; 83 orders valued at \$356,369,881 in Region 6; and 58 orders valued at \$51,860,168 in Region 10. In determining orders to be reviewed, we selected a judgmental sample of orders exceeding \$100,000, which did not represent a statistical sample;

- Obtained Military Interdepartmental Purchase Requests (MIPRS) and other funding documents related to the procurements we reviewed;
- Reviewed 11 client-specific, single award, indefinite delivery/indefinite quantity contracts;
- Reviewed several Small Business SDC 8(a) contracts;
- Reviewed FSS Schedule contracts, price lists, and authorized terms and conditions obtained from FSS personnel;
- Reviewed architectural drawings, architect's construction specifications, and marine construction specifications;
- Contacted contractors and client agencies via telephone and other electronic means and requested data;
- Performed tests of contract administration, including testing invoices to determine if billings were in accordance with contract terms and conditions;
- Obtained competitive quotes to test price reasonableness;
- Reviewed laws, regulations, and applicable guidance, including the FSS "Ordering Procedures for Services (Requiring a Statement of Work);" and
- Interviewed CSC Information Technology Managers² (ITMs).

Our review focused on procurements made in FY 2002; however, in some cases we followed clients' projects back to FY 1997 and through FY 2003.

The audit was conducted from May 2002 to September 2003 in accordance with generally accepted Government auditing standards.

² The basic account management function is referred to, depending on the region, as an Information Technology Manager or an Information Technology Representative.

RESULTS OF AUDIT

The audit identified numerous improper task order and contract awards. In making these awards, CSC officials breached Government procurement laws and regulations and, on a number of occasions, processed procurement transactions for goods and services through the Information Technology Fund that were well outside the fund's legislatively authorized purposes. Inappropriate contracting practices included: improper sole source awards, misuse of small business contracts, ordering work outside the contract scope, improper order modifications, frequent inappropriate use of time and materials task orders, and not enforcing contract provisions. Although their legislative procurement authority is restricted to acquiring information technology equipment, software and related services, we identified CSC officials making procurements for such things as: floating marine barriers; construction of classrooms and office buildings; and pathogen detection devices and services. In making several of these awards, millions of dollars were wasted by compensating the contractors for doing little more than placing orders with other favored contractors to do the actual work. Competition or otherwise permitting vendors a fair opportunity to be considered was absent from many of the transactions examined. As a result, the procurements did not provide reasonable assurance that the Government received supplies and services at a fair and reasonable price, and the fundamental objectives underlying the federal procurement process were not achieved.

Several factors contributed to the problems we identified: an ineffective system of internal management controls, CSC personnel sacrificing adherence to proper procurement procedures in order to accommodate customer preferences, and a culture that emphasized revenue growth. These factors created an environment that fostered client-driven decisions and inattention to laws and regulations, increasing the program's vulnerability to fraud, waste and abuse. We also determined that FTS' performance measures do not adequately promote competition. Therefore, we concluded that the internal controls that were established were not always effective and did not provide assurance that Government funds were reasonably protected.

Sole Source Awards

Of 92 FSS Schedule orders for services in our sample, the CSCs awarded 50 orders (54 percent) without the benefit of competition. A substantial number of these sole source awards were not proper. Recent legislation and FSS ordering procedures specify the need to obtain a minimum of three offers for most orders to ensure fair and reasonable prices. We concluded that, particularly in the case of professional services, the client generally had a vendor in mind before coming to GSA, and the prevalence of single source justifications suggests that many clients were not interested in competing the requirement. The CSCs were not proactive toward expanding the competitive environment for task orders. As a result, the Government did not obtain the benefits of competition and potentially lower costs.

CSCs Accepted Customer Agency Justifications

CSCs approved agency justifications to limit competition with little scrutiny or effort to obtain additional sources. For example, Region 6 approved a sole-source task for the Department of Defense covering Uninterruptible Power Supply (UPS) systems work against an FSS Schedule contract. The award was made to Powerware Corporation for \$675,000. Based on the statement of work, we questioned whether competition should have been limited to a single vendor. FSS assisted us in determining if there were other Schedule vendors that had the capability to perform the work. Based on a general description of the work, FSS provided us the names of several other Schedule contractors with coverage for UPS work. The contractors were easily identifiable via the Internet-based GSA Schedules e-Library.³

We contacted three contractors, and asked the contractors to advise us as to their capability of performing the work specified. Within one business day, all three contractors responded positively to our request. Therefore, with minimal effort, the CSC could have identified additional sources for this task.

The Region 4 CSC accepted a client's justification to restrict competition to one FSS Schedule contractor (KPMG Consulting, Inc.) for technical and analytical support for the Army related to utilities privatization (Task 4TWG21024143). However, the documentation was not adequate to support key statements of fact in the Army's justification. For example, in the justification document, the Army indicated that it had reviewed the qualifications of several competitors and it was clear that no other firm had the same corporate capability.

The CSC did not request any substantiation for this or any other assertions in the justification, nor did it choose to make any further inquiries as to other Schedule contractors' ability to perform this work. At a minimum, the CSC should have solicited the "several competitors" noted by the Army.

FSS and DOD Ordering Procedures Require Competition

FSS Schedule services orders (that include a statement of work) expected to exceed \$2,500,⁴ require the ordering office to send the statement of work to a minimum of three Schedule contractors for competitive quotes. Orders expected to exceed the maximum order threshold (MOT), require that the ordering office request quotes from additional Schedule contractors that offer services that will meet the agency's needs.

In 2002, the Congress reaffirmed the importance of optimizing competition by enacting legislation (Section 803 of the National Defense Authorization Act of 2002, Public Law 107-107) which requires ordering agencies to obtain a minimum of three offers for DOD orders for professional services expected to exceed \$100,000 that are placed under

³ The Schedules e-Library is an on-line source for researching GSA Schedule information.

⁴ The micro-purchase threshold is \$2,500.

multiple award contracts, including FSS Schedule contracts⁵. The provisions of Section 803 apply not only to orders placed by DOD, but also to orders placed by non-DOD agencies on behalf of DOD. Unrestricted use of sole source justifications undermines these competitive procedures.

Misuse of Small Business 8(a) Sole Source Authority

FAR 19.805-1(a)⁶ allows for sole source procurements to eligible small business 8(a) firms if the anticipated total value of the non-manufacturing contract is under \$3 million. Within our sample of 86 small business 8(a) task orders and contracts, we found that FTS directed improper procurements for millions of dollars in 70 of these cases (81 percent) to obtain the services of companies its customers wanted. We noted instances where FTS used these contracts in breach of regulations to improperly perform work not within the scope of the contract, and where the vast majority of work was subcontracted by the 8(a) vendor to another company. Many of these task orders represented split procurements in order to avoid exceeding the competitive threshold established for 8(a) firms by FAR 19.805-1(a). We also found that these actions likely resulted in increased costs for goods and services and other liabilities for the Government.

Work Performed Outside Scope of Contracts

FTS procured millions of dollars of goods and services that were outside the scopes of the IT contracts being used. FTS used 8(a) contractors under the sole source provisions of FAR 19.805-1 to procure defense systems, marine installation services, and construction and renovation of buildings, even though the contracts were for “non-complex systems integration services.”

Waterfront Security Barriers. In FY 2002, Region 6 accepted over \$100 million in MIPRs from a Navy client for “Antiterrorism/Force Protection Waterside Security.” FTS, under the auspices of the IT Fund, contracted for at least \$38 million for designing, fabricating and installing boat barrier systems to protect U.S. Navy facilities in five separate Mediterranean ports. As pictured on the next page, the barrier systems consisted of 82-foot long, 8-foot diameter floating rubberized barriers, held in place by an elaborate system of anchors, buoys, chains and other hardware. The barriers were intended to physically stop intruding watercraft.

⁵ The legislation affects DOD orders placed under multiple award contracts on or after October 25, 2002.

⁶ The statutory basis for FAR 19.805-1(a) is the Business Opportunity Reform Act of 1988, Public Law 100-656, sections 303(b) and 303(d), codified at 15 U.S.C., section 636.



Boat Barriers

The program also included a waterside security system (WSS) consisting of radar, sonar, video systems, and a command control console. While the Navy intended the WSS and the barriers to be part of an overall harbor security system, we found that the two systems were separate and distinct. The barriers were intended as a physical barrier. The WSS monitored boat traffic and provided early warning of possible hostile intent.⁷ The systems had separate and distinct statements of work.

FTS used Northern NEF, Inc. to procure the barriers, engineering, fabrication, marine installation skills, and equipment (boats, cranes, winches, etc.) necessary to anchor the system to the sea floor using Pearl Harbor anchors (see picture on next page). Northern NEF had Small Business SDC 8(a) contracts for the provision of non-complex computer systems integration services under Standard Industrial Classification (SIC) 7373. These contracts state that the “contractor shall integrate commercially available off-the-shelf hardware and software resulting in a turnkey system for the GSA client agency.” The contract line items consisted of professional IT services, namely computer systems analysts, programmers, and LAN technicians.

⁷ FTS officials noted that the rubberized boat barriers contained an electronic “chip.” Our review indicated that the chip’s price was nominal (about \$5; the price for a single boat barricade was over \$50,000), and that it was “essentially dormant.” However, if integrated into the WSS, the chip could be “pinged” to determine the exact location of the barrier. If the barricade was not at its fixed location, Navy personnel would have to determine if the barriers had been breached or broken away in a storm. FAR 2.101 states that the term information technology does not include any equipment that contains imbedded information technology that is used as an integral part of the product, but the principal function of which is not the acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information.



Pearl Harbor Anchors

Camp Murray. FTS officials in Region 10 constructed a modern one-story office building at Camp Murray, Washington State to house the courseware development activities of the Washington Army National Guard. The 5,000 square foot office building was complete with break rooms, showers, conference room, private offices, and space for 25 to 30 employees. The building's cost, with furnishings, was around \$950,000. The building was completed around November 2001. (Refer to Appendix B, note 1 and our alert report number A020144/T/5/W03001 for additional information.)

Total Army Distance Learning Program. FTS officials in Region 10 spent over \$36 million renovating United States Army facilities on behalf of the Total Army Distance Learning Program (TADLP). A goal of the program was to build standardized classrooms for participants in the program. The building renovation work was sometimes quite extensive and amounted to over \$1,000,000 at a single site. This work was performed during the period 1998 through 2002. (Refer to Appendix B, note 4 and our alert report number A020144/T/5/W03001 for additional information.)

FTS used contracts with Information Systems Support, Inc. (ISS) and ACS Systems and Engineering, Inc. (ACS), to procure the architectural, engineering, and general construction services to perform the building renovation work. ISS and ACS have Small Business SDC 8(a) contracts for the provision of non-complex computer systems integration services under Standard Industrial Classification Code (SIC) 7373. SIC 7373 is for computer integrated systems design. ISS' and ACS' contracts stated that the "contractor shall integrate commercially available off-the-shelf hardware and software resulting in a turnkey solution for the GSA client agency." The contract line items

consisted of professional IT services, namely computer systems analysts, programmers, and LAN technicians. Therefore, the work was not within the scope of their contracts.

Contract Items Not Found on Small Business SDC 8(a) Tasks. FTS officials, in both Region 10 (for discussion, see audit report number A020144/T/5/W03001) and Region 6, issued task orders against contracts let by GSA's Small Business SDC 8(a) Solutions Development Center that did not procure a single contract line item that was directly traceable to those contracts for purchases of IT as well as non-IT items.

For example, in Region 10, we examined over \$6 million in task orders proposed as other direct costs (ODCs). These task orders were issued to Information Systems Support, Inc. (ISS) under their Small Business SDC 8(a) contract number GS06K97BND0710. These task orders' ODCs represented the interactive courseware development services, software and customization ability of a larger business called CLICK2LEARN. FTS, on behalf of the Washington Army National Guard, was using ISS' Small Business SDC 8(a) contract as a conduit to the services and software of CLICK2LEARN without obtaining competition. The ODCs identified on the task orders were not from ISS' Small Business SDC 8(a) contract or ISS' or CLICK2LEARN's FSS Schedule contracts⁸. Additionally, we found no evidence supporting the price reasonableness of the ODCs. The ODCs were, therefore, unrelated to the scope, terms and conditions of ISS' Small Business SDC 8(a) contract.

Subcontracting

We identified several instances of Small Business SDC 8(a) contractors subcontracting the majority of the project's value. This included FTS directing over \$53 million in sole source orders to an 8(a) company, which then passed through 100 percent of the work to a subcontractor, and using 8(a) contractors as order administrators to obtain the services of other contractors identified by its military customers. A high level of subcontracting undermines an important intent of the 8(a) program, which is to provide small disadvantaged businesses with real work experience. Use of 8(a) contracts as a mere conduit to other contractors is a clear abuse of the 8(a) program.

Our review of over \$53 million in task orders issued to Northern NEF during FY 2001 and FY 2002 for Mediterranean harbor projects showed that 100 percent of the work was performed by subcontractors. By reviewing purchase orders, quotes and invoices, we ascertained that one subcontractor performed the marine installation work for the Navy, while another firm supplied the barriers, often through another subcontractor. An organizational chart supplied by the Navy describing the Mediterranean harbor project did not include Northern NEF, but instead listed a subcontractor as reporting directly to the Navy.

⁸ ISS' Small Business SDC 8(a) contract allows for additional labor categories, hardware, and software to be provided as long as the prices are commensurate with those found in FSS Schedule 70 contracts or their replacement schedules.

FAR 52.219-14(b)(1)⁹ (which is included in Northern NEF's contract by reference) states that in the case of a contract for services, at least 50 percent of the cost of contract performance incurred for personnel shall be expended for employees of the concern. In this instance, orders were being placed under the sole source provisions of FAR 19.805-1(a). Other firms, however, performed the work.

In another example, Force 3, Inc., under Region 6 task orders issued against Small Business SDC 8(a) contract number GS00K97AFD2093, supplied network renovation services to the Air Force Medical Support Agency (AFMSA). Force 3 supplied us with data showing that 70 percent of the network renovation work was performed by ARK Systems, Inc. AFMSA told us that ARK was used because it could work in a hospital environment while causing minimal disruption.

Force 3 was used as a hardware supplier although its contract covers network renovation services, while another company performed installation services. The scope of Force 3's contract calls for the provision of non-complex integration services under Standard Industrial Classification (SIC) code 7373. Force 3's contract states that the contractor shall integrate commercially available off-the-shelf hardware and software resulting in a turnkey system for the GSA client agency. The contract line item numbers (CLINs) consist of professional services employees such as computer systems analysts and LAN technicians. We found that Force 3 was procuring the hardware while another firm was performing the majority of its network renovation tasks.¹⁰ Region 6 consistently used Force 3 as a hardware supplier. Orders placed by the CSC over the term of the contract represented 89 percent hardware (about \$38 million) and 11 percent services (about \$4.5 million). This was consistent with our review of Force 3 task and delivery orders for which we could not find one cost item traceable to the contract's CLINs.

