

**COMPENDIUM OF AUDITS OF THE  
FEDERAL TECHNOLOGY SERVICE  
REGIONAL CLIENT SUPPORT CENTERS**

**DECEMBER 14, 2004**





**U.S. General Services Administration**  
Office of Inspector General



Date: December 14, 2004

Reply To: Eugene L. Waszily *Eugene L. Waszily*  
Attn. Of: Assistant Inspector General for Auditing (JA)

Subject: Compendium of Audits of the  
Federal Technology Service's  
Regional Client Support Centers

To: Stephen A. Perry  
Administrator (A)

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

This letter transmits our Compendium of Audits of the Federal Technology Service's (FTS) Regional Client Support Centers (CSCs). The enclosed body of work presents our findings in response to your request that we audit all other regional CSCs after our prior audit of three regional centers identified significant deficiencies in the contract award and administration activities. The specific purpose of this effort was to provide GSA management with a full assessment of the nature and scope of the weaknesses nationwide to ensure that as they developed corrective actions, the plans for new controls and operating enhancements would be comprehensive.

During the period we were conducting this expanded review, the FTS Commissioner requested that we draw a second sample of more recent (2<sup>nd</sup> quarter Fiscal Year 2004) awards to assess whether new control procedures were being implemented by the individual regional CSCs. The results of those tests are included also.

Our extended review of procurement actions active during Fiscal Year 2003 found that significant deficiencies and departures from procurement regulations occurred frequently at many of the CSCs. The frequency, significance, and the nature of the problems found, varied widely among regional CSCs, making it impractical to develop an overall characterization of the program's operations nationwide, except to conclude that the existing procurement program controls were not working and were in need of a substantial overhaul. Our audits identified numerous instances of inappropriate contracting practices including: misuse of contract vehicles, inadequate competition, nonexistent or ineffective contract management, inadequate support for pricing determinations, misleading statements of work in procurement solicitations, a heavy use of time and material types of contracts without justification, awarding contracts outside

18th and "F" Streets, NW, Washington, DC 20405

the scope of the IT fund, using vendors to pass work through to preferred contractors and, adding "open market" items to existing contracts without evaluating prices.

The results from the second sample of orders, drawn from actions processed in the 2<sup>nd</sup> quarter of FY 2004, found that improvements in procurement processes were being made. Progress in implementing the new controls in the CSCs ranged from substantial in some centers to just getting started in others. In general, these results are positive; however, additional efforts are needed to bring all the CSCs into full compliance with procurement policies and regulations.

We are aware that GSA has in process, several additional management efforts, especially the "Get It Right" Plan, aimed at overcoming the deficiencies identified and enhancing the soundness of procurement programs going forward. These are very positive steps in the right direction.

As you are aware, we have teamed with the Department of Defense Office of Inspector General to conduct a more current and more detailed audit to test the new controls over the regional CSCs' procurement programs. We will keep you and FTS senior managers apprised of our progress and will have final results of this work in the spring of 2005.

We would be pleased to answer any questions or to discuss with you in more detail any aspect of the Compendium Report.



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**COMPENDIUM OF AUDITS OF THE  
FEDERAL TECHNOLOGY SERVICE  
REGIONAL CLIENT SUPPORT CENTERS**

**INTRODUCTION**

This compendium relates the results of the audits performed by the General Services Administration, Office of Inspector General at the Federal Technology Service's Client Support Centers nationwide. These reviews were conducted at the request of the Administrator, General Services Administration, as an expansion of our January 2004 audit report<sup>1</sup> that identified a number of improper contracting practices in three of the Client Support Centers. Reports on the outcome of each individual Client Support Center were issued to the Commissioner, Federal Technology Service and the respective Regional Administrator.

**Background**

The Information Technology (IT) Solutions business line within the General Services Administration's (GSA) Federal Technology Service (FTS) assists Federal agencies in identifying technology solutions and acquiring, deploying, managing and using them. It provides a comprehensive range of IT products and assisted services to the Federal IT community on a fully cost-reimbursable basis through contracts with industry partners.

