

REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER
CONTROLS AND TESTING OF CONTROLS
HEARTLAND REGION
REPORT NUMBER A050009/T/6/Z05018

MAY 18, 2005

DATE: May 18, 2005

REPLY TO

ATTN OF: Heartland Region Field Audit Office (JA-6)

SUBJECT: Review of Federal Technology Service's Client Support
Center Controls and Testing of Controls - Heartland Region
Report Number A050009/T/6/Z05018

TO: Bradley M. Scott
Regional Administrator (6A)

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

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

Objectives, Scope and Methodology

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed between August 1, 2004 and October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders. For the Heartland CSC, our sample included 12 new awards and 2 existing orders, valued at \$15.9 million and \$73.5 million, respectively. The audit was conducted between October 2004 and March 2005, in accordance with generally accepted Government auditing standards.

Results of Audit

We determined the Heartland CSC to be not compliant but making significant progress. The Region has implemented national controls identified in the Administrator's Get it Right Plan and has improved its overall contracting practices, compared with our past

audit findings. For example, we found only one minor instance of non-compliance with the competition requirements of Section 803 of the National Defense Authorization Act for Fiscal Year 2002. However, we did find 6 new orders that had procurement compliance deficiencies, including one with potential financial impact. In our review of existing orders, we found that the CSC inappropriately modified one order to include out of scope work. As directed in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, because the CSC is not fully compliant, we are required to perform a subsequent audit of CSC contracting practices by March 2006 to determine whether the CSC has become compliant.

Section 803 Non-compliance. The CSC awarded one new order without following the competition requirements of Section 803, which requires ordering agencies to obtain a minimum of three offers for Department of Defense orders for professional services expected to exceed \$100,000 that are placed under multiple award contracts, including Federal Supply Service (FSS) schedule contracts. This \$140,000 task order involved development of an online training course and was related to a prior task order that the CSC justified as a sole source award under Federal Acquisition Regulation (FAR) 5.202, acceptance of an unsolicited research proposal that demonstrates a unique and innovative concept. However, the sole source procurement for this task order was not adequately justified.

Procurement Compliance Deficiency with Potential Financial Impact. We identified a \$3.2 million schedule order for development and installation of software that the CSC awarded without requesting discounts as required by FAR 8.4 when orders exceed the maximum order threshold (MOT) under the schedule contract. FTS does include a provision in all schedule order statements, regardless of expected dollar value, stating that prices proposed cannot exceed schedule prices. However, the FAR requires, for higher dollar value purchases over the MOT, that discounts be specifically requested given the larger dollar value of the purchase. This order was well above the MOT of \$500,000.

Other Procurement Compliance Deficiencies. We identified four orders that had other various procurement compliance deficiencies.

- A \$2.7 million schedule order for technical and management support did not undergo adequate best value determination. The CSC complied with competition requirements and received one proposal but did not analyze the proposed labor mix or level of effort in its evaluation of price.
- A \$668,000 sole-source schedule order that the CSC awarded as a “bridge” contract to allow time to properly re-compete a requirement for local area network technical support was awarded as a time and materials contract without adequate analysis of labor mix and level of effort in the evaluation of price.
- A \$4.9 million schedule order for hazardous material systems support lacked documentation to justify actions taken to obtain a revised cost proposal that

increased the price. Only one vendor submitted an offer; a \$2.1 million initial bid compared to the Independent Government Estimate (IGE) of \$4.8 million. After the initial bid, FTS requested the sole bidder to provide a second cost proposal because the client believed the first bid did not fully address all of the requirements. The vendor's revised cost proposal increased to \$4.9 million, although the vendor's technical proposal remained the same. FTS advised that they are planning to re-compete the task order after the completion of the base year, which should limit any possible financial impact.

- A \$1.2 million schedule order for consultant and support services did not include adequate evaluation of labor mix and level of effort in the evaluation of pricing. Region 6 FTS based the evaluation of labor mix and level of effort on an IGE. However, we could not conclude that the IGE was a sufficient independent estimate because it was nearly identical to the proposal. FTS stated that this occurred due to previous experience with the client and the work.

Existing Order Procurement Deficiency. We identified an inappropriate \$4.3 million modification to an existing \$31.1 million schedule order for onsite technical, functional, and analytical support. The additional work under the modification was not within the original statement of work, and the CSC did not perform a pricing analysis for the additional work. CSC officials advised that they planned to terminate the task in March 2005, however, as of the date of this report, this has not occurred.

Conclusion

While not fully compliant, we found that the Heartland CSC has made significant progress in implementing controls to ensure compliance with procurement regulations. The CSC has implemented national controls identified in the Administrator's Get It Right Initiative and improved its overall contracting practices. However, we did find procurement compliance deficiencies in 6 new orders, including 1 with potential financial impact, and 1 existing order that was improperly modified to include out of scope work. As stated in our January 2004 report on the FTS CSCs, we believe that steps to remedy the CSC procurement problems require a comprehensive, broad-based strategy that focuses on the structure, operations and mission of FTS as well as the control environment. Based on the comprehensive recommendations contained in that report, no further overall recommendations are deemed necessary at this time.

Management Comments

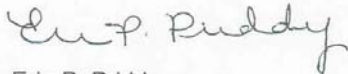
We obtained agency comments throughout our audit work, providing a draft written summary of our findings on each order to FTS regional officials for their written comments, which we incorporated into our analysis as appropriate. We also provided a draft of this letter report to Regional officials. On April 26, 2005, the Heartland Region Regional Administrator responded to this report, taking no exception to the report as

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

Internal Controls

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

If you have any questions regarding the report, please contact Tina Stuart or me at (816) 926-7052.



Erin P. Priddy
Audit Manager
Heartland Region

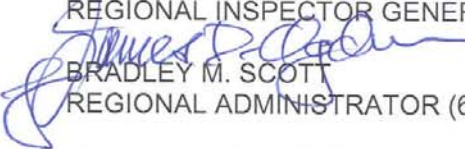
Attachments

MANAGEMENT RESPONSE

GSA, Office of the Regional Administrator
Heartland Region, Kansas City, MO

April 26, 2005

MEMORANDUM FOR ARTHUR L. ELKIN
REGIONAL INSPECTOR GENERAL FOR AUDITING (JA-6)

FROM 
BRADLEY M. SCOTT
REGIONAL ADMINISTRATOR (6A)

SUBJECT: Response to Draft FTS CSC Reports (Your Memorandum, April 21, 2005)

We have reviewed the subject draft reports and discussed them with you. We take no exception to the reports as prepared. The partnership we have with your office will lead to changes enhancing the propriety of acquisition actions while developing a client service delivery model which should continue to provide timely service with value added task order negotiation and price evaluation enhancements.

Thank you for your evaluation. We expect to work closely with your office as we create a technology acquisition business model which operates efficiently and effectively for our immediate clients and fiduciary responsibility to the American citizens who pay for our services.

cc: 6T



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