Split Procurements

FTS officials split procurements to ensure that the individual 8(a) task orders stayed below the \$3 million sole source threshold. Our analysis in Region 10 indicated that (i) identical statements of work existed; (ii) purchase orders were prepared on the same date and signed by a contracting officer within a 3-day period; and (iii) the source of funding was identical. The task orders had values between \$2,449,120 and \$2,941,600. FTS CSC officials agreed with our analysis, stating that "by failing to consider all of the project's requirements, FTS failed to obtain national competition under the 8(a) Program."

⁹ The statutory basis for FAR 52.219-14 is the National Defense Authorization Act of 1987, Public Law 99-661, section 921(c); also, amended sections 8 and 15 of the Small Business Act, codified at 15 U.S.C., sections 637 and 644.

¹⁰ Hardware and software available under Force 3's contract is that described and priced under FSS Schedule 70 or replacement schedules for necessary work consistent with SIC code 7373.

In Region 6, the CSC split orders to Northern NEF to avoid the \$3 million competitive threshold for non-manufacturing orders established in FAR 19.805-1(a). Almost all of the over \$53 million in boat barrier harbor tasks we analyzed were split to avoid the competitive threshold. Many of the task orders had values just below \$3 million. The following is an example involving marine installation activities at the Mediterranean harbors:

| Order | MIPR | P.O. Date | Nature of Work | Amount |
|--------------|-----------------|------------------|-----------------------|---------------|
| K02TH132H00 | N632X702MPPSE01 | 5/14/02 | Parts | \$2,980,256 |
| K02TH133H00 | N632X702MPPSE01 | 5/14/02 | Installation | \$2,946,784 |
| K02TH134H00 | N632X702MPPSE01 | 5/14/02 | Installation | \$2,795,227 |
| K02TH135H00 | N632X702MPPSE01 | 5/14/02 | Installation | \$343,811 |
| K02TH136H00 | N632X702MPPSE01 | 5/14/02 | Installation | \$1,972,915 |
| K02TH138H00 | N632X702MPPSE01 | 5/14/02 | Parts | \$2,613,430 |
| K02TH139H00 | N632X702MPPSE01 | 5/14/02 | Installation | \$1,524,623 |

The statements of work accompanying these orders were identical.

FTS officials told us they believed each order represented a discrete boat barrier system installed at a discrete harbor, but this was clearly not the case. Each of these task orders, issued on the same day, included parts or installation for boat barriers at two or more harbors; thus, in our opinion, the orders should have been combined. Further, the above orders do not include orders for the barriers themselves. Orders for 174 barriers were similarly split into three orders to avoid the \$3 million competitive threshold; each order was for 58 barriers, totaled \$2.96 million, had the same funding source, and was placed on the same day.

FAR 19.805-1(c)¹¹ states that a proposed 8(a) requirement with an estimated value exceeding the applicable competitive threshold amount shall not be divided into several requirements in order to use sole source procedures for award to a single firm.

Northern NEF's contracts with the Small Business Solutions Development Center¹² were terminated on February 6, 2003, when the company was purchased by a large business, and no longer qualified as a small business. However, the CSC has continued to purchase boat barriers from another contractor which had no expertise in boat barriers and whose contract also called for the provision of non-complex systems integration under SIC 7373. We identified six orders to this company that continued the same procurement patterns identified above: each order was for 50 barriers, was dated February 14, 2003, had the same funding source, and was for \$2,678,812.50.

¹¹ The statutory basis for FAR 19.805-1(c) is the Business Opportunity Reform Act of 1988, Public Law 100-656, sections 303(b) and 303(d), codified at 15 U.S.C., section 636.

¹² FTS' Small Business SDC is now a part of the Federal Supply Service.

Increased Costs

In our review, we found that FTS incurred increased costs when using these inappropriate contracts. The absence of competition and use of subcontractors led to prices that contained multiple mark-ups and fees that could not be supported by CSC officials, as well as problems with warranty rights and construction clauses.

Purchase of Boat Barriers. While 100 percent of the boat barrier task orders “passed through” Northern NEF to other companies, and it performed none of the work, it still collected a fee of 4.8 to 5 percent acting as GSA’s order administrator. The price of a single boat barrier increased over \$5,000 when Northern NEF’s fee and its subcontractor’s fee were included for over 400 barriers. Northern NEF was able to generate over \$2.6 million in fees while other firms “recommended” by the Navy did the work.

Our audit work showed that the prices proposed contained multiple mark-ups that the CSC, based on the quotes provided by Northern NEF, was not aware of. The following is an example of how prices for the boat barriers were developed:

| Cost Element | Price |
|---------------------------------------|-------------|
| Boat Barrier Base Price | \$45,250.00 |
| Consultant Markup @ 7.5% | \$3,393.75 |
| Northern NEF @ 4.8% | \$2,334.90 |
| Final Cost to GSA, excluding shipping | \$50,978.65 |

Region 6 issued delivery orders for at least 700 barriers to Northern NEF and one other contractor during the period September 27, 2001 through February 14, 2003. Northern NEF, on at least \$15 million worth of these task orders, ordered the barriers through a consulting firm. The consulting firm applied a 7.5 percent fee to the transactions (described as General and Administrative or G&A expense), including shipping costs. The fees amounted to over \$1 million.

Northern NEF officials said they had been directed by the Navy to procure the barriers through the consulting firm instead of dealing directly with the manufacturer. We found documentary evidence that showed the consulting firm was the Navy’s “recommended” contractor. However, Northern NEF was allowed to procure directly from the manufacturer on recent orders.

We were unable to obtain from the Navy information on the additional value, if any, the consulting firm brought to the procurements. No one in FTS knew if the base cost for these items was fair and reasonable.

Installation of Boat Barriers. We also found that costs proposed by a subcontractor for installation of the barriers contained fees that were unsupported. The following example represents costs associated with a buoy, just one component of the elaborate anchoring system:

| | Large Foam Buoy |
|---------------------------|------------------------|
| Subcontractor Base Cost | \$31,000.00 |
| Subcontractor G&A @ 9.85% | \$3,053.50 |
| Subcontractor Fee @ 20% | \$6,810.70 |
| Northern NEF Fee @ 5% | \$1,961.48 |
| Cost to GSA | \$42,825.68 |

The base costs shown above may have contained a significant mark-up. Northern NEF officials stated that the subcontractor officials told them the 20 percent fee was an industry standard. FTS' files and direct questions to the responsible ITM indicated that FTS was unaware of how proposed costs were developed. We concluded that it was impossible for FTS to ascertain the price reasonableness of these items, as required by the FAR, without adequate support from the contractor.

Purchase of Sonar System. We identified another example in which FTS purchased 15 Thales/Klein Sea Guardian Diver Detection Sonar Systems in a sole-source 8(a) procurement from Northern NEF at a price of \$5.4 million. We concluded that free and open competition could have substantially reduced the prices for the sonar systems supplied to the Navy.

Northern NEF often supplied FTS with comparative pricing information in its quotes. Because we had concerns about the accuracy of this information, we contacted a competitor, Kongsberg Simrad, Inc. We determined that the comparative price (reported by Northern NEF) was inaccurate. Kongsberg Simrad sent us an official quote, using the same parameters used by Northern NEF to the Government. Kongsberg Simrad's SM 2000 Swimmer Detection sonar systems were priced 40 percent less than the Thales/Klein units supplied by Northern NEF.

We determined that another Navy organization purchased thirteen (13) SM 2000 sonar units from Kongsberg Simrad. The University of Texas Applied Research Labs (the Navy contractor) provided a copy of its April 22, 2003 purchase order to Kongsberg Simrad, which substantiated the prices we received. Navy personnel said the Navy needed sonar that would interface with its proprietary processing system and that the SM 2000 sonar performed well and had been rigorously tested. This Navy organization was not familiar with Thales/Klein.

Warranty Rights and Construction Clauses. We also identified other liabilities, including lack of warranty rights to cover product defects and necessary FAR clauses for construction work, which also resulted in increased costs. With regard to the boat barriers, Navy officials advised us that the barriers were prone to leaks, can deflate completely, and that defects caused barrier gates to remain open. Navy documentation suggested that vendor representatives be sent to the Mediterranean "before the weather gets bad and we have a real situation on our hands." FTS may have trouble exercising warranty rights since these items are not covered by Northern NEF's contracts.

Task orders we reviewed did not contain the necessary FAR construction clauses or follow FAR procedures for the provision of architect/engineering services. Consequently, the Region 10 CSC has been subject to claims for increased costs regarding violations of prevailing wage provisions under the Davis Bacon Act for task orders issued which contained building renovation work. In one instance, the CSC paid \$161,776 to settle a request for equitable adjustment related to a Davis Bacon Act violation. The client agency declined FTS' request for reimbursement of the \$161,776; therefore, GSA directly paid the final invoice from the IT Fund on, or about, February 12, 2003. (For additional information on this FSS Schedule order, see Appendix B, note 6.)

Work Outside of the Contract Scope on Other Contracts

We also identified inappropriate contract scopes of work for other than small business firms. For example, FTS officials in Region 10 contracted for the renovation of the Ministry of Defense Conference Center in the eastern European nation of Moldova into a modern facility based on contemporary western European standards. We determined that about \$290,000 in renovations were performed by a Moldovan architect and general contractor. FTS officials accepted a proposal from an FSS Schedule 70 prime contractor that did not provide detail for the substantial building renovation effort performed. The contractor, instead of detailing the costs of subcontracting architectural and construction work, proposed about 10,000 hours of "IT Technician" time to cover the architectural and construction work.

In another case, Region 6, on behalf of a DOD client, Joint Program Office for Biological Defense (JPO-BD), issued task orders for the production of antibodies and the incorporation of these antibodies into sophisticated "hand held assays" used for the detection of agents such as anthrax. FTS awarded over \$36 million in task orders to National Micrographics Systems, Inc. (NMS) in support of JPO-BD since May 2000.

JPO-BD officials told us that the "assays," which were the backbone of the project, represented "litmus strip" technology. The hand held assays are assembled in a variety of formats. Each assay can test for up to 8 pathogens. A fluid containing antibodies is sprayed onto the assays and the interaction of the spray with the assay indicates whether a deadly agent is present. FTS officials acknowledged that this project was not IT¹³.

FTS used NMS' FSS Schedule contract number GS-25F-4025B to procure the antibodies, assays and other materials and services required by JPO-BD. The contract is for micro-photographic equipment, supplies and services such as microfilm cameras, readers and printers, film, electronic scanner systems and other related equipment.

¹³ FTS officials, when processing orders for JPO-BD, used "direct fund cite" procedures instead of accepting a reimbursable funding document. FTS' explanation was that the transactions did not flow through the IT Fund and that their contracting warrants did not preclude the purchase of non-IT items. However, we noted that about \$12 million of JPO-BD work was performed on a reimbursable basis. This work was indistinguishable from the work performed via direct fund cite procedures. Therefore, a significant portion of the work performed for JPO-BD flowed through the IT Fund.

Therefore, the work was not within the scope of NMS' contract and products offered were not found on NMS' Schedule price list.

Further, our review found that invoicing was not in accordance with contract terms and conditions. We reviewed 23 invoices issued during the period March 20 through December 1, 2001. Seventeen (17) invoices submitted to GSA had pricing that was not in accordance with contract terms and conditions, unexplained cost items not covered by a contract modification, or an NMS fee (5 percent) not covered by the contract. The invoice discrepancies amounted to over \$1.8 million. FTS officials could not explain the pricing contained on the invoices. JPO-BD and NMS could not provide a contractual basis for the pricing and supplied us with documents that suggested that the contractor and client were determining prices without the benefit of contract modification or involvement of the CSC.

The task grew from \$6,701,037 (value of NMS' adjusted proposal on May 10, 2000) for one year's work to a current value of over \$36,866,000 without benefit of a revised proposal or contract modification indicating that an expanded scope of work had been accepted. FTS added funds to the project on several occasions. A note to the file showed that the project was for biological defense and "We will not know what the end product is."

Inappropriate Use of the IT Fund

As described in the examples above, CSCs have engaged in inappropriate contracting practices to procure, on behalf of clients, services which did not meet the intent of the IT Fund or FAR definitions. FTS officials misused contracts and the IT Fund to obtain other services, to avoid competition, and make awards to contractors their customer agencies wanted. 40 USC Section 322 (the statute creating the Information Technology Fund) states that, "in operating the Fund, the Administrator may enter into multiyear contracts, not longer than 5 years, to provide information technology hardware, software, or services. . ." (40 USC Section 322(e)(1)). Further, the IT Fund is available "for expenses, including personal services and other costs, and for procurement (by lease, purchase, transfer, or otherwise) to efficiently provide information technology resources to federal agencies and to efficiently manage, coordinate, operate, and use those resources. . . Information technology resources provided under this section include information processing and transmission equipment, software, systems, operating facilities, supplies, and related services including maintenance and repair." (40 USC Section 322(c)(1)&(2)). Thus, we believe the above examples do not represent an appropriate or permissible use of the IT Fund. (See Appendix D for a complete listing of orders from Regions 4, 6, and 10 that we considered outside the scope of the IT Fund.)

Improper Order Modifications Extended the Time Period for Re-Competition and Resulted in Cost Growth

Competition concerns do not end after task order award. The CSCs perpetuated non-competitive situations by processing multiple modifications to task orders, adding work and extending the time the contractor had to complete the task. In many cases, the modifications were improper because they (1) added work and option periods that were not consistent with the original statement of work (SOW), (2) exercised task option years without performing the requisite analyses per FAR 17, or (3) extended the period of performance of the task without appropriate justification. Examples follow:

Eglin Air Force Base (AFB)/Tybrin. We reviewed a task order placed by Region 6 to Tybrin Corporation (Tybrin) on behalf of Air Armament Center (AAC), Eglin Air Force Base. The scope of the contract was to provide ancillary software engineering services to AAC’s Test and Analysis Division. The time and materials task order, placed under Tybrin’s professional engineering contract number GS-23F-0109K, had a value of \$11,300,448. The period of performance was February 5 through December 31, 2001.

Tybrin’s task grew from \$11.3 million to over \$58 million dollars without competition as shown by the table below:

| | Value | Period of Performance | Reason |
|----------------------|---------------------|------------------------------|---|
| Initial Award | \$11,300,448 | 2/5/01 – 12/31/01 | |
| Mod. 3 | \$3,343,550 | 7/9/01 – 12/31/01 | Revised SOW lists specific sub-tasks not defined in original SOW. |
| Mod. 7 | \$24,870,597 | 1/1/02 – 12/31/02 | Exercised option year 1 |
| Mod. 20 | \$18,805,641 | 1/1/03 – 12/31/03 | Exercised option year 2 |
| Total | \$58,320,236 | | |

Modification 3 reflected the fact that, on October 31, 2000, Air Force officials stated, “Requirements will not be well-defined until later; but we need to have a contract in place beforehand.” Modifications 7 and 20 added option years, which quadrupled the value of the task. These contracting actions were improper because the original statement of work did not contemplate option periods, nor did Tybrin’s original proposal contain option years. Although the exercise of the first option year tripled the value of the task order, the contracting officer stated that there was no scope change and that the contractor was not required to submit a revised technical proposal.