In each of GSA's 11 regions, Client Support Centers (CSCs) issue and manage task and delivery orders against existing contracts, manage projects, and maintain a staff of IT managers and project managers. They rely on a variety of contract vehicles to engage private sector services to satisfy client agency requirements, including FTS contracts,<sup>2</sup> Federal Supply Service (FSS) Schedules, and Government-wide contracts awarded and managed by the contracting offices of GSA and other agencies.

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 or support that the client requires. They 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 client agency pays for all contracting and acquisition costs. The CSCs also have profit and loss responsibility. They assess fees, generally ranging from one to four percent of product or service cost, to client agencies for the services provided.

The level of contracting activity varies among the regional CSCs, as shown below. For example, fiscal year (FY) 2004 revenues ranged from \$175 million in Region 2 to nearly \$1 billion in Region 4. Likewise, FY 2002 funded full time equivalent employees ranged from 10.8 in Region 1 to 62 in the National Capital Region.

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<sup>1</sup> *Audit of Federal Technology Service's Client Support Centers*, Report Number A020144/T/5/Z04002, dated January 8, 2004.

<sup>2</sup> 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.)

Total CSC procurements have increased in recent years: \$3.8 billion in fiscal year (FY) 2001, \$4.7 billion in FY 2002, \$5.8 billion in FY 2003, and \$5.4 billion in FY 2004. The Department of Defense (DOD) customers represent over 85 percent of the business of the regional CSCs, and the majority (60 percent) of CSC task and delivery orders are issued against FSS Schedules on a dollar basis. Tasks for services represent the majority of CSC business.

| <b>REVENUE</b>  |                        |
|-----------------|------------------------|
| <b>REGION</b>   | <b>FY 2004</b>         |
| 1               | \$203,658,500          |
| 2               | 175,071,800            |
| 3               | 355,851,600            |
| 4               | 962,904,700            |
| 5               | 340,626,800            |
| 6               | 687,364,000            |
| 7               | 706,625,600            |
| 8               | 284,394,200            |
| 9               | 731,377,800            |
| 10              | 314,976,200            |
| 11              | 569,943,000            |
| CO <sup>3</sup> | 74,917,300             |
| <b>TOTAL</b>    | <b>\$5,407,711,500</b> |

We performed a prior audit of the CSCs located in Regions 4, 6, and 10 and reported our results in Audit Report Number A020144/T/5/Z04002, dated January 8, 2004.<sup>4</sup> In that audit, we identified numerous improper task order and contract awards and inappropriate contracting practices, including 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. Based on these findings, the Administrator, in November 2003, requested reviews of FY 2003 task orders and modifications in the other eight regional CSCs.<sup>5</sup> The FTS Commissioner subsequently requested that we also perform a limited review of recent control improvements underway and FY 2004 task orders and modifications in all 11 regional CSCs.

In addition to our audits 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.

<sup>3</sup> Central Office.

<sup>4</sup> An *Alert Report on Audit of Federal Technology Service's Client Support Centers*, Audit Report Number A020144/T/5/W03001, was issued on March 6, 2003, to alert FTS management of the significant inappropriate contracting practices and misuses of the Information Technology Fund that were disclosed during our audit of the Northwest/Arctic (Region 10) CSC.

<sup>5</sup> The Regional Administrator, Pacific Rim Region had requested our audit office to perform a review of his region in May 2003. Accordingly, the audit of this region was in process prior to the Administrator's request.

## **Objectives, Scope, and Methodology**

The objective of these reviews was to determine whether the CSCs conduct and administer procurements in accordance with the Federal Acquisition Regulation (FAR) and the terms and conditions of the contracts utilized, for actions occurring in FY 2003<sup>6</sup> for Regions 1, 2, 3, 5, 7, 8, 9, and NCR, and a limited review of the implementation of enhanced management controls implemented in 2004 over the procurement process for all Regional CSCs.

In accomplishing these objectives, we reviewed:

| <b>Fiscal Year</b> | <b>No. of Task Orders<sup>7</sup></b> | <b>Value</b>           |
|--------------------|---------------------------------------|------------------------|
| <b>2003</b>        | <b>227</b>                            | <b>\$3,209,289,564</b> |
| <b>2004</b>        | <b>105</b>                            | <b>\$1,390,029,986</b> |
| <b>Totals</b>      | <b>332</b>                            | <b>\$4,599,319,550</b> |

Risk-based judgmental samples (not representing statistical samples) of FY 2003 task orders exceeding \$100,000 were selected at each CSC location. Procurement actions in FY 2004 occurring during the three-month period, March through May 2004, were also judgmentally selected in each Region for a limited review of control improvements. We analyzed relevant procurement and funding documentation, and conducted interviews with client agencies, contracting officials, and Information Technology Managers, as appropriate. For our limited review of FY 2004 task orders, we limited our analysis to determine if control improvements were implemented and whether major weaknesses were identified and corrected prior to the awards. Our reviews of FY 2003 task orders focused on procurements made during fiscal year 2003,<sup>8</sup> however, in some instances, client projects were followed back to 1998 and forward into fiscal year 2004.

These audits, performed in accordance with generally accepted Government auditing standards, were conducted during the period December 2003<sup>9</sup> through August 2004.

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<sup>6</sup> Our review of the Pacific Rim Region was requested by the Regional Administrator, Region 9 in May 2003 and thus, we reviewed Region 9 task orders and modifications for the 18-month period ending March 31, 2003 and for the three-month period, July through September 2003.

<sup>7</sup> For the Pacific Rim Region, we reviewed an additional 36 non-IT related, FY 1999 – 2003 task orders valued at \$15,511,465.

<sup>8</sup> The prior audit focused on procurements made in FY 2002 and in some instances, client projects were followed back to FY 1997 and through FY 2003.

<sup>9</sup> The review of the Pacific Rim Region began in June 2003.

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## **SUMMARY RESULTS**

**Our audits of FY 2003 procurements identified a number of improper contract and task order awards involving millions of dollars that did not comply with procurement laws and regulations. Our findings identified numerous instances of inappropriate contracting practices, such as misuse of contracting vehicles, inadequate competition, nonexistent or ineffective contract administration, poor or non-existent support for fair and reasonable pricing, misleading descriptions of work, persistent and unsupported use of time and materials task orders, misuse of the IT Fund, and purchase of “open market” items without negotiation or price evaluation.**

**Our limited reviews of FY 2004 procurement actions generally indicated some improvement overall from recent enhanced management controls put in place in the Regions. However, in some regions, we found several of the same issues identified in our reviews of 2003 procurements, such as improper contracting actions, inadequate competition, and insufficient documentation of price reasonableness. We will perform more comprehensive audit tests of the CSC program management controls during FY 2005 to further assess the Regions’ improvement efforts.**

**Several factors contributed to the problems noted, including, an ineffective system of internal management controls: an environment that emphasized client agency satisfaction and a culture that emphasized revenue growth. As a result, there is no reasonable assurance that goods and services were procured at fair and reasonable prices, and the fundamental objectives underlying the Federal procurement process were not achieved.**

**Though procurement irregularities were observed in all Regions, the significance and prevalence of the deficiencies varied by Region, as did the progress of improvement actions. Our detailed findings on each individual Region were summarized in individual audit reports on each Region and issued to the FTS Commissioner and the respective Regional Administrator. These reports and their appendices, including management responses, are included in their entirety in sections I through XI that follow after this Summary Results section.**

### **Inadequate Competition**

**The CSCs were not proactive in maintaining a competitive environment for task orders and, as a consequence, the Government did not obtain the benefits of competition and potentially lower costs. Of the 204 task orders we reviewed that required competition, 118 (58 percent) were awarded without adequate competition. These task orders were awarded sole source to incumbent contractors, or to other vendors referred by the client agency, with only a single offer, or without justification. In some instances, the CSCs accepted a client’s justification to restrict competition to one FSS Schedule contractor and not seek other vendors that may have the capability to perform the work. Additionally, a number of the task orders for services exceeded the maximum order threshold (MOT) at which point regulations direct that the Government should seek quotes from additional contractors that offer services that will meet the client’s needs.**

FSS Schedule service orders, requiring a statement of work and expected to exceed \$2,500 (the micro-purchase threshold), require that the ordering office send the statement of work to a minimum of three Schedule contractors for competitive quotes. In 2002, Congress reaffirmed the importance of optimizing competition by enacting legislation<sup>10</sup> to require ordering agencies to obtain a minimum of three offers for DOD professional services orders expected to exceed \$100,000 that are placed under multiple award contracts, including FSS Schedule contracts. These provisions also apply to non-DOD agencies placing orders on behalf of DOD. Unrestricted use of sole source justifications undermines these competitive procedures.