A contract modification that goes beyond the scope of a contract is tantamount to a sole source award that may not be justified. Accordingly, competing contractors can successfully protest such modifications if GAO determines that the modification constitutes a material difference that potential offerors would not have reasonably anticipated.

In addition, neither FTS nor customer agency personnel could support the labor costs proposed by Tybrin. An agency official stated that “Price reasonableness has been assessed in accordance with FSS Ordering Guidelines,” but we did not identify any documentation showing that the ceiling price (including level of effort or mix of labor) was determined to be fair and reasonable.¹⁴ FTS officials relied on e-mail correspondence from customer agency officials stating that they had reviewed the contractor’s proposal and had no problem with it. We do not feel this is adequate support for the millions of dollars in proposed costs.

Air Force/Comnet. In 2001, the Region 6 CSC awarded Task K01MM060S00 on a sole-source basis to Comnet Sciences for \$530,879 over a three-year period, for work outside the original task scope. Comnet was the incumbent contractor for this work for Web and database solution development and maintenance support services for the Air Force. Less than three months after award, the CSC issued a modification adding 14 individuals amounting to a \$2,044,942 increase. The modification extended the period of performance by three months with no explanation or consideration. In April 2003, the CSC again modified the task to add 11 more individuals at a cost of \$1,000,555. Both of the modifications were improper because they constituted work outside the scope of the original task. Two different Region 6 contracting officers were involved with the second modification of \$1,000,555. The file shows that the contracting officer who first received the modification did not approve it, stating her reasons in an e-mail to the ITM:

“Mod #1 adds fourteen labor categories and changes the period of performance. This was way outside the original scope of this task order. You cannot add fourteen individuals to an order that was originally for one person.

Mod #5 is to add eleven more employees and adds \$1,000,554.50. This task order needs to be cancelled.”

The ITM subsequently requested the contracting office send the modification to a different contracting officer – the one who approved the first modification adding 14 people for \$2,044,942. The second contracting officer signed the modification and could not explain to us how he resolved the issues raised by the other contracting officer. (See Appendices A, B, and C for additional examples of improper task modifications and cost growth.)

Department of Energy/Unisys. In 1999, the Region 6 CSC awarded a time-and-materials task for data systems for the Department of Energy to Unisys for \$110,897 for a period of performance ending January 31, 2000. The CSC subsequently processed multiple modifications that extended the performance period and added labor and materials, increasing costs ten-fold. By April 2003, the task value approached \$1 million. The documentation related to one of the modifications states,

¹⁴ We reviewed Tybrin’s Blanket Purchase Agreement (BPA) number GS06T01BNA0113, issued in support of Eglin AFB, and determined that the prices proposed were in accordance with the BPA’s price list.

“This modification is to extend the period of performance and add labor hours and materials . . . Customer will lose [sic] funds if we do not extend project.”

These and other situations we identified (see Northern NEF example discussed previously) suggest that the CSCs need to give increased emphasis to task administration, particularly for larger, more complex tasks. Not only do these conditions lead to uncontrolled cost growth but they also increase the likelihood the Government will become dependent upon one contractor for future similar tasks and thus decrease the opportunity for competition. The CSCs must be alert to fostering extended sole-source situations that deprive the Government of leverage in the marketplace.

Extensions to the task performance period should be the exception versus the rule. If the CSC does not ensure that there is a legitimate reason for the extension(s), the contractor may not be providing the best value to the Government.

Frequent Use of Time and Materials Tasks

We found that the CSCs frequently used time-and-materials tasks versus fixed-price task orders. Of the 147 orders for services that we reviewed, 63 percent were time-and-materials type tasks. A time and materials contract provides for acquiring services on the basis of direct labor hours at fixed hourly rates and materials at cost. Time-and-materials task orders are expressly disfavored under the FAR. The FAR states that a time-and-materials contract provides no incentive to the contractor for cost control or labor efficiency, and thus appropriate Government surveillance of contractor performance is required to give reasonable assurance that efficient methods and effective cost controls are being used.

FAR 16.601 states, in part:

“A time-and-materials contract may be used only when it is not possible at the time of placing the contract to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence, and

A time-and-materials contract may be used (1) only after the contracting officer executes a determination and findings that no other contract type is suitable; and (2) only if the contract includes a ceiling price that the contractor exceeds at its own risk. The contracting officer shall document the contract file to justify the reasons for and amount of any subsequent change in the ceiling price.”

When time-and-materials contracts are improperly awarded and managed, unrestrained cost growth can occur, as illustrated in the time-and-materials task orders described in the previous section.

Documentation Lacking to Assure Reasonable Pricing

In addition to the problems we identified in improper contracting practices, for a majority of the orders for IT services that we reviewed (63 percent), we could not find documentation supporting that the Government received a fair and reasonable price. The documentation did not show how FTS officials followed FSS Ordering Procedures for Services to ensure fair and reasonable price, or how the CSCs made an attempt to negotiate better pricing when processing and awarding orders.

FSS has developed a set of ordering procedures for services placed against its Schedule contracts, which includes provisions for obtaining competition for task orders, as well as considering the level of effort and labor mix in making a determination as to whether the total price is fair and reasonable. Excerpts from these procedures follow:

ORDERING PROCEDURES FOR SERVICES (Requiring a Statement of Work)

“FAR 8.402 contemplates that GSA may occasionally find it necessary to establish special ordering procedures for individual Federal Supply Schedules or for some Special Item Numbers (SINs) within a Schedule. GSA has established special ordering procedures for services that require a Statement of Work. These special ordering procedures take precedence over the procedures in FAR 8.404 (b)(2) through (b)(3).

GSA has determined that the prices for services contained in the contractor's price list applicable to this Schedule are fair and reasonable. However, the ordering office using this contract is responsible for considering the level of effort and mix of labor proposed to perform a specific task being ordered and for making a determination that the total firm-fixed price or ceiling price is fair and reasonable.

The request should be provided to three (3) contractors if the proposed order is estimated to exceed the micro-purchase threshold, but not exceed the maximum order threshold. For proposed orders exceeding the maximum order threshold, the request should be provided to additional contractors that offer services that will meet the agency's needs.

For agency requirements in excess of the micro-purchase threshold, the order file should document the evaluation of Schedule contractors' quotes that formed the basis for the selection of the contractor that received the order and the rationale for any trade-offs made in making the selection.”

The CSCs did not ensure compliance with the special ordering procedures. Specifically, the CSCs did not ensure that task order documentation reflected an evaluation of labor mix and level of effort. CSCs sometimes accepted brief e-mails from

clients as evidence that complex and detailed contractor proposals were evaluated for best value, including price reasonableness.

Questionable Contracting Practices

FTS' lack of oversight over its task and delivery orders resulted in several questionable practices involving customers and contractors, including conflicts of interest, unsubstantiated costs that were also questionably allocated, incorrect pricing memoranda, improper substitutions of key personnel, nonperformance of basic contract deliverables, and improper handling of research and development tasks.

Conflict of Interest

Region 6, during fiscal years 2001 through 2002, issued tasks to Northern NEF in support of the Navy for a "security specialist." The consultant was to monitor electronic security systems, represent the Navy in force protection meetings, participate in vulnerability assessments, and prototype equipment. The security consultant was a company in Alexandria, Virginia with one employee.

Northern NEF, under tasks issued by FTS, purchased over \$15 million in harbor barriers (previously discussed) from the security consultant. The Navy did not respond to requests for information about the value added to these procurements by this consultant. However, we did determine that the consultant received about \$1 million in fees and that Northern NEF later purchased barriers directly from the manufacturer.

We do not know if the security consultant recommended the barrier system to the Navy. However, we feel that an inherent conflict of interest existed when the consultant firm was allowed to fulfill two conflicting roles: one as a security consultant to a GSA client and the other as a subcontractor procuring expensive security hardware for that client.

Unsubstantiated Shipping Charges

A subcontractor submitted an invoice for \$493,000, an amount that represented "Additional shipping costs due to requirement of U.S. Flag carrier." The shipping charges were allocated in the following manner:

| Task Order | Shipping Charges With 5% Fee | New Task Order Value |
|-------------------|---|-----------------------------|
| Task No. 2 | \$52,469.49 | \$2,999,253.17 |
| Task No. 3 | \$19,188.20 | \$2,999,443.96 |
| Task No. 4 | \$385,444.51 | \$2,998,874.61 |
| Task No. 5 | \$60,547.80 | \$1,585,170.43 |

In three of four instances, the shipping charges were allocated so as not to exceed the \$3 million 8(a) competitive threshold. Contractor officials stated this was a coincidence.

We asked for documentation showing that the shipping charges were indeed incurred and that the charges were properly allocated. FTS and the contractor could not provide the necessary support.¹⁵ Navy officials signed a receiving report in all four instances (a receiving report prepared by the contractor). However, Navy officials did not respond to our requests to provide the Office of Inspector General or the contracting officer with the documents they relied on when they accepted and allocated the charges.

We concluded that the shipping charges were unsupported.

Incorrect Price Negotiation Memoranda

The Region 6 CSC, during the period March 2000 through May 2002, issued at least 11 client specific indefinite quantity and indefinite delivery (IDIQ) contracts to System Studies and Simulation, Inc. (3S), an 8(a) contractor. The contracting officer required 3S to certify that the pricing proposed was equal to, or better than, GSA Schedule prices. We found that, in many instances, the labor rates 3S proposed were substantially higher than 3S' own Federal Supply Schedule contract. The price negotiation memoranda associated with these IDIQ contracts indicated that a check of FSS Schedule prices had occurred and that it was part of the rationale for determining that the contract prices were fair and reasonable.

We concluded that the Price Negotiation Memoranda were materially in error, since basic price checks did not occur.

Improper Key Personnel Substitutions

We noted instances where contractors' key personnel may not have been performing on the task or may have been substituted without notifying the contracting officer.

For example, Illinois Institute of Technology Research Institute (IITRI), in its proposal to the Government, specified key personnel proposed to work on a task for the Air Force, which had an order value, during our review, of over \$14 million. Our analysis of the contractor's time accounting records showed that certain of these key personnel had not worked on the project and that a substitution occurred in the project management/program manager function without notifying the CSC. The time and accounting records left doubt as to whether the key program manager was, in fact, still employed by IITRI.

We asked the contractor, through FTS officials, for documentation that the key personnel were working on the task or that proper substitutions were made. The SOW

¹⁵ The contractor paid the subcontractor on the basis of the subcontractor's invoice and then billed FTS.

required that key personnel be identified and that removals had to be approved by the contracting officer. Despite repeated attempts, the contractor did not provide us the documentation. The requirements contained in the SOW were not met.

Basic Contract Deliverables Not Provided

FTS personnel rely heavily on customer agency personnel to administer task orders. Due to the high dollar value of one order (over \$58 million) awarded to Tybrin Corporation, on behalf of the Air Force, we requested specific task deliverables, including the following:

- Names and resumes of personnel assigned to specific tasks. Per the contract, this information was to be provided to FTS, along with documentation satisfying the employee expertise requirement;
- Staffing reports required by the contract, which were to be used to support invoicing from Tybrin to GSA;
- Supporting documentation for over \$10,000 in relocation costs invoiced by Tybrin. We tested these costs because Tybrin incurred over \$355,000 in relocation costs on this contract.

However, the contracting officer's representative (with the Air Force) did not provide us with the contract deliverables, in some cases stating that the information was "sensitive."

Research and Development Tasks

We noted two instances where Region 6 engaged contractors to perform tasks that contained a substantial research and development component. In at least one instance, we do not believe that FTS employed the proper procurement methodology.

FTS officials in Region 6 accepted an engineering and aeronautical services requirement on behalf of the Department of Defense Counter Drug Technology Development Program Office (Counter Drug Program Office). The task called for the procurement of parts, modification of aircraft, familiarizing foreign military personnel with airborne surveillance, radar operations and maintenance, and engineering and flight services.

The Region 6 CSC selected Air Park Sales and Service, Inc. (Air Park) of California, Maryland to perform the work. The task order was written against FSS Schedule contract number GS-24F-0027L, which provided for airborne platforms for research, development, test and evaluation services. The time and materials task, which runs from August 2002 until August 2007, has an estimated value of over \$5.6 million.

The SOW showed that the task contained a research and development component, and Air Park's president advised us that 60 to 70 percent of the work performed under the task was research and development.

Procurement Not Consistent With FAR 35. FAR 35 prescribes policies and procedures applicable to R&D contracting in order to protect the Government's interests. For example, FAR 35.006 lists and defines at least six evaluation factors recommended for use in determining the most technically competent contractor. The evaluation factors accompanying the Counter Drug Program Office SOW included only "Technical Approach" and "Cost". In addition, FAR 35.011 states that R&D contracts shall specify the technical data to be delivered under the contract. The SOW was not specific in the data and reports required, given the contractor's explanation of what the work entailed.

Further, FAR 35.006 states that, due to the absence of precise specifications and difficulties in estimating costs, cost reimbursement contracts are usually appropriate for R&D contracts. FTS officials ordered this work on a time and materials basis from an FSS Schedule contract. A time and materials contract provides for acquiring services on the basis of direct labor hours, which include wages, overhead, G&A, and profit. There is no incentive on a time and materials task to control costs, especially the amount of hours spent on the task. Cost-reimbursement contracts can take the form of incentive contracts, which reward the contractor for contract excellence. For example, a cost-plus-award-fee contract is a cost reimbursement contract that provides for a fee consisting of a fixed base amount and an award amount that is sufficient to provide motivation for excellence in such areas as quality, timeliness, technical ingenuity, and cost-effective management. FAR 8.401(a) states that the Schedule program provides agencies with a simplified process for obtaining commonly used commercial supplies and services at prices associated with volume buying. Accordingly, this procurement, which contained a predominate R&D component, was not made in accordance with applicable regulations.

Causes of Improper Procurement Practices

Our audit work indicated that several factors contributed to the improper contracting practices we identified: an ineffective system of internal management controls, CSC personnel sacrificing adherence to proper procurement procedures in order to accommodate customer preferences, and an excessive focus on customer satisfaction and revenue growth. Some customers were motivated to use CSCs because they knew that they could obtain supplies and services (some of which had little or no relationship to IT) from the vendors they preferred in an expeditious manner. Also, CSC personnel were not generally familiar with prescribed ordering procedures, contracting officers did not always adhere to proper procurement procedures designed to ensure the Government receives the best value, and CSC personnel generally lacked the expertise to properly evaluate contractor proposals.

Lack of management oversight at the CSCs was most strongly evidenced by an environment of client-driven decisions. The CSCs relied heavily upon client agencies for bidders lists, proposal evaluations, and task administration, including the propriety of task modifications that increased costs and/or extended the time period for completion of the task. In Region 6, this environment undermined the authority of some contracting officers. We noted multiple instances where ITMs routinely questioned and disregarded contracting officers' instructions and authority. For example, if an ITM or client did not like the decision of the contracting officer, some ITMs would "shop" for another contracting officer that they believed would process the procurement action, or the ITM or customer would solicit the intervention of the division director or higher level CSC official. In most cases, the result was that the action was processed. Effective management controls should have existed to prevent these activities.