### **Misuse of Contract Vehicle**

For some of the task orders we reviewed, the majority of the work was performed by a different contractor from the awardee; contractors were asked to perform work or provide equipment and materials that were not within the scope of their contract vehicles; and the small business 8(a) sole source authority was not appropriately used.

*Pass-Through Contracting.* We identified 8 instances in which the CSCs awarded task orders to vendors who would not be performing the work or very little of the actual work. In some cases, the client was really interested in another contractor performing the work, but for convenience, used an existing contract vehicle as essentially a “pass-through” contract. This contracting practice results in the Government paying unnecessary fees and markups. One of these awards resulted in \$23 million in fees.

*Open Market Purchases.* For some task orders reviewed, contractors purchased equipment or materials not included in the FSS Schedule contract (or related Blanket Purchase Agreement on which the task order was awarded. Further, there was little evidence that the pricing of these items was evaluated and determined to be reasonable. In one \$7.4 million task order, more than \$5.2 million of material costs, primarily for computer equipment, were included with no evidence of price evaluation.

*Small Business 8(a) Sole Source Authority.* In two cases, Small Business authority was not properly utilized. One involved a “pass-through” wherein the small business acted as a middleman and the vast majority of the work was performed by a large business. In the second instance, the small business teamed with a large business that performed the work. The FAR requires the small business to supply a minimum of 50 percent of the effort.

### **Improper Contracting Actions**

We identified task order awards that were improper or questionable including, adding work outside the scope of the statement of work; vague or ill defined statements of work; extending the task performance period without justification; leases, construction, or acquisition of real property, which are outside of FTS’ contracting authority; improper modifications; and split procurement. Highlights of several of these actions are highlighted below.

*Work Outside Contract Scope:* Twenty task orders were awarded for services, equipment, or materials that were not within the base contract scope. For example, a

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<sup>10</sup> Section 803 of the National Defense Authorization Act of 2002, Public Law 107-107.



project to implement a Gigabit Ethernet network, also included through modifications valued at approximately \$1.5 million, replacing lead cable, setting up a wireless local area network for a convention, installing a voice over internet protocol network, and other work outside the original scope of work.

**Statements of Work (SOW):** Ineffective statements of work were found in several of the regions. Some were of little practical use for soliciting offers or for determining that defined deliverables were received. In one region, the SOW was vague, citing in several instances “as required” rather than specifying defined deliverables.

**Work Outside of FTS’ Authority:** Nineteen task orders were awarded for construction services, lease, or acquisition of real property. These substantial costs were usually invoiced and paid as Other Direct Costs.

**Split Procurement:** Some of the task orders we reviewed resulted from the contracting officer splitting a requirement that exceeded the \$3 million limitation for awarding an uncompleted task order to a small business 8(a) contractor, into multiple orders that would each fall below the limitation. For example, the client submitted a single requirement with two SOWs. One SOW for 16 privacy officers and two project managers was \$9.7 million over 5 years and the other SOW for 16 administrative assistants was \$4.7 million over 5 years. Rather than combining these two SOWs into one task order, the contracting officer independently processed the SOWs, and for less than the total number of support staff needed, utilizing the client’s “preferred vendor.” For example, the contractor’s \$944,193 proposal for one privacy officer for 5 years instead of 16 for 5 years was accepted. However, modifications adding more privacy officers were issued 2 weeks later with funding documents dated one day and three days after the initial award.

#### **Frequent Use of Time and Materials Task Orders**

Overall, CSCs used time and materials type orders rather than fixed-price task orders. The FAR discourages the use of time-and-materials contracting and warns that a time-and-materials contract provides no incentive for a contractor to control costs and operate efficiently and places all the risk on the Government.

Our review showed that in the majority of cases, the need for a time-and-materials task order was not documented with a Determination and Findings, as required. Also, a number of the tasks did not specify the maximum amount of funds (ceiling) to be expended on the project. There were also billing issues wherein incorrect or higher billing rates were used. For example, a task order for refinement of conceptual work anticipated to span a period of two months was awarded for \$203,762 with no option periods and no ceiling price. Some four years later, and after nine improper modifications extending the period of performance, the task order had grown to more than \$81 million.

#### **Inadequate Support for Fair and Reasonable Pricing**

For 64 percent of orders and modifications we reviewed, required documentation supporting that the Government received fair and reasonable prices was absent or not sufficient. Documentation did not show how CSC officials followed FSS Ordering Procedures for Services to ensure fair and reasonable prices, or whether and how the CSCs attempted to negotiate better pricing when processing and awarding orders,

especially when orders exceeded the Maximum Order Thresholds of the underlying FSS Schedule contract. The inadequacy of support for fair and reasonable prices is of particular concern given that a number of the orders were awarded for substantial value without benefit of competitive bids.

FSS Schedule contracts procedures include provisions for obtaining competition for task orders, as well as giving consideration to the level of effort and labor mix when making a determination on whether the total price is fair and reasonable. The CSCs' contract documentation did not always reflect an evaluation of labor mix and level of effort.

#### **Inappropriate Use of the IT Fund**

The majority of the CSCs 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. The statute (40 USC Section 322) creating the IT Fund, states that it 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." We identified 38 task orders, with a total value exceeding \$571 million, of inappropriate use of the IT Fund. These task orders involved such non-IT related services as environmental clean up; administration; training on procurement and accounting of materials; and consulting and financial management activities. For example, six task orders valued at almost \$13 million were issued to one contractor for job categories that were not IT-related, such as firearms instructors, medical technicians, and warehouse personnel. Several of these also had deficiencies relative to sole source award, split procurement, and improper task order modification, and billing.

#### **Inadequate File Documentation**

The majority of the contract files did not contain significant documents, such as necessary Acquisition Plans; independent government estimates; required letters of designation for the Contracting Officer's Representative that documents the understanding and acceptance of their assigned duties and responsibilities relative to the task order; justifications for task order modifications, especially extensions of the period of performance; and exercise of Contract Options.

#### **Inadequate Contract Administration and Project Management**

The CSCs' lack of oversight over task orders resulted in several questionable practices involving the clients and contractors. Payments were made for: substandard work; work that was incomplete or never delivered to the Government; bills that contained incorrect labor rates or did not adhere to the base contract pricing terms; unsubstantiated costs; and equipment substitutions with substantial markup costs. Two task orders reflected conflicts of interest as the successful contractor drafted or participated in drafting the statement of work. There were improper extensions to the period of performance and significant cost growth on a number of task orders.

There were 15 task orders involving national security work of a classified and highly sensitive nature. Because CSC contracting personnel did not possess the required security clearances, they were not able to access the classified data during the procurement, award, and execution phases of the contracts and had to rely on others for proposal evaluation and other contract management duties, such as verifying contract deliverables and billings.

### **Causes of Improper Procurement Practices**

Our audit work indicated that several factors contributed to the improper contracting practices 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 the CSCs because they knew they could obtain supplies and services (some of which had little or no relationship to IT) from the vendors that they preferred in an expeditious manner. Additionally, 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.

### **Review of FY 2004 Procurement Actions and Controls**

Our limited review of FY 2004 procurement actions in each of the 11 Regions generally indicated some overall improvement from enhanced management controls being put into place in the Regions, with the degree of improvement varying by Region and some still a “work in process.” However, our limited review of FY 2004 procurement actions showed that in several regions, some of the same deficiencies identified in the FY 2003 procurement actions still persist, such as: inadequate competition; lack of support for fair and reasonable pricing; improper task order modifications; unsubstantiated costs; and continued preference for time-and-materials contracts.

In July 2004, the Administrator initiated the “Get It Right” Plan and GSA’s strong commitment to: (a) ensuring the proper use of GSA contracting vehicles and services in order to be in full compliance with Federal Acquisition Regulation and best practices; and (b) improving the Federal acquisition process to enable agencies to obtain best value when acquiring products and services needed to accomplish their mission. The five major objectives emphasize: (i) best value for Federal agencies, (ii) making acquisition policies, regulations, and procedures clear and explicit, (iii) complying with policies and regulations, (iv) training for the acquisition workforce, and (v) communication with the acquisition community.