In addition, our audit work indicated that the CSCs were generally not familiar with FSS's special ordering procedures for services under the Schedules program. For example, in Region 4, the CSC management's response to our findings on specific tasks took exception to our conclusion that the file documentation did not substantiate that the price was fair and reasonable, citing FAR 8.4, which states that GSA Schedule orders do not require a separate determination of fair and reasonable pricing. However, the FAR also states that GSA may establish special ordering procedures, as discussed previously. GSA's Website¹⁶ on the use of FSS Schedules describes these procedures in detail. GSA also published the procedures in the Multiple Award Schedules Owner's Manual for ordering agencies. We also identified that contracting officials lack technical ability to evaluate contractor proposals for level of effort and labor mix.

In November 2000, the General Accounting Office (GAO) reported similar findings¹⁷ and recommended that the Office of Federal Procurement Policy (OFPP) revise the FAR to incorporate the requirements in GSA's ordering procedures for services to obtain competitive quotes. GAO also stated in their report that the FAR should clarify the procedures for placing sole-source orders using Schedules. The proposed FAR rule, published in April 2003, had not been finalized as of October 2003.

ITMs and contracting officers also told us that they did not have the expertise to evaluate contractor proposals for best value; accordingly, they relied on the client to make this determination. We recognize that FTS contracting officials should involve the client during the procurement process, including proposal evaluations. However, as the procurement office, the CSC is still responsible for the evaluations and ensuring that they are sufficiently supported.

¹⁶ <http://apps.fss.gsa.gov/schedules/ordinssv.cfm> dated 9/19/00.

¹⁷ **GAO-01-025** (11/28/00) Contract Management: Not Following Procedures Undermines Best Pricing Under GSA's Schedule

Culture of Revenue Growth Within FTS

A culture within the CSCs, which emphasized revenue growth and customer satisfaction contributed to the problems we identified. The CSCs have experienced substantial revenue growth over the last several years. Key FTS employees were rewarded for increasing sales. For example, the Region 10 CSC revenue increased from \$53 million in 1998 to \$522 million in 2002. One key Region 10 CSC associate received cash awards justified on the basis of increasing sales, and another key Region 10 associate received a promotion and a retention bonus for increasing sales. Certainly, business growth and customer satisfaction are very worthwhile goals; however, there needs to be a more balanced focus, which also emphasizes the adherence to proper procurement rules and regulations. In a previous audit on GSA's Awards System, we identified that FTS overall distributed awards more frequently and for a higher dollar value, compared to other GSA Services and Staff Offices.

In December 2001, the Assistant Commissioner for IT Solutions issued a memorandum to all FTS Assistant Regional Administrators and IT Solutions Directors entitled "Growing the Business Responsibly." In the memorandum, the Assistant Commissioner discussed increasing the volume of contracting activity while at the same time utilizing good contracting practices and promoting competition. Despite this formal, top-level direction, a culture that emphasized revenue growth persisted, resulting in numerous improper contracting practices that we found continued after the memorandum was issued.

Performance Measures

We also determined that FTS performance measures for IT Solutions do not adequately assess the competitive environment. Our review found that, although the performance measure program is in a state of refinement and improvement, performance measures intended to foster competition have not always produced the desired result. Our review found that these measures, especially those falling under the category "foster competition", had limited scopes, were determined to be more appropriate as management information, or produced unreliable results.

The performance measures in question were as follows:

FTS measure 3-4 TF: Percent of task and delivery orders subject to fair opportunity. This measure was included in the category "foster competition". This measure, while very worthwhile in light of FAR 16.505(b)(1), was limited in scope. It addressed only orders placed under FTS Government-wide Acquisition Contracts (GWACs). This performance measure was in effect during both FY 2002 and FY 2003.

FTS measure 3-1 TF: Percent of total number of awards and dollars obligated for FSS Schedules, FTS GWACs and Other Contracts. This measure was included in the category "foster competition". This measure, in place during FY 2002, was deemed inappropriate as a performance measure by FTS officials. FTS officials decided that the

amounts of dollars going to a particular contract vehicle was useful management information, but not appropriate as a performance measure since it could steer solutions to particular vehicles. The primary driver was to ensure the right IT solution for the customer, rather than a particular contracting vehicle.

FTS measure 3-3 TF: Percent of total number of awards and dollars where single bid is received for FSS Schedules, FTS GWACs and other contracts. This measure, in place during FY 2002, was deemed inappropriate as a performance measure by FTS officials. FTS officials reasoned it is useful management information, but not appropriate as a performance measure since receiving a single bid does not by itself indicate the competitiveness of the process. In addition, the data for FSS Schedules was not available. Our review indicated that the data would include legitimate sole source and directed 8(a) procurements.

FTS measure 10-11 TF: Percent of dollar savings between independent Government cost estimates (IGCEs) and award amounts. This measure was in place during FY 2002 and FY 2003. In FY 2003, this measure supports the goal "Operate efficiently and effectively." FTS officials conceded that this measure does not sufficiently evaluate the savings agencies realize by using the IT Solutions program. Our own analysis concluded that the reported results could be unreliable. IGCEs are not required by the FAR, therefore, many tasks have no IGCE prepared. IGCEs may cover the base and option years, while the award may cover only the base year, thus severely overstating the results. IT Solutions is continuing to use this measure while a study is conducted to improve program performance measures.

Conclusions

We identified improper task order and contract awards involving millions of dollars that breached procurement laws and regulations and on a number of occasions were well outside the Information Technology Fund's legislatively authorized purposes. (Our report details a number of key examples of inappropriate task orders and the appendices provide information on many other examples.) Our findings involve numerous instances of sole source awards, misuse of the small-business 8(a) program, out of scope task orders, and misuse of the IT Fund that are inconsistent with the main precepts of competition and Government contracting. CSCs made little attempt to secure competition, overly relied on client agency justifications for sole source procurements, improperly modified orders, and frequently used time and materials task orders inappropriately.

As a result, the CSCs did not provide reasonable assurance that client agencies received the most cost-effective solution and best value, and the fundamental objectives underlying the federal procurement process were not achieved. The factors contributing to these circumstances are fundamental weaknesses within the CSCs involving ineffective management controls, CSC personnel sacrificing adherence to proper procurement procedures in order to accommodate customer preferences, and a culture that stressed client satisfaction and revenue generation over adherence to proper

procurement procedures. In Region 10 alone, CSC revenues increased almost ten-fold during the period of 1998 through 2002, and key FTS employees were rewarded for increasing sales. An overemphasis on revenue growth and permitting clients to unduly influence task order awards, without commensurate attention to procurement laws and regulations, increased the vulnerability of the program to fraud, waste and abuse.

We believe that steps to remedy these problems require a comprehensive, broad-based strategy that focuses on the structure, operations and mission of the CSCs as well as the control environment. But these efforts will only be successful if FTS ensures that its strategy changes CSC personnel's view of how success of the program is defined. Reward systems and performance measurement systems should be better balanced to include strong incentive for accountability and proper procurement practices, and the associated positive outcomes.

Recommendations

We recommend that the Commissioner of FTS:

1. Perform a detailed analysis of the factors contributing to the problems identified, including an ineffective system of internal management controls, CSC personnel's lack of adherence to proper procurement procedures, and an overemphasis on revenue growth and client-driven decisions.
2. Based on this analysis, determine what changes are needed in the structure, operations and mission of the CSCs, mix of resources, and management control processes to align policies and procedures with laws and regulations and GSA's own core values in ensuring the Government obtains best value, and develop a time-phased action plan to implement these changes.
3. Develop additional performance measures for the CSCs that promote competition and other sound procurement practices.

Management Response

The Commissioner, FTS, concurred with the recommendations in the report. She stated that FTS has begun to implement a series of actions and initiatives to improve acquisition quality and integrity across the organization. She also stated that GSA and FTS management are working together to review the CSC operations, adjust goals, and take strong actions to remedy problems. The Commissioner's response to the draft report can be found in Appendix E.

Internal Controls

We assessed the internal controls relevant to the CSCs' procurements to assure that the procurements were made in accordance with the FAR and the terms and conditions of the contracts utilized. We identified improper procurement practices, including improper sole source awards, misuse of small business contracts, work outside the contract scope, misuse of the IT Fund, improper order modifications, frequent use of time and material contracts, and not enforcing contract provisions or following acquisition regulations. We believe that an effective internal control structure, which has the on-going endorsement of management, would have identified and prohibited many of the inappropriate task orders we reviewed.

Additionally, given the magnitude of the problems under review, the control environment did not provide reasonable assurance that misapplication of customer agency funds would be prevented. Therefore, we concluded that the internal controls that were established were not always effective and did not provide assurance that Government funds were reasonably protected.

APPENDIX A

**AUDIT OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTERS
REPORT NUMBER A020144/T/5/Z04002**

SCHEDULE OF ORDERS REVIEWED IN REGION 6

| <u>Order #</u> | <u>Order Date</u> | <u>Client Organization</u> | <u>Service or Commod</u> | <u>Vehicle</u> | <u>Contractor</u> | <u>Value of Task</u> | <u>Notes</u> |
|-----------------|-------------------|--------------------------------|----------------------------------|----------------|--|--------------------------|--------------|
| Region 6 Orders | | | | | | | |
| 1 K00AM010S00 | 9/29/2000 | Treasury | S | 8(a) | NTMI | \$ 1,763,564 | 1 |
| 2 K03MT162S00 | 5/29/2003 | DOD | S | MAS | Powerware Corporation | 674,774 | 2 |
| 3 K99KM023S00 | 9/30/1999 | Energy | S | MAS | Unisys | 989,676 | 3 |
| 4 K03EH081S00 | 5/20/2003 | Navy | S | 8(a) | OTS/IPS Meteostar | 102,556 | 4 |
| 5 K03MT005S00 | 10/9/2002 | Air Force | S | MAS | CMS | 12,958,224 | |
| 6 K02MS006S00 | 11/30/2001 | Army | S | MAS | Gradkell | 7,137,396 | |
| 7 K03HH058S00 | 5/7/2003 | Army | S | MAS | BearingPoint | 969,456 | 5 |
| 8 K03SW170H00 | 5/29/2003 | Air Force | C | MAS | Dell | 10,343,860 | |
| 9 K03CW501F00 | 3/27/2003 | Air Force | S | MAS | Dyncorp | 26,920,502 | 6 |
| 10 K01HS017S00 | 3/15/2001 | Air Force | S | MAS | Sverdrup | 196,201 | 7 |
| 11 K03KH328S00 | 3/31/2003 | Air Force | S | MAS | Simulation Support | 1,564,816 | 8 |
| 12 K01MM060S00 | 6/1/2001 | Air Force | S | MAS | Comnet | 6,210,807 | 9 |
| 13 K03HH068S00 | 8/1/2003 | Army | S | MAS | Enterprise Integration, Inc. | 21,008,292 | 10 |
| 14 K03SW048S00 | 11/27/2002 | Air Force | S | MAS | Frontline | 538,527 | 11 |
| 15 K01SW053S00 | 7/17/2001 | Air Force | S | MAS | Presidio | 1,357,653 | 11 |
| 16 K03SW063S00 | 12/16/2002 | Air Force | S | MAS | Frontline | 450,573 | 11 |
| 17 K03SW092S00 | 1/28/2003 | Air Force | S | MAS | Frontline | 894,953 | 11 |
| 18 K03SW119S00 | 3/7/2003 | Air Force | S | MAS | M2 Technologies | 127,693 | 11 |
| 19 K03SW132S00 | 4/2/2003 | Air Force | S | MAS | Presidio | 521,710 | 11 |
| 20 K03HH007S00 | 2/26/2003 | Army | S | MAS | Titan Corp. | 1,072,840 | 12 |
| 21 K02KA034S00 | 8/1/2002 | Army | S | MAS | KPMG | 524,795 | 13 |
| 22 K03HH052S00 | Not Awarded | Army | S | SDC 8(a) | UHD/Gartner | 94,986 | 14 |
| 23 K03HH053S00 | 3/14/2003 | Army | S | MAS | UHD/Gartner | 58,395 | 14 |
| 24 K02MM043S00 | 9/26/2002 | Air Force | S | MAS | STR LLC | 668,219 | |
| 25 K02SS310S00 | 8/12/2002 | Army | S | MAS | Morgan Research | 7,763,100 | 15 |
| 26 K01JC047F00 | 5/31/2001 | Air Force | S | MAS | ACS Government Solutions | 659,271 | 16 |
| 27 K02AM033S00 | 8/29/2002 | HHS | S | MAS | Human Factors International | 527,958 | 17 |
| 28 K02KH052S00 | 12/24/2002 | Air Force | S | MAS | SAIC | 869,943 | 18 |
| 29 K02KH054S00 | 11/21/2002 | Air Force | S | MAS | Systems Research and Applications Corp. | 257,786 | 19 |
| 30 K03KH324S00 | 3/20/2003 | Air Force | S | MAS | Anteon | 462,869 | 20 |
| 31 K01BF024S00 | 3/12/2001 | DOD | S | MAS | Aegis Research Corporation | 18,348,135 | 21 |
| 32 K02SW005S00 | 11/5/2001 | Air Force | S | MAS | The Presidio Corporation | 2,487,188 | 11 |
| 33 K00TJ031S00 | 5/3/2000 | DOD | S | MAS | National Micrographics Systems, Inc. | - | 22 |
| 34 K00TJ031S01 | | DOD | S | MAS | National Micrographics Systems, Inc. | - | 22 |
| 35 K00TJ031S02 | | DOD | S | MAS | National Micrographics Systems, Inc. | - | 22 |
| 36 K00TJ031S03 | | DOD | S | MAS | National Micrographics Systems, Inc. | 36,866,711 | 22 |
| 37 K00SU028S00 | 2/1/2001 | Air Force | S | MAS | Tybrin Corporation | 58,320,236 | 23 |
| 38 K00MM209S00 | 9/30/2000 | Air Force | S | MAS | Illinois Institute of Technology | 14,421,245 | |
| 39 K02YSXOIRS02 | 1/17/2002 | Air Force | S | MAS | Riverside Research Institute | 8,060,240 | 24 |
| 40 K01HH122S00 | 6/28/2001 | Army | S | SDC 8(a) | Maden Tech Consulting, Inc. | 2,979,973 | 25 |
| 41 K01HH123S00 | 6/28/2001 | Army | S | SDC 8(a) | Maden Tech Consulting, Inc. | 2,994,600 | 25 |
| 42 K02HH023S00 | 12/27/2001 | Army | S | SDC 8(a) | Maden Tech Consulting, Inc. | 2,993,677 | 25 |
| 43 K02HH162S00 | 7/12/2002 | Army | S | SDC 8(a) | Maden Tech Consulting, Inc. | 2,988,340 | 25 |
| 44 K02HH163S00 | 7/10/2002 | Army | S | SDC 8(a) | Maden Tech Consulting, Inc. | 2,985,498 | 25 |
| 45 K02HH164S00 | 7/10/2002 | Army | S | SDC 8(a) | Maden Tech Consulting, Inc. | 2,998,765 | 25 |
| 46 K02HH199S00 | 9/4/2002 | Army | S | SDC 8(a) | Maden Tech Consulting, Inc. | 2,999,552 | 25 |
| 47 K02HH200S00 | 9/4/2002 | Army | S | SDC 8(a) | Maden Tech Consulting, Inc. | 2,992,337 | 25 |
| 48 K00BN027S00 | 7/31/2002 | Navy | S | MAS | Airpark Sales and Service, Inc. | 5,615,519 | 26 |
| 49 K00BN062S00 | 9/25/2000 | Navy | S | MAS | Systems Research and Applications Corp. | 7,761,150 | 27 |
| 50 K02SW061S00 | 2/19/2002 | Air Force | S | SDC 8(a) | Force 3, Inc. | 1,351,490 | 26 |
| 51 K02SW117S01 | 7/11/2002 | Air Force | S | SDC 8(a) | Force 3, Inc. | 744,996 | 26 |
| 52 K02SW115S01 | 7/10/2002 | Air Force | S | SDC 8(a) | Force 3, Inc. | 68,508 | 26 |
| 53 K01MM049S00 | 5/9/2001 | Air Force | S | MAS | Science Applications International Corp. | 1,534,532 | |