### **Recommendations**

In our January 2004 audit report on the Regions 4, 6, and 10 CSCs, we stated that we believe steps needed to remedy CSC procurement problems require a comprehensive, broad-based strategy that focuses on the structure, operations, and mission of the CSCs as well as the control environment. Based on the comprehensive recommendations contained in that report, and the Administrator’s agency-wide “Get It Right” initiative, no further overall recommendations are deemed necessary at this time. The Office of Audits

will conduct a more comprehensive testing of management controls throughout the CSC program during fiscal year 2005.

### **Management Response**

In response to the individual regional reports, the Administrator stated that the agency intends to use these results as a useful learning and management tool to continue improving the Agency's contracting operations and further its promotion of a culture of acquisition excellence throughout the Agency with GSA's "Get It Right" plan. The Administrator's response in its entirety follows on the succeeding pages. The Regional Administrators generally concurred with our findings and conclusions, and described the comprehensive steps they have initiated and planned for future implementation. Several Regional Administrators also provided specific comments on the individual task orders tested. Regional responses are included in their entirety, and our response, within the individual Regional audit reports in sections I through XI.

**ADMINISTRATOR'S RESPONSE**


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GSA Administrator

December 13, 2004

MEMORANDUM FOR: DANIEL R. LEVINSON  
INSPECTOR GENERAL (J)

FROM: STEPHEN A. PERRY  
ADMINISTRATOR (A) 

SUBJECT: Audits of Federal Technology Service's  
Client Support Centers

Thank you for the opportunity to comment on the audits of the U.S. General Services Administration's (GSA) Federal Technology Service (FTS) Client Support Centers (CSCs). I appreciate the professionalism and dedication with which you and your team acted upon my request to conduct a comprehensive review of all CSCs in FY 2004, and a targeted review of progress made since we began implementing the regional management plans (as early as June 2003) and the national management plan in November 2003. We intend to use these results, as we did the initial FTS CSC audits of Regions 4, 6, and 10 requested by GSA management (completed January 8, 2004) as a useful learning and management tool designed to allow us to continue improving our contracting operations and further our promotion of a culture of acquisition excellence throughout FTS and GSA.

I am proud of the work completed during the past year that has improved our acquisition management practices. GSA management and, in particular, FTS associates implemented management plans and controls at the regional and national levels. Every FTS associate whose work impacts a CSC has been fully engaged and contributed to the improvements in our contracting policies and operations throughout the regions and in FTS' national office.

Your review of new or modified task orders awarded in the March-May 2004, timeframe demonstrates clearly that our work has resulted in achieving substantial progress in strengthening our acquisition management. This reinforces what our own ongoing oversight activities have indicated. Your audit, GSA's management, and I have come to yet another shared conclusion: there is always more work to be done in an organization that accepts only full compliance and best practices.

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I have always maintained that GSA is a high performing, continuously improving organization. Therefore, while I am pleased that we have made substantial progress in improving our acquisition management capabilities, I also view this as a document that will help us map the way for greater progress. The many actions that FTS and GSA management have taken and continue to take each and every day as we move forward to full and complete compliance are informed by the first audit report, as well as the drafts of the reports on the other regions, and have been incorporated—along with other key initiatives designed to foster acquisition excellence into one plan—GSA’s “Get It Right” plan.

The “Get It Right” plan is a fully integrated approach to assessing regulatory compliance and providing feedback to customer agencies, industry partners, the acquisition workforce, and stakeholders. It has five major objectives:

1. Secure the best value for the federal agencies and American taxpayers through an efficient and effective acquisition process, while ensuring full and open competition, and instilling integrity and transparency in the use of GSA contracting vehicles.
2. Make acquisition policies, regulations and procedures clear and explicit.
3. Improve education/training of the federal acquisition workforce on the proper use of GSA contracting vehicles and services.
4. Ensure compliance with federal acquisition policies, regulations and procedures. Non-compliance is unacceptable!
5. Communicate with the acquisition community, including agencies, industry partners, the Office of Management and Budget (OMB), Congress, and other stakeholders, regarding the use of GSA contracting vehicles and services.

This plan demonstrates GSA’s strong commitment to ensuring the proper use of GSA contracting vehicles and services in order to be in full compliance with the Federal Acquisition Regulations and best practices. We are employing the “Get It Right” plan to further improve the federal acquisition process, thereby allowing agencies to obtain best value when acquiring products and services needed to accomplish their missions. I have attached a fact sheet of activities accomplished to date under the “Get It Right” plan for your reference.

Thank you once again for your diligent, objective work. My management team and I look forward to working with you to promote GSA’s dedication and commitment to excellence in acquisition.

Attachment



## FACT SHEET GSA'S "GET IT RIGHT" PLAN

December 13, 2004

Excellence in acquisition and getting the best value for the American taxpayer are GSA's top priorities. The ["Get It Right" Plan](#) reaffirms GSA's deep commitment to ensuring the proper use of GSA contracting vehicles and services. Conducting acquisitions the right way and achieving 100% compliance is critical to GSA, the Bush Administration, and the American public. GSA's "Get It Right" initiative is a fully integrated approach to assessing regulatory compliance and providing feedback to customer agencies, industry partners, the acquisition workforce, and stakeholders. It also calls for GSA to proactively supervise the proper use of its contract vehicles and services to ensure best value for the American taxpayer and federal agencies.

The following are the key objectives of the initiative and actions that have been taken to date to meet each objective:

1. Secure the best value for federal agencies and American taxpayers through an efficient and effective acquisition process, while ensuring full and open competition, and instilling integrity and transparency in the use of GSA contracting vehicles.
  - GSA held a briefing for agency associates and U.S. Department of Defense (DoD) contracting and program staff to discuss the "Get It Right" plan. The briefing was Web cast for all GSA associates. (Completed July 13, 2004)
  - GSA's Office of the Chief Acquisition Officer formally shared the "Get It Right" plan with DoD leadership. (Completed July 26, 2004)
  - GSA Administrator Stephen A. Perry e-mailed all GSA associates explaining the importance of the "Get It Right" plan and providing a Web link to the plan for all associates to review. (Completed July 28, 2004)
  - Senior management has conducted regional town hall meetings with GSA leadership and contracting officers to discuss the "Get It Right" plan and emphasize the importance of adhering strictly to federal acquisition policies, regulations and best practices as we meet our customers' requirements. (Ongoing)
  - GSA submitted its first report on "Get It Right" metrics to the Office of Management and Budget (OMB). The first report was primarily focused on the achievement of milestones and on the achievement of progress to date. (Completed September 30, 2004)
  - GSA's Office of the Chief Acquisition Officer conducted its first and second quarterly performance reviews with GSA Administrator Stephen A. Perry. (Completed August 18, 2004 and November 29, 2004, respectively)



**FACT SHEET**  
**GSA'S "GET IT RIGHT" PLAN**  
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2. Make acquisition policies, regulations and procedures clear and explicit.
  - GSA has begun to develop Federal Acquisition Regulation (FAR) policy to reinforce socio-economic goals and to clarify proper use of other direct charges under the GSA Schedules program. (Ongoing)
  - GSA's Federal Supply Service (FSS) developed a plan to publish Multiple Award Schedules terms and conditions. FSS plans to publish the terms and conditions of Schedule contracts on the Web so that customer agencies can easily find and review the terms and conditions before using the contract. (In process)
  - FSS, working in conjunction with the Office of the Chief Acquisition Officer, has developed a plan to review Multiple Award Schedules clauses to determine whether and how they may be published online. (Ongoing)
  - FSS developed and published a new FAR rule on Schedule ordering procedures. The new rule incorporated special ordering procedures for services requiring a statement of work, defined conditions for Schedule sole source orders, clarified the types of orders that can be placed against GSA Schedules, emphasized the need to seek price reductions, and included requirements to increase competition. (Published in May 2004, and became effective in July 2004)
  - GSA issued a policy letter reminding contracting officers to take the additional step—prior to awarding a contract—of considering whether any additional legal or regulatory requirements apply to the product or service being purchased or the money being obligated to conduct the purchase. (Completed August 1, 2004)
  - GSA issued guidance on interagency transactions and proper management of reimbursable agreements in revolving funds and distributed a policy letter clarifying use of the IT Fund for severable and non-severable service contracts. (Guidance issued on June 7, Policy letter distributed on October 7)
  - GSA's Office of the Chief Acquisition Officer distributed an October 29, 2004, memo to all GSA Heads of Services and Staff Offices for dissemination to their associates from DoD regarding the proper use of non-DoD contracts. (Distributed November 9, 2004)
  - GSA's Office of the Chief Acquisition Officer and FSS will review customer task orders awarded under GSA contracts to ensure the proper use of these