APPENDIX A

SCHEDULE OF ORDERS REVIEWED IN REGION 6 (Continued)

| <u>Order #</u> | <u>Order Date</u> | <u>Client Organization</u> | <u>Service or Commod</u> | <u>Vehicle</u> | <u>Contractor</u> | <u>Value of Task</u> | <u>Notes</u> |
|-----------------------|-------------------|--------------------------------|----------------------------------|----------------|---------------------------|--------------------------|--------------|
| 54 K02TH141H00 | 5/9/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,956,762 | 26 |
| 55 K02TH140H00 | 5/9/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,956,762 | 26 |
| 56 K02TH142H00 | 5/9/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,956,762 | 26 |
| 57 K02TH143H00 | 5/9/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 1,274,748 | 26 |
| 58 K02TH139H00 | 5/14/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 1,524,623 | 26 |
| 59 K02TH138H00 | 5/14/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,613,430 | 26 |
| 60 K02TH135H00 | 5/14/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 343,811 | 26 |
| 61 K02TH134H00 | 5/14/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,795,227 | 26 |
| 62 K02TH133H00 | 5/14/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,946,784 | 26 |
| 63 K02TH132H00 | 5/14/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,980,256 | 26 |
| 64 K02TH136H00 | 5/14/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,567,232 | 26 |
| 65 K01TH175H00 | 9/27/2001 | Navy | | SDC 8(a) | Northern NEF, Inc. | 1,436,455 | 26 |
| 66 K01TH175H01 | 9/27/2001 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,737,272 | 26 |
| 67 K01TH175H02 | 9/27/2001 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,886,518 | 26 |
| 68 K02TH020H00 | 1/30/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 473,228 | 26 |
| 69 K02TH246H00 | 11/18/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 1,942,500 | 26 |
| 70 K02TH245H00 | 11/18/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,913,750 | 26 |
| 71 K02TH059H00 | 8/19/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,870,331 | 26 |
| 72 K02TH164H00 | 9/9/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,332,532 | 26 |
| 73 K02TH164H01 | 9/9/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 598,880 | 26 |
| 74 K02TH172H00 | 7/25/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,659,121 | 26 |
| 75 K02TH172H01 | 7/29/2002 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,756,250 | 26 |
| 76 K02TH256H00 | 1/24/2003 | Navy | | SDC 8(a) | Northern NEF, Inc. | 858,488 | 26 |
| 77 K02TH255H00 | 1/24/2003 | Navy | | SDC 8(a) | Northern NEF, Inc. | 2,711,194 | 26 |
| 78 K03TH060H00 | 2/14/2003 | Navy | | SDC 8(a) | RMES Communications, Inc. | 2,678,813 | 26 |
| 79 K03TH061H00 | 2/14/2003 | Navy | | SDC 8(a) | RMES Communications, Inc. | 2,678,813 | 26 |
| 80 K03TH062H00 | 2/14/2003 | Navy | | SDC 8(a) | RMES Communications, Inc. | 2,678,813 | 26 |
| 81 K03TH063H00 | 2/14/2003 | Navy | | SDC 8(a) | RMES Communications, Inc. | 2,678,813 | 26 |
| 82 K03TH064H00 | 2/14/2003 | Navy | | SDC 8(a) | RMES Communications, Inc. | 2,678,813 | 26 |
| 83 K03TH065H00 | 2/14/2003 | Navy | | SDC 8(a) | RMES Communications, Inc. | <u>2,678,813</u> | 26 |
| Region 6 Total | | | | | | \$356,369,881 | 28 |

Notes:

1. This task was initially awarded to NTMI, an 8(a) firm, as a follow-on project for testing of laptop computers in September 2000 for \$491,936. The CSC processed four modifications that added work to the task that was beyond the scope of the original task. By May 2003, the task value had more than quadrupled to \$1.8 million. The documentation indicated that the most recent modification was issued to “burn remaining funds.”
2. This task was issued on a sole source basis to Powerware Corporation. We determined that at least three other Schedule contractors could have performed the work. See discussion of this order in the body of the report.
3. This task related to data systems for energy management was awarded to Unisys in 1999 for \$110,897 with a period of performance ending January 31, 2000. The Region 6 CSC processed multiple modifications that extended the performance period and increased costs ten-fold. The documentation related to one of the modification states, “This modification is to extend the period of performance and add labor hours and materials . . . Customer will loose [sic] funds if we do not extend project.” By April 2003, the task value approached \$1 million.

SCHEDULE OF ORDERS REVIEWED IN REGION 6

(Continued)

4. This time and materials task was awarded to Office Technology Systems, a Small Business SDC 8(a) contractor, who was subcontracting the work to another company, IPS MeteoStar. This constituted a pass-through situation in taking advantage of the sole-source provisions of FAR 19.805-1.
5. The ITM originally competed this time and materials task among three Schedule contractors but received only one bid. Subsequently, the ITM improperly processed the order as a sole source task to Bearing Point and sent it to a different contracting officer for signature in order to avoid the competition requirements of Section 803.
6. This was a sole-source, time and materials task awarded to DynCorp. We concluded that the client's justification for limiting the competition was adequate. However, the documentation supporting the evaluation of the proposal for fair and reasonable pricing was insufficient for this \$27 million buy. The only documentation we found to support the award was a client e-mail stating, "I have reviewed the labor portion of the proposal and agree to the scope and effort identified." The CSC made no attempt to obtain additional discounts, even though value was well in excess of the MOT.
7. In March 2001, the CSC awarded task K01HS017S00 for \$37,285 on a sole-source basis to Sverdrup Technology, Inc., to facilitate warfighter analysis workshops for the Air Force. The Air Force's justification for restricting competition was insufficient. In addition, the statement of work contained no provision for option years. As of April 2003, the CSC had improperly issued multiple modifications that added workshops and option periods and increased the task value to nearly \$200,000.
8. The task value includes the base year and four option periods. The documentation indicates that despite soliciting 21 vendors, only one contractor submitted a proposal (Simulation Support). The CSC contacted several of the contractors to determine the reasons they did not bid, and the contracting officer properly prepared a Determination and Findings document to support the award.
9. The Air Force's reasons for restricting competition to Comnet were insufficient for this time and materials task for Web and database solution development. In addition, the CSC processed improper modifications. This task is discussed in detail in the body of this report.
10. The CSC awarded this time and materials task for a logistics enterprise implementation plan and strategy for the Army for \$21 million to Enterprise Integration, Inc. (EII), who subcontracted the work to Gartner, Inc. We determined that Gartner was the incumbent contractor for this work for the Army. Nine contractors were solicited for this work, yet only EII submitted a bid. The documentation indicated that three of the nine contractors that the ITM said were solicited never received a request for proposal from the CSC. The CSC allowed these three contractors to submit proposals; one responded with a bid of \$7.87 million. The Army determined, however, that the second contractor's proposal was technically unacceptable. Based on our review of the Army's technical evaluation, we believe that the CSC should have requested more information from the contractor in an attempt to satisfy the Army's stated reasons for rejecting the proposal, particularly considering the significant difference in cost. We also noted that the CSC made no attempt at obtaining additional discounts from EII even though the price was well in excess of the MOT and the CSC had a strong negotiating position having received a much lower bid from the other contractor.

SCHEDULE OF ORDERS REVIEWED IN REGION 6

(Continued)

11. The Air Force Medical Support Agency (AFMSA) is a large Region 6 CSC customer. During the period of our review, the AFMSA was in the midst of a large-scale infrastructure upgrade to its medical facilities at Air Force bases worldwide. The CSC received \$23 million from the Air Force to fund this project under one MIPR, \$18 million of which was received in November 2001. The documentation indicates that ARK Systems, Inc. had been performing all of the work under this project as a subcontractor to various prime contractors under separate task and delivery orders by location. In addition, we noted that the Statements of Work for these tasks were very similar and identical in some cases except for the location of the work. We believe that the CSC could have saved the Government a substantial amount of money by leveraging the AFMSA's requirements as a whole and issuing one task order combining the work.

Initially, the Region 6 CSC allowed the integrity of the procurement process to be violated by signing orders where the AFMSA had solicited and obtained bids from various prime contractors, selecting the awardee, and then simply forwarding the documentation to the CSC for award. These are aspects of the process that only the CSC, as the contracting activity, has the authority to do. Eventually, the CSC insisted that the AFMSA cease its inappropriate involvement, but the CSC continued to allow the AFMSA to dictate the bidders list. We determined that all of the prime contractors were going to ARK Systems for pricing because they knew that the AFMSA wanted to use ARK for all of the labor on this project and did not want to solicit ARK directly on the open market which would subject the tasks to full and open competition. We also determined that two of the contractors solicited did not even have Schedule contract coverage for the work to be performed. Accordingly, the CSC did not satisfy the provisions of Section 803 and also awarded a task to one of these contractors that was not binding, since it was not in accordance with contract terms and conditions.

In early 2003, a CSC contracting officer noted that the bids were similar on a task that she was asked to sign. She refused to sign the order or any subsequent orders for the AFMSA project, suspecting that the AFMSA was attempting to avoid the competition requirements of Section 803 in that all of the bidders seemed to have the exact same pricing for major portions of the labor and materials. The Region 6 CSC called a meeting with the AFMSA to discuss the issue and alternative methods for accomplishing the work; however, the Region 6 Contracts Division Director approved this task and one other task with the same issues without properly documenting the nature of the discussions with AFMSA

12. The scope of this time and materials task order was to set up displays for professional show services in support of IT demonstrations for the Army. The statement of work and labor categories proposed indicated that this was not IT work, as stated by the CSC contracting officer in an e-mail to the ITM, "What you are wanting to buy is not IT." In addition, the contractor's proposal contained other direct costs of \$186,000 in show space costs. The file did not indicate how the CSC determined these costs to be appropriate or fair and reasonable, nor did the file show that the level of effort and labor mix were analyzed to establish that total labor costs were fair and reasonable, as required by FSS' Special Ordering Procedures. Despite these issues, the CSC approved the order.
13. The task order documentation did not include an analysis of labor mix and level of effort to establish that the total price was fair and reasonable.

SCHEDULE OF ORDERS REVIEWED IN REGION 6

(Continued)

14. We determined that the Army favored Gartner, Inc. to perform the work under this task. The ITM originally processed this order as a sole-source task to Universal Hi-Tech Development (UHD) through UHD's Small Business SDC 8(a) contract, with UHD subcontracting all of the work to Gartner. After the contracting officer rejected the order as an attempt to avoid the competition requirements of Section 803, the ITM processed the order as an FSS Schedule buy, soliciting UHD (which also had a Schedule contract), Gartner, and Force 3. All three submitted a bid, and UHD was the low bidder. According to the evaluation factors in the statement of work, the CSC would have been compelled to award to UHD. However, the Army subsequently provided the CSC with documentation stating that UHD was technically unacceptable, thereby ensuring the award would go to Gartner, the next low bidder. The responsible contracting officer recognized that in a protest situation, the CSC would not be able to justify how it could determine UHD was technically inadequate when the CSC initially went to UHD sole-source, per the Army's request. Accordingly, because the Army did not want to award to Gartner, it requested the task be cancelled.

Task K03HH053S00 was processed according to the same scenario as the task described in the previous paragraph. However, in this case, the evaluation factors in the statement of work resulted in an award to Gartner.

15. The documentation for this order did not indicate how the CSC determined the price to be fair and reasonable. In addition, the CSC made no attempt to obtain additional discounts from the contractor despite the fact that the price was well in excess of the MOT.
16. The CSC awarded this time and materials task sole-source as follow-on work to a previous task. However, because the previous task was not competitively awarded, the award was improper. In addition, there was no documentation to indicate that an evaluation of the labor mix and level of effort was performed to establish the total price as fair and reasonable.
17. The CSC awarded this task for website improvements on a sole-source basis without sufficient justification. In addition, an evaluation of the labor mix and level of effort was not performed.
18. This time and materials task was for a budget analyst position; accordingly, it was improperly processed using the IT Fund.
19. This time and materials task was for planning services associated with continuity of operations (COOP); accordingly, it was improperly processed through the IT Fund.
20. This time and materials task was for an office manager position; accordingly, it was improperly processed using the IT Fund.
21. The CSC improperly added option years to this time and materials task that were not contemplated in the statement of work.
22. The tasks shown for the Joint Program Office for Biological Defense are considered one task for reporting purposes. The tasks were split up for administrative reasons. These tasks are discussed in the body of the report.
23. Orders to Tybrin Corporation are discussed in the body of the report.

SCHEDULE OF ORDERS REVIEWED IN REGION 6

(Continued)

24. FTS awarded, on January 17, 2002, this time and materials task to Riverside Research Institute (RRI) under FSS Schedule contract GS-35F-0185J. The task order, which has a ceiling cost of over \$8 million through December 2004, was placed on behalf of Air Force Headquarters.

Unsupported subcontractor and consultant costs. We found that FTS did not determine if proposed subcontractor and consultant costs, which amounted to over \$2.6 million, were fair and reasonable. The responsible ITM stated, "We accepted these subcontracting costs on the basis that that they were approved rates on their Schedule."

Working with FSS contracting officials, we determined that the subcontractor, Applied Systems Research, Inc. (ASR), did not have an FSS Schedule contract until April 17, 2003, based on a proposal dated January 13, 2003. Our review also determined that ASR's proposed rates and labor classifications did not match those of the prime contractor. Therefore, ASR's proposed labor costs (about \$1.99 million of a \$7.99 million award) were unsupported ODCs and should have been competed on the open market.

The responsible ITM also stated that GSA's acceptance of over \$619,000 in consultants' fees was "due to the consultant's labor rates being pre-approved on their Schedule." RRI representatives stated that the consultants were not Schedule holders and that RRI had accepted the rates verbally. We tested invoicing from two consultants and did not find a Schedule number referenced on these invoices. Therefore, these rates were also unsupported.

RRI invoicing not always correct. Because FTS did not seem to have control over subcontracting costs, we tested RRI's invoice number 3851 to GSA, dated November 30, 2002. We noted that subcontractor ASR did not invoice RRI in accordance with contract terms and conditions. As a result, GSA was overcharged \$3,460, not including RRI's general and administrative fee of 6.03 percent.

25. We reviewed eight task orders placed with contractor Maden Tech Consulting, Inc. under their Small Business SDC 8(a) contract number GS00K97AFD2100. These time and materials task orders were placed between June 28, 2001, and September 4, 2002, on behalf of one client, the U.S. Army Product Manager Secure Electronic Transaction Devices (SET-D). The task orders were all priced just below the competitive threshold for 8(a) firms, with proposals ranging from \$2,985,498 to \$2,999,552.

We determined that Maden Tech's contract was used solely to gain the sole source advantages available under FAR 19.805-1 and that orders were split to avoid exceeding the 8(a) competitive threshold of \$3 million. Maden Tech officials stated that the labor categories available under the Small Business SDC 8(a) contract were not comparable to those required to do the work for the Army.¹⁸ Maden Tech's proposals, which were all bid up to the \$3 million threshold, had no basis due to the Army's "ill defined mission". We determined that several of the Army's requirements could have reasonably been combined and competed.

26. This task is discussed in the body of the report.

¹⁸ Maden Tech's Small Business SDC 8(a) contract allows for additional labor categories as long as the prices are commensurate with those found in FSS Schedule 70 contracts or their replacement Schedules.

SCHEDULE OF ORDERS REVIEWED IN REGION 6

(Continued)

27. This task order, dated September 25, 2000, was placed with Systems Research and Applications Corporation (SRAC) on behalf of the Navy's Defense Manpower Data Center. The one-year time and materials order, valued at \$3,680,000, was placed under SRAC's FSS Schedule contract and was for technical and analytical support. The order was a follow-on to a previous competed order issued by the Defense Supply Service.

The contract file did not indicate that FTS considered the level of effort and mix of labor when considering this award or subsequent modifications. FTS accepted the proposed labor costs based on written statements from the client attached to the proposal stating "Concur." Therefore, price reasonableness was not established in accordance with FSS' "Ordering Procedures For Services (Requiring A Statement Of Work)."

Additionally, FTS awarded an additional year on this task that was not contemplated in the SOW. The additional period ran from September 11, 2001, through September 30, 2002, and was valued at over \$4.2 million. We concluded that this represented a "follow-on to a follow-on" and perpetuated a noncompetitive situation.

28. The amounts shown as value of tasks generally represent the total value of the contractor's proposal(s), inclusive of any options years. However, it should be noted that Region 6 FTS officials disagreed with this approach and were of the opinion that the correct order value was represented by the funded awarded amount, i.e., the amount actually obligated to the contractor via an official Government purchase order. In fact, Region 6 officials provided us with a database which put the obligated value of the task and delivery orders we reviewed at around \$225 million, as opposed to the per audit amount of about \$356 million.

It should be noted that the Region 6 CSC handled certain orders on a "direct fund cite" basis – instead of accepting a reimbursable funding document. For example, the Region 6 CSC handled over \$24 million on behalf of JPO-BD on a direct fund cite basis (see the body of the report for more details). Although the IT Fund may not have been at risk for these direct fund cite orders, certainly the Government was at risk when the orders were not handled properly, and the value of such orders need to be included in our audit scope.

We agree that many tasks are incrementally funded and that some of these tasks never are funded to the original proposed value. However, limiting our audit scope to include only obligated (awarded) amounts would be responding to a funding issue instead of a procurement issue. Contracting officers should be testing the price reasonableness of the contractor's overall proposal, not just the portion for which there is funding. By the same token, Government purchase orders should clearly cite the ceiling amounts on time and materials tasks.

In addition, the acceptance of incremental funds is an FTS policy decision. Our review noted instances of tasks experiencing significant unwarranted cost growth. We noted an instance where a contractor's incumbency was over 14 years. It would not be accurate to show a task as having a value of \$200,000 (amount obligated) when the total proposed value is actually \$5 million.

APPENDIX B

**AUDIT OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTERS
REPORT NUMBER A020144/T/5/Z04002**

SCHEDULE OF ORDERS REVIEWED IN REGION 10

| <u>Order #</u> | <u>Order Date</u> | <u>Client Organization</u> | <u>Service or Commod</u> | <u>Vehicle</u> | <u>Contractor</u> | <u>Value of Task</u> | <u>Notes</u> |
|-------------------------|---------------------|--------------------------------|----------------------------------|----------------|---|--------------------------|--------------|
| Region 10 Orders | | | | | | | |
| 1 | A2S12B0759 | 8/8/2002 Agriculture | S | MAS | Anteon Corporation | \$ 901,100 | |
| 2 | A2S12S0085 | 3/28/2002 Agriculture | S | MAS | URS Group Inc | 108,973 | |
| 3 | A2S12S0652 | 4/11/2002 Agriculture | S | MAS | DataLogic Inc | 434,668 | |
| 4 | A2S13B0544 | 6/28/2002 Commerce | S | MAS | Anteon Corporation | 316,671 | |
| 5 | A2S17B0346 | 12/13/2001 Navy | S | MAS | John J. McMullen Associates, Inc. | 16,184,583 | |
| 6 | A2S17B0832 | 5/7/2002 Navy | S | MAS | John J. McMullen Associates Inc. | 224,981 | |
| 7 | A2S17B1088 | 7/19/2002 Navy | S | MAS | ADI Technology Corporation | 865,000 | |
| 8 | A2S17B1176 | 8/21/2002 Navy | S | MAS | ADI Technology Corporation | 106,566 | |
| 9 | A2S17B1260 | 9/6/2002 Navy | S | MAS | IBM | 436,900 | |
| 10 | A2S21B0993 | 6/19/2002 Army | S | MAS | Federal Data Corporation | 110,000 | |
| 11 | A2S21E0255 | 12/27/2001 Army | S | MAS | Information Systems Support, Inc. | 72,348 | |
| 12 | A2S21S0811 | 5/20/2002 Army | S | MAS | IIF Data Solutions, Inc. | 4,901,428 | |
| 13 | A2S21S0852 | 8/21/2002 Army | S | MAS | Environmental Restoration Company | 296,625 | |
| 14 | A2S47E0431 | 1/3/2002 GSA | S | MAS | N-Link Corporation | 95,803 | |
| 15 | A2S69B0113 | 10/1/2001 Transportation | S | MAS | Anteon Corporation | 76,542 | |
| 16 | A2S69S0692 | 4/12/2002 Transportation | S | MAS | Maxim Group Federal Services LLC | 54,400 | |
| 17 | A2S75B0114 | 10/13/2001 HHS | S | MAS | N-Link Corporation | 426,102 | |
| 18 | A2S75B0117 | 10/1/2001 HHS | S | MAS | Anteon Corporation | 222,882 | |
| 19 | A2S96B0008 | 10/23/2001 Army | S | MAS | Anteon Corporation | 108,158 | |
| 20 | A2S96B0139 | 10/19/2001 Army | S | MAS | N-Link Corporation | 935,908 | |
| 21 | A2S96B0143 | 10/19/2001 Army | S | MAS | N-Link Corporation | 104,000 | |
| 22 | A3S12B0084 | 9/3/2002 Agriculture | S | MAS | Anteon Corporation | 537,137 | |
| 23 | A3S17S0139 | 9/30/2002 Navy | S | MAS | Silicon Graphics Federal, Inc. | 113,518 | |
| 24 | A3S57S0123 | 9/24/2002 Navy | S | MAS | Science Applications International Corp | 381,778 | |
| 25 | A3S75B0070 | 9/20/2002 HHS | S | MAS | N-Link Corporation | 352,354 | |
| 26 | A2S21T1382 | 9/27/2002 Army | S | 8(a) IDIQ | S&K Technologies, Inc. | 1,412,964 | |
| 27 | GS-10TR-00-EBF-2546 | 9/29/2000 Army | S | SDC 8(a) | Information Systems Support, Inc. | 2,500,000 | 1 |
| 28 | A1S21E0767 | 3/30/2001 Army | S | SDC 8(a) | Information Systems Support, Inc. | 2,449,120 | 2 |
| 29 | A1S21E0765 | 4/2/2001 Army | S | SDC 8(a) | Information Systems Support, Inc. | 2,941,600 | 2 |
| 30 | A2S21E0536 | 2/20/2002 Army | S | SDC 8(a) | Information Systems Support, Inc. | 657,720 | 2 |
| 31 | A2S21E0510 | 3/20/2002 Army | S | SDC 8(a) | Information Systems Support, Inc. | 358,457 | 2 |
| 32 | A2S21E0845 | 5/15/2002 Army | S | SDC 8(a) | Information Systems Support, Inc. | 84,042 | 2 |
| 33 | A2S21E0842 | 7/11/2002 Army | S | SDC 8(a) | Information Systems Support, Inc. | 470,702 | 2 |
| 34 | A1H21S6327 | 8/20/2001 Army | C | MAS | ISI Professional Services | 148,887 | 1 |
| 35 | GS10K-98-ECA-0348 | 6/4/1998 Army | S | GS10K98ECD0003 | ACS Systems and Engineering, Inc. | 727,880 | 3 |
| 36 | GS10K-98-ECA-0347 | 6/4/1998 Army | S | GS10K98ECD0003 | ACS Systems and Engineering, Inc. | 680,698 | 3 |
| 37 | GS10K-98-ECA-0324 | 5/5/1998 Army | S | GS10K98ECD0005 | ACS Systems and Engineering, Inc. | 371,099 | 3 |
| 38 | A2S21E0504 | 2/13/2002 Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 800,663 | 4 |
| 39 | A1S21E1023 | 7/6/2001 Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 1,048,000 | 4 |
| 40 | A2S21E0913 | 9/9/2002 Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 639,414 | 4 |

APPENDIX B

SCHEDULE OF ORDERS REVIEWED IN REGION 10
(Continued)

| <u>Order #</u> | <u>Order Date</u> | <u>Client Organization</u> | <u>Service or Commod</u> | <u>Vehicle</u> | <u>Contractor</u> | <u>Value of Task</u> | <u>Notes</u> |
|------------------------|-------------------|----------------------------|--------------------------|----------------|-----------------------------------|----------------------|--------------|
| 41 A2S21E1101 | 7/19/2002 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 621,575 | 4 |
| 42 A2S21E0286 | 11/2/2001 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 667,508 | 4 |
| 43 A2S21E0505 | 3/19/2002 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 399,575 | 4 |
| 44 A2S21E0445 | 1/15/2002 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 579,948 | 4 |
| 45 A2S21E1192 | 9/5/2002 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 460,180 | 4 |
| 46 A2S21F0166 | 10/3/2001 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 655,140 | 4 |
| 47 A2S21E0911 | 6/10/2002 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 426,704 | 4 |
| 48 A2S21E1061 | 7/29/2002 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 501,048 | 4 |
| 49 10S00F2193 | 9/7/2000 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 598,000 | 4 |
| 50 A2S21E0624 | 3/13/2002 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 466,005 | 4 |
| 51 A1S21E1246 | 9/18/2001 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 688,500 | 4 |
| 52 A2S21S0456 | 2/6/2002 | Army | S | MAS | DynCorp | 785,664 | 5 |
| 53 A1S17E0187 | 10/26/2000 | Navy | S | MAS | American Systems Corporation | 623,019 | 6 |
| 54 A1S21E0947 | 6/11/2001 | Army | S | SDC 8(a) | Information Systems Support, Inc. | 164,831 | 7 |
| 55 A2S21E0642 | 3/6/2002 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 140,700 | 8 |
| 56 A2S21E0645 | 3/6/2002 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 140,700 | 8 |
| 57 A2S21E0644 | 3/6/2002 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | 140,700 | 8 |
| 58 A2S21E0653 | 3/7/2002 | Army | S | SDC 8(a) | ACS Systems and Engineering, Inc. | <u>140,700</u> | 8 |
| Region 10 Total | | | | | | \$ 51,860,168 | |

Notes:

1. This task order resulted in an office building constructed to house the courseware development activities of the Washington Army National Guard, as discussed in the body of the report.

Region 10 CSC officials used Small Business SDC 8(a) contractor Information Systems Support, Inc. (ISS) to procure the general construction and architectural services. Building 54 was constructed and furnished for an amount we determined to be \$953,688. Of this amount, \$611,610 was placed against task order number GS10TR-00-EBF-2546 to ISS. The amount of \$611,610 includes \$457,389 to ISS' general contractor (Camco Construction) and \$66,543 to ISS' architect (Angelo Architect).

The building's cost of \$953,688 is broken out as follows:

| <u>Task Order</u> | <u>Amount</u> |
|--------------------|------------------|
| GS10TR-00-EBF-2546 | \$611,610 |
| A1H21S6327 | \$140,947 |
| Furnishings | \$201,131 |
| Total: | \$953,688 |

SCHEDULE OF ORDERS REVIEWED IN REGION 10

(Continued)

Task order A1H21S6327 represented an order to FSS Schedule contractor ISI Professional Services for a computer floor system, moveable walls, and lighting. Business Interiors Northwest, a dealer for various FSS Schedule furniture manufacturers, supplied the furnishings.

The work surrounding Building 54 involved developing Web-based courseware for the National Guard's Distance Learning Program. This program is utilized by guardsmen around the country to train and refresh training on any subject matter related to their Military Occupational Series. FTS officials stated that additional space was needed to house the guardsmen and contractors involved with this effort.

Once constructed, the building was used for guardsmen and employees of the prime contractor ISS and subcontractor CLICK2LEARN, to develop courseware, such as evaluating text and classroom materials for content that can be turned into Web-based materials by subject matter experts.

2. These tasks involved improper subcontracting activity and are discussed in alert report number A020144/T/5/W03001.
3. These tasks represent orders to contractor ACS Systems and Engineering, Inc. during the early stages of the Army's Total Army Distance Learning Program (TADLP).
4. These tasks represent our sample of specific sites where building renovation work was performed in support of the TADLP, as discussed in the body of the report. The program was intended to provide on-line training to remote Army personnel. A goal of the program was to build standardized classrooms (called digital training facilities) for participants in the program. We obtained documents indicating that the Army intended to build over 700 of these classrooms worldwide.

Region 10 officials used Small Business SDC 8(a) contractor ACS Systems and Engineering, Inc. (ACS) to perform the classroom renovation work, under contract number GS00K97AFD2163. ACS provided, for a firm-fixed fee, the following base services: demolition; architectural; HVAC; electrical; furniture; wiring and cabling; and flooring and carpeting. The prices for these base services ranged from \$120,000 to \$370,500, depending on the number of classrooms and whether the site was located within the United States or outside the country. These prices do not include the site survey, which was priced at \$38,500.

A key feature of the construction program was the additional site preparation that ACS performed to bring each classroom up to the TADLP program's standards. The additional site preparation work was often as, or more extensive than, the base service performed by ACS, described above.

For example, ACS provided an additional \$350,000 in building renovation services at Fort Stewart, Georgia to convert a dining hall into a distance learning facility. The additional site preparation for Bamberg, Germany classrooms consisted of the following:

SCHEDULE OF ORDERS REVIEWED IN REGION 10

(Continued)

| | |
|---|------------------|
| Remove HVAC unit | \$1,100 |
| Provide complete HVAC units for 3 Digital training facilities | \$75,000 |
| Provide air conditioning system for communications room | \$8,500 |
| Air conditioning system for office and break room | \$20,000 |
| Remove 450 SF windows and infill with concrete masonry units | \$12,000 |
| Renovate 2 toilet and shower facilities | \$32,500 |
| Fire alarm system | \$28,000 |
| Remove existing gym floor and prepare for carpet install | \$50,900 |
| Provide corridors to all rooms | \$30,625 |
| HVAC indoor air-handling access | \$1,225 |
| Refurbish entrance foyer | \$3,600 |
| Provide exterior door, landing, steps, and landing | \$5,600 |
| Build-out break room, office; finish hallways | \$21,600 |
| Additional design for site prep | \$12,500 |
| Total: | \$303,150 |

ACS used a German subcontractor to perform the above work.

We determined that Region 10 spent about \$36 million renovating Army facilities. However, this figure does not include the cost of additional site preparation, which could be very significant. We also determined that ACS employed at least two subcontractors providing architectural and mechanical engineering services, but could not determine from available documentation the dollar value of their services.

5. This order is discussed in the body of the report.
6. This Region 10 order was placed with American Systems Corporation (ASC) of Chantilly, Virginia to “Accomplish Communications Rooms Project and cabling of Buildings #1537 and #1538 at 29 Palms Marine Corps Base in accordance with quote specifications identified during site visit.” The task order, issued under ASC’s FSS Schedule contract number GS-35F-4581G, was a fixed price order totaling around \$555,000. Modification number one, covering non-IT materials, increased the order’s value by about \$67,000. The period of performance was October 27, 2000 through June 15, 2001.

On October 2, 2001, the FTS contracting officer in Region 10 received a letter from the IBEW Local Union 477 contending that work performed under the subject task order should have been covered by the Davis Bacon Act.¹⁹ The letter was in response to a complaint by an employee of a subcontractor, Responsive Internet Systems, Inc. (RIS). The complainant indicated that certain work under the project fell under an electrician inside wireman’s scope of work.

¹⁹ The Davis Bacon Act requires that prevailing wages be paid on all federally financed contracts in excess of \$2,000 for the construction, alteration, and/or repair, including painting and decorating, of a public building or a public work.

SCHEDULE OF ORDERS REVIEWED IN REGION 10

(Continued)

On January 7, 2002, FTS contracting officers received a letter from the Department of Labor's Office of Enforcement Policy indicating that Davis Bacon Act requirements should have been included in this procurement. Accordingly, in a letter to ASC dated February 4, 2002, the contracting officer declared, "a portion of the work performed under this Task Order was construction in nature and therefore the Davis Bacon Act applies."

ASC submitted a request for equitable adjustment, in the amount of \$161,776.38, to FTS requesting additional wages for carpenter, electrician, and communications worker/system installer. FTS' contract modification for \$161,776.38 was rescinded because the customer agency refused to pay. GSA paid ASC the amount of \$161,776.38 on or about February 12, 2003. The funds were taken out of the IT Fund.

7. This order was placed with Small Business SDC 8(a) contractor Information Systems Support, Inc. (ISS) on behalf of the Washington Army National Guard. The order was for the conversion of a limited use classroom at the Olympia, Washington Armory and a storage room at the Montesano, Washington Armory into Distant Learning Centers. ISS' subcontractor was Lincoln Construction, Inc. of Spanaway, Washington. This order was placed under the auspices of the IT Fund.
8. These orders were placed with Small Business SDC 8(a) contractor ACS Systems and Engineering, Inc. (ACS), under their contract number GS00K97AFD2163. The orders, which were placed under the auspices of the IT Fund, were for the modernization of existing classrooms for the Army's TRADOC (Training and Doctrine) command. The work consisted of site surveys, site design by licensed architects and engineers, renovation and rehabilitation of existing facilities, demolition, interior work, electrical, and limited HVAC work. This work was not within the scope of ACS' contract. The Army intended to build hundreds of these classrooms during the period 1998 through 2009.

APPENDIX C

**AUDIT OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTERS
REPORT NUMBER A020144/T/5/Z04002**

SCHEDULE OF ORDERS REVIEWED IN REGION 4

| Order # | Order Date | Service | | | Contractor | Value of Task | Notes |
|------------------------|------------|---------------------|-----------|----------|---|----------------------|-------|
| | | Client Organization | or Commod | Vehicle | | | |
| Region 4 Orders | | | | | | | |
| 1 4TCG14027018 | 2/25/2002 | Interior | S | MAS | DynCorp | \$ 300,951 | 1 |
| 2 4TFG57022111 | 11/6/2001 | Air Force | S | MAS | Tetra Tech EM Inc. | 416,346 | 2 |
| 3 4TAG96020304 | 10/1/2001 | Army | S | MAS | Quality Research, Inc. | 532,412 | 3 |
| 4 4TFG57022137 | 11/8/2001 | Air Force | S | MAS | Southwest Research Institute | 553,163 | 4 |
| 5 4TCG24025310 | 12/20/2001 | OPM | S | MAS | Research Management Consultants, Inc. | 6,200,169 | 5 |
| 6 4TCG24025321 | 9/1/2002 | OPM | S | MAS | Research Management Consultants, Inc. | 648,318 | 6 |
| 7 4TFG57021254 | 7/19/2002 | Army | S | MAS | Systems & Electronics, Inc | 8,624,926 | |
| 8 4TEG21022431 | 10/1/2001 | Army | S | MAS | Metamor Government Solutions, Inc. | 16,638,649 | 3 |
| 9 4TCG75027033 | 7/1/2002 | HHS | S | MAS | ACS Government Services, Inc. | 350,000 | 3 |
| 10 4TEG21024851 | 9/1/2002 | Army | S | MAS | Metamor Government Solutions, Inc. | 372,171 | 7 |
| 11 4TFG57022141 | 11/16/2001 | Air Force | S | MAS | TRW Systems & Information Technology Group | 440,618 | 3 |
| 12 4TEG21022503 | 10/30/2001 | Army | S | MAS | Metamor Government Solutions, Inc. | 616,585 | 5 |
| 13 4TCG20027019 | 6/7/2002 | Treasury | S | MAS | Anteon Corporation | 295,295 | 8 |
| 14 4TAG89023313 | 9/29/2001 | Energy | S | MAS | ACS Government Solutions Group, Inc. | 383,787 | 5 |
| 15 4TWG97023711 | 10/1/2001 | Army | S | MAS | Sytex, Inc. | 2,272,523 | 5 |
| 16 4TWG97023713 | 11/26/2001 | Army | S | MAS | Acquisition Engineering Consultants, Inc. | 524,444 | |
| 17 4TWG21013137 | 10/3/2001 | Army | S | MAS | Gallup, Inc. | 248,641 | 9 |
| 18 4TAG57010637 | 1/28/2002 | Air Force | S | MAS | Harris Technical Services Corporation | 588,174 | 10 |
| 19 4TAG57010668 | 10/21/2001 | Air Force | S | MAS | DynCorp | 2,228,318 | 11 |
| 20 4TWG21024180 | 4/19/2002 | Army | S | MAS | Dynetics, Inc. | 235,549 | 12 |
| 21 4TWG21024106 | 10/23/2002 | Army | S | MAS | COLSA Corporation | 276,484 | 2 |
| 22 4TWG21024144 | 1/1/2002 | Army | S | MAS | ARINC Engineering Services LLC | 1,090,519 | 12 |
| 23 4TWG21024088 | 4/19/2002 | Army | S | MAS | Quantum Research International, Inc. | 222,012 | 3 |
| 24 4TWG21024143 | 12/27/2001 | Army | S | MAS | KPMG Consulting LLC | 287,664 | 13 |
| 25 4TWG21024164 | 3/15/2002 | Army | S | MAS | Applied Data Trends, Inc. | 302,883 | 14 |
| 26 4TWG21024173 | 5/28/2002 | Army | S | MAS | Sparta, Inc. | 214,789 | 15 |
| 27 4TWG21024140 | 1/1/2002 | Army | S | MAS | Camber Corporation | 33,523,960 | 16 |
| 28 4TAG57020690 | 4/15/2002 | Air Force | S | MAS | Madison Research Corporation | 324,100 | 17 |
| 29 4TWG21022008 | 3/1/2002 | Army | S | MAS | System Studies and Simulation, Inc. | 4,158,133 | 3 |
| 30 4TEB21023050 | 11/29/2001 | Army | S | GWAC | Northrop Grumman Information Technology, Inc. | 14,906,988 | 3 |
| 31 4TCB75025307 | 5/6/2002 | HHS | S | GWAC | Booze-Allen & Hamilton, Inc. | 438,638 | 3 |
| 32 4TEB21023059 | 2/13/2002 | Army | S | GWAC | Northrop Grumman Information Technology, Inc. | 532,836 | 3 |
| 33 4TEG21022455 | 10/24/2001 | Army | S | FAST BPA | Computer Intelligence 2, Inc. | 20,487,805 | 18 |
| 34 4TAB96020303 | 10/1/2001 | Army | S | GWAC | EER Systems, Inc. | 4,734,747 | 3 |
| 35 4TF57022105 | 1/23/2002 | Air Force | S | GWAC | EER Systems, Inc. | 20,526,542 | 3 |
| 36 4TAG57027022 | 9/20/2002 | Air Force | S | GWAC | Sentel Corporation | 15,108,297 | 3 |
| 37 4TPB21023700 | 3/27/2002 | Army | S | GWAC | Anteon Corporation | 53,930,012 | 19 |
| 38 4TNG17031026 | 12/5/2002 | Navy | S | MAS | Personnel Decisions Research Institutes, Inc. | 222,612 | |
| 39 4THF21028077 | 11/6/2001 | Army | C | MAS | Telos Corporation | 7,142,400 | 19 |
| 40 4TFF57022522 | 9/4/2002 | Air Force | C | MAS | Telecommunications Systems, Inc. | 2,023,269 | 20 |
| 41 4TNF17027499 | 5/29/2002 | Navy | C | MAS | ASAP Software Express | 426,567 | |
| 42 4TCF75021539 | 9/27/2002 | HHS | C | MAS | SAIC | 373,031 | |
| 43 4TNF17027060 | 10/1/2001 | Navy | C | MAS | Expanets | 297,199 | 21 |
| 44 4TAF21016564 | 9/28/2001 | Army | C | MAS | Motorola, Inc. | 556,309 | 22 |
| 45 4TNF17020002 | 11/21/2001 | Navy | C | MAS | Video and Telecommunications, Inc. | 154,369 | 23 |
| 46 4TNF17020003 | 12/28/2001 | Army | C | MAS | Innovative Computer Resources, Inc. | 271,217 | 23 |
| 47 4TNF17028831 | 3/5/2002 | Navy | C | MAS | Dell Computer Corporation | 245,380 | |
| 48 4TFF57029074 | 8/7/2002 | Air Force | C | GWAC | NGIT/Logicon FDC | 1,871,346 | 24 |
| 49 4TCF75025320 | 8/29/2002 | HHS | C | GWAC | Force 3, Inc. | 416,007 | |
| 50 4TEF21026505 | 10/19/2001 | Army | C | Open MKT | Innovative Network Solutions | 400,260 | 25 |
| Region 4 Total | | | | | | \$227,937,414 | |

SCHEDULE OF ORDERS REVIEWED IN REGION 4

(Continued)

Notes:

1. This was a time and materials task in which one offer was received. The CSC did not address the labor hours and level of effort in the determination of fair and reasonable pricing. Also, the CSC improperly added task option years and added work that was outside the scope of the original task. The task grew substantially from the initial award.
2. This was a sole source, time and materials task. Fair and reasonable supporting price documentation was inadequate.
3. This was a time and materials task.
4. This was a sole source, time and materials task.
5. This was a time and materials task. The fair and reasonable price determination was inadequate.
6. This was a time and materials task in which one offer was received. The fair and reasonable price determination was inadequate.
7. This was a time and materials task in which one quote was received.
8. This was a time and materials task in which two quotes were received; however, the quotes were materially far apart, and price reasonableness was not adequately supported.
9. This task was a sole source award for the development of a sales manager selection instrument. Documentation was incomplete to support fair and reasonable pricing.
10. This was a sole source, time and materials task. The client's reasons for restricting competition were not adequately supported. There was no evaluation of the level of effort and labor mix.
11. The client's reasons for restricting competition were not adequately supported. Documentation was inadequate to support evaluation of the level of effort and labor mix. This was a time and materials task.
12. There was no explanation as to why only one contractor was solicited. The analysis of the level of effort and labor mix was not adequately supported. This was a time and materials task.
13. The fair and reasonable price determination was not supported. The client justification for restricting competition was not supported.
14. This was a time and materials task, which was improperly issued as a logical follow-on order because the original order was also sole source.
15. This was a sole source award in which the CSC did not provide an explanation as to why only one contractor was solicited. The analysis of level of effort and labor mix was not adequately supported.

SCHEDULE OF ORDERS REVIEWED IN REGION 4

(Continued)

16. This was a time and materials task in which competition was limited to one source with no explanation. The justification for award was not adequately supported.
17. The file documentation refers to a Government estimate that was not in the file and was not provided.
18. The file documentation did not include a justification for limiting competition and did not provide fair and reasonable pricing support. This was a time and materials task, which included \$11 million in ODCs. The ODCs represented about 54 percent of the value of the task order.
19. This order is discussed in the body of the report.
20. Six Schedule holders were solicited; however, only one firm submitted an offer.
21. One quote was received. Fair and reasonable price determination was not supported.
22. Six Schedule contractors were solicited; however, only one firm submitted an offer. Documentation was inadequate to evaluate pricing.
23. The client justification to limit competition was inadequate.
24. Four firms were solicited; however, only one proposal was received. Contract rates and other pertinent documentation were not in the file.
25. The contractor quotes and Government estimate were missing from the file.

**AUDIT OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTERS
REPORT NUMBER A020144/T/5/Z04002**

SCHEDULE OF NON-IT ORDERS

| <u>Order Number</u> | <u>Contractor</u> | <u>Contract Number</u> | <u>Customer</u> | <u>Amount</u> | <u>Notes</u> |
|---------------------|--------------------------------------|------------------------|-----------------|------------------|--------------|
| Region 4 Orders | | | | | |
| 4TWG21024143 | KPMG Consulting LLC | GS-23F-0016J | Army | 287,664 | 1 |
| 4TWG21024088 | Quantum Research International, Inc. | GS-23F-0064K | Army | 222,012 | 2 |
| 4TWG21013137 | Gallup, Inc. | GS-23F-8193H | Army | 248,641 | 3 |
| 4TWG21024180 | Dynetics, Inc | GS-23F-0103K | Army | 235,549 | 4 |
| Region 4 Totals | | | | \$ 993,866 | |
| Region 6 Orders | | | | | |
| K02MM043S00 | STR L.L.C. | GS-35F-0123K | Air Force | \$ 668,219 | 5 |
| K01BF024S00 | Aegis Research Corp. | GS-35F-0240J | DOD | 18,348,135 | 6 |
| K03MT162S00 | Powerware Corp. | GS-07F-7465C | DOD | 674,774 | 7 |
| K02KH054S00 | Systems Research and Applications | GS-35F-4594G | Air Force | 257,786 | 8 |
| K02KH052S00 | SAIC | GS-23F-8006H | Air Force | 869,943 | 9 |
| K00TJ031S00 | National Micrographics Systems, Inc. | GS-25F-4025B | DOD | 36,866,711 | 10 |
| K00TJ031S01 | National Micrographics Systems, Inc. | GS-25F-4025B | DOD | | 10 |
| K00TJ031S02 | National Micrographics Systems, Inc. | GS-25F-4025B | DOD | | 10 |
| K00TJ031S03 | National Micrographics Systems, Inc. | GS-25F-4025B | DOD | | 10 |
| K02BN027S00 | Airpark Sales and Service, Inc. | GS-24F-0027L | DOD | 5,615,519 | 11 |
| K02TH141H00 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 2,956,762 | 12 |
| K02TH140H00 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 2,956,762 | 12 |
| K02TH142H00 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 2,956,762 | 12 |
| K02TH143H00 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 1,274,748 | 12 |
| K02TH139H00 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 1,524,623 | 12 |
| K02TH138H00 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 2,613,430 | 12 |
| K02TH135H00 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 343,811 | 12 |
| K02TH134H00 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 2,795,227 | 12 |
| K02TH133H00 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 2,946,784 | 12 |
| K02TH132H00 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 2,980,256 | 12 |
| K02TH136H00 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 2,567,232 | 12 |
| K01TH175H00 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 1,436,455 | 12 |
| K01TH175H01 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 2,737,272 | 12 |
| K01TH175H02 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 2,886,518 | 12 |
| K02TH020H00 | Northern NEF, Inc. | GS06K97BND0455 | Navy | 473,228 | 12 |
| K02TH246H00 | Northern NEF, Inc. | GS00K97AFD2226 | Navy | 1,942,500 | 12 |
| K02TH245H00 | Northern NEF, Inc. | GS00K97AFD2226 | Navy | 2,913,750 | 12 |
| K03TH060H00 | RMES Communications, Inc. | GS06K97BND0458 | Navy | 2,678,813 | 13 |
| K03TH061H00 | RMES Communications, Inc. | GS06K97BND0458 | Navy | 2,678,813 | 13 |
| K03TH062H00 | RMES Communications, Inc. | GS06K97BND0458 | Navy | 2,678,813 | 13 |
| K03TH063H00 | RMES Communications, Inc. | GS06K97BND0458 | Navy | 2,678,813 | 13 |
| K03TH064H00 | RMES Communications, Inc. | GS06K97BND0458 | Navy | 2,678,813 | 13 |
| K03TH065H00 | RMES Communications, Inc. | GS06K97BND0458 | Navy | <u>2,678,813</u> | 13 |
| Region 6 Total | | | | \$ 117,680,085 | |
| Region 10 Orders | | | | | |
| GS10TR-00-EBF-2546 | Information Systems Support, Inc. | GS06K97BND0710 | Army | \$ 2,500,000 | 14 |
| A1H21S6327 | ISI Professional Services | GS-29F-0208G | Army | 148,887 | 15 |
| A1S21E0947 | Information Systems Support, Inc. | GS06K97BND0710 | Army | 164,831 | 16 |
| GS10K-98-ECA-0348 | ACS Systems and Engineering, Inc. | GS10K98ECD0003 | Army | 727,880 | 17 |
| GS10K-98-ECA-0347 | ACS Systems and Engineering, Inc. | GS10K98ECD0003 | Army | 680,698 | 17 |
| GS10K-98-ECA-0324 | ACS Systems and Engineering, Inc. | GS10K98ECD0005 | Army | 371,099 | 17 |

APPENDIX D

SCHEDULE OF NON-IT ORDERS
(Continued)

| <u>Order Number</u> | <u>Contractor</u> | <u>Contract Number</u> | <u>Customer</u> | <u>Amount</u> | <u>Notes</u> |
|---------------------|-----------------------------------|------------------------|-----------------|----------------|--------------|
| A2S21E0504 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 800,663 | 17 |
| A1S21E1023 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 1,048,000 | 17 |
| A2S21E0913 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 639,414 | 17 |
| A2S21E1101 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 621,575 | 17 |
| A2S21E0286 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 667,508 | 17 |
| A2S21E0505 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 399,575 | 17 |
| A2S21E0445 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 579,948 | 17 |
| A2S21E1192 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 460,180 | 17 |
| A2S21F0166 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 655,140 | 17 |
| A2S21E0911 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 426,704 | 17 |
| A2S21E1061 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 501,048 | 17 |
| 10S00F2193 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 598,000 | 17 |
| A2S21E0624 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 466,005 | 17 |
| A1S21E1246 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 688,500 | 17 |
| A2S21E0642 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 140,700 | 18 |
| A2S21E0645 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 140,700 | 18 |
| A2S21E0644 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 140,700 | 18 |
| A2S21E0653 | ACS Systems and Engineering, Inc. | GS00K97AFD2163 | Army | 140,700 | 18 |
| A2S21S0456 | DynCorp | GS-35F-4694G | Army | 785,664 | 19 |
| A1S17E0187 | American Systems Corporation | GS-35F-4581G | Marine Corps | <u>623,019</u> | 20 |
| Region 10 Total | | | | \$ 15,117,138 | 21 |
| Total | | | | \$ 133,791,089 | |

SCHEDULE OF NON-IT ORDERS

(Continued)

Notes:

1. This firm-fixed price order was written against KPMG's financial and business solutions contract. The task was for technical and analytical support services for the U.S. Army's Utility Privatization Program. The scope of work included possessing familiarity, having working knowledge, and demonstrated ability to evaluate utility system infrastructure, utilities procurement, contracting methodologies, environmental laws and processes, real estate and legal issues related to utility systems, and Army policies regarding military installation operations and maintenance.

The labor classifications proposed included engagement partners, financial analysts, and 10 hours for "technical/graphic." We concluded this was primarily a financial consultancy job to aid the Army in determining what to do with the approximately 275 CONUS utility systems under review. The IT portion of the work was incidental.

2. This order was a time and materials task against Quantum Research International's professional engineering services contract. The contractor was to provide "programmatic and analytical support" to the Aviation Electronic Combat Project Manager.

The short statement of work did not provide reasonable assurance that any sort of IT work was going to be accomplished: the contractor was to serve as a primary advisor to senior management personnel on issues related to various items and systems. We determined that 1,920 hours of the 2,000 hours proposed by the contractor were to be filled by a "subject matter expert" as opposed to a readily discernible IT labor classification. The contract data requirements list could not be located. While this project almost certainly had an IT component due to the several systems being managed, we concluded that it was primarily technical engineering support of an avionics equipment-related mission.

3. This was a firm-fixed price order placed against Gallup's Management, Organizational and Business Improvement Services (MOBIS) contract. The task description was to "Develop Sales Manager Selection Instrument" on behalf of the U.S. Army Recruiting Command. The contractor's prior work had documented the necessity to support sales personnel with a talented sales manager.

The subtasks for this job were entitled project planning meeting, situation analysis, focus groups and job observation, develop structured interview, conduct in-depth interview, data analysis and reports, presentation, and sample assessment implementation. We found that 87 percent of the \$222,008 in proposed direct labor costs were for (in descending order of dollars) task leaders, selection analysts, in-depth interviewers, program manager, focus group leader, clerical, and supervisor. Only about 13 percent of the labor dollars were for statisticians. We concluded that the IT portion of this business improvement job was minimal.

4. This order was a time and materials task against Dynetics' professional engineering services contract. The task was for technical and programmatic analyses support for the Common Missile Project Office located at Redstone Arsenal.

SCHEDULE OF NON-IT ORDERS

(Continued)

This effort was primarily an engineering effort. Region 4 officials stated that this project had an “IT relation”. The proposed labor categories were not overtly IT-related, with the majority of hours proposed belonging to engineer/analyst positions. Although this project certainly had an IT component, it was primarily engineering support of a weapons-related mission.

5. This order was for a defense planning threat assessment.
6. This order was to provide security services.
7. This order was for demolition and replacement of an uninterruptible power supply system.
8. This order was for Continuity of Operations (COOP) planning and exercise support.
9. This task hired a budget analyst.
10. Order numbers K00TJ031S00 through K00TJ031S03 involved the production of items used in biological warfare.
11. This order, which had a significant R&D component, included aeronautical and engineering effort in support of a foreign government.
12. The orders to Northern NEF, Inc. are for the design, fabrication, and installation of boat barrier systems.
13. The orders to RMES Communications, Inc. are for additional boat barriers.
14. The office building (Building 54) at Camp Murray, Washington State was constructed under this order.
15. This task order covered additional construction materials for Building 54.
16. This task order covered additional building renovation services in Olympia and Montesano, Washington State.
17. These orders to ACS Systems and Engineering, Inc. represent our specific sample of orders for building renovation services placed on behalf of the Total Army Distance Learning Program.
18. Orders A2S21E0642 through A2S21E0653 represent building renovation services placed on behalf of the Army Training and Doctrine Command.
19. This order represents building renovations to the Moldovan (Eastern Europe) Ministry of Defense Conference Center.
20. This task order was for construction work that was subject to claims under the Davis Bacon Act.
21. Region 10 spent over \$36 million on building renovations on behalf of the Total Army Distance Learning Program, an amount that does not include significant sums for additional site preparation (renovation) services. The figure shown includes only those facilities in our specific sample.

APPENDIX E

**LIST OF DOD INSPECTOR GENERAL AUDIT REPORTS RELATING TO DOD
PURCHASES FROM GSA**

| Report Number | Date of Report | Title |
|--------------------------|-----------------------|--|
| D-2004-015 | October 30, 2003 | Contracts for Professional, Administration and Management Support Services |
| D-2003-090 | May 13, 2003 | Use and Control of MIPRs at the Air Force Pentagon Communications Agency |
| D-2003-027 | November 25, 2002 | Contract Actions Awarded to Small Businesses |
| D-2002-152 | September 25, 2002 | Defense Hotline Allegations Concerning the Procurement of the Seat Management Initiative |

For access to complete copies of these reports, please see the DOD-IG Website:
<http://www.dodig.osd.mil/audit/reports/index.html>.

FTS COMMISSIONER'S RESPONSE TO THE DRAFT REPORT



GSA Federal Technology Service

December 4, 2003

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

FROM: SANDRA N. BATES
COMMISSIONER (T)

A handwritten signature in black ink, appearing to read "Sandra N. Bates".

SUBJECT: Draft Report: Audit of Federal Technology
Service's Client Support Centers
Report Number A020144/T/5/XXXXX

Thank you for your draft audit report on the General Services Administration (GSA), Federal Technology Service (FTS), Client Support Centers (CSCs). I appreciate your timely response to our request to conduct the audit, and the opportunity to review and comment on the draft report.

FTS concurs with the report's three recommendations:

- 1) Perform a detailed analysis of the factors contributing to the problems identified, including an inadequate system of internal management controls, CSC personnel's lack of adherence to proper procurement procedures, and an overemphasis of revenue growth and client-driven decisions.
- 2) Based on this analysis, determine what changes are needed in the structure, operations and mission of the CSCs, mix of resources, and management control processes to align policies and procedures with laws and regulations and GSA's own core values in ensuring the Government obtains best value, and develop a time-phased action plan to implement these changes.
- 3) Develop additional performance measures for the CSCs that promote competition and other sound procurement policies.

FTS has begun to implement a series of actions and initiatives designed to improve acquisition quality and integrity across the organization. GSA senior executives work closely with FTS to monitor progress on these actions and initiatives on a weekly basis.

U.S. General Services Administration
11304 Eaton Place
Falls Church, VA 22031-2213
www.gsa.gov

-2-

The following are initiatives currently underway, which specifically address the three recommendations cited in the report:

Recommendations 1 and 2: FTS will award a task order this month for an independent review of contract and management operations. This FTS Management Study will identify appropriate actions to ensure that FTS associates adhere to sound procurement practices and procedures while serving the diverse needs of Government agency clients. The review will provide recommendations concerning the flow of communication, effectiveness of existing structures, work flow, training, reference materials, and any policy and/or procedural changes that will strengthen management controls and mitigate shortcomings or defects. FTS will develop a time-phased action plan to implement approved study recommendations.

Recommendation 3: FTS has awarded a task order to conduct an Assessment of Performance Goals and Measures. The assessment has begun and will validate the value proposition of the IT Solutions business line (including both national and regional CSCs) and recommend long-term strategic goals, annual performance goals, and performance measures based on best industry practices.

Other actions taken by FTS to strengthen the system of internal management controls and to assure acquisitions comply with applicable rules, regulations, and guidelines include:

- 1. Reiteration of Existing FTS Policies and Internal Controls:** On September 23, 2003, I issued a memorandum that reiterated applicable regulations and policies issued by and/or pertaining to FTS over the past few years. This memorandum strongly admonishes all FTS activities to scrupulously adhere to the letter and spirit of all pertinent guidance, including the Federal Acquisition Regulations and the December 6, 2001, memorandum to all IT Solutions associates regarding "Growing the Business Responsibly."
 - 2. Legal Reviews of FTS Contractual Matters:** On October 1, 2003, the GSA Office of General Counsel and I issued a policy memorandum implementing additional legal review requirements to assure compliance with all applicable laws, regulations, and other requirements.
 - 3. FTS Acquisition Checklists:** On October 6, 2003, I issued a memorandum transmitting a series of standard acquisition checklists to be used by FTS associates in the procurement process to ensure consistency in acquisition procedures.
 - 4. Procurement Management Review Program:** On November 14, 2003, I issued a memorandum establishing this program and providing guidance to ensure sound procurement management review procedures for all FTS acquisition activities.
 - 5. FTS Action Plan:** On November 25, 2003, I issued a memorandum establishing a national standard to govern internal controls for task order acquisition activities. The memorandum directs all CSCs to comply with the Action Plan, which covers pre-award and post-award oversight, training requirements, and management controls.
-

APPENDIX F

-3-

As a result of the Management Alert Report regarding Region 10, actions to improve management controls for that CSC have been planned and implemented during the course of the audit. Regional officials have implemented a corrective action plan, organizational realignment, suspension of awards, and an associate training plan. In addition, specific action plans for Regions 4 and 6 have been developed and are being implemented.

Effective assessment of the problems identified in the draft report and correction of the weaknesses to prevent the recurrence of such problems requires a joint effort on the part of FTS Central Office and the Regions. Since FTS Central Office and GSA Regional Administrators operate using a matrix management process, a true partnership and sharing of responsibility to identify and resolve management issues is paramount. Policy, procedures, and personnel issues are addressed both locally and nationally. I want to assure you that GSA and FTS management are working together to review our operations, adjust goals and take strong actions to remedy problems. I am confident that this approach will lead to resolution of the audit report findings.

I want to extend my appreciation to members of the audit team for their efforts during the audit. Their work represents an important contribution to the significant improvement of FTS business practices and management controls.

I request that these comments be included in your final report. If you have any questions, please do not hesitate to contact me by phone at (703) 306-6020.

APPENDIX G

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTERS
REPORT NUMBER A020144/T/5/Z04002

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