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contracts and to identify areas where training is needed for agency customers. Toward that end, we will utilize the lessons learned from GSA's use of the Applied Learning Center tool and information gathered from the Federal Procurement Data System—Next Generation (FPDS-NG). (FPDS-NG will be fully implemented December 31, 2004. Review of Customer agency task orders expected to begin in January 2005)

3. Improve education/training of the federal acquisition workforce on the proper use of GSA contracting vehicles and services.
  - To promote good pre-award planning, GSA issued a policy letter reminding GSA associates of the need to perform acquisition planning with regard to all acquisitions. It also provides guidance on the level of detail required for an acquisition plan, depending upon the dollar value of the purchase and the complexity of the requirement. (Issued January 1, 2004)
  - The Office of the Chief Acquisition Officer is reviewing acquisition plans selected at random from the GSA acquisition plan database to ensure compliance and educate the acquisition workforce about proper acquisition planning, as necessary. Feedback will be provided to the regions in the coming weeks. (Ongoing)
  - GSA's Office of the Chief Acquisition Officer implemented a Web-based tool, the Acquisition Planning Wizard to make it easier for acquisition professionals to develop a thorough acquisition plan, which contains relevant content and automates the approval process. (Completed August 26, 2004)
  - FSS has revitalized customer training by establishing the FSS Center for Acquisition Excellence Campus (FSS Campus). The FSS Campus is a free, e-Learning Center that operates 24/7 and provides education and training on the GSA Schedules program, Global Supply, Governmentwide Acquisition Contracts, GSA Advantage and e-Buy. The FSS Campus contains an MAS course designed to teach Schedule customers how to properly place and administer Schedule orders. This course includes special guidance on Section 803 when placing orders using DoD funds. The course was recently updated to incorporate the new Schedule ordering procedures contained in FAR 8.4. (Ongoing)
  - GSA is prioritizing training for Multiple Award Schedule (MAS) customers. For example, the top 100 DoD users have been identified and are contacting these offices to arrange for MAS training. (Ongoing)



## FACT SHEET GSA'S "GET IT RIGHT" PLAN

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- GSA's Office of the Chief Acquisition Officer has used the Applied Learning Center tool to identify the current level of acquisition skills and competencies within the agency's procurement workforce. (Completed on September 1, 2004)
  - GSA is currently conducting a gap analysis of the data collected by the Applied Learning Center tool to assess skill levels and additional training needs. (Ongoing)
  - All Federal Technology Service (FTS) associates received internal training on acquisition, ethics, Section 803 of the National Defense Authorization Act of Fiscal Year 2002, and Section 508 of the Rehabilitation Act. (Completed by September 30, 2004)
4. Ensure compliance with federal acquisition policies, regulations and procedures. Non-compliance is unacceptable!
- GSA is cooperating with the independent review of planned corrective actions currently underway by GSA and DoD's Offices of Inspector General for GSA and DoD. (Ongoing)
  - GSA has taken, and will continue to take, appropriate disciplinary actions, as necessary. (Ongoing)
  - FTS required additional pre-award legal review for all contracts and/or task orders over \$5 million dollars. Some regional offices have implemented pre-award legal review for contracts and/or task orders with dollar thresholds lower than \$5 million dollars. (Completed October 1, 2003)
  - FTS implemented a series of acquisition checklists throughout all 11 regional offices to be used in the acquisition process to ensure quality acquisitions. These include the following: pre-solicitation checklist for contractual actions under Section 8(a) of the Small Business Act, pre-solicitation checklist for all actions other than 8(a), checklist for the issuance of orders under the FSS Schedules, checklist for the issuance of orders under Governmentwide Acquisition Contracts (GWAC)/Multiple Award Indefinite Quantity (MAIQ) contracts, and checklist for contract administration functions. (Completed March, 2004)
  - The FTS Client Support Centers in the 11 regions each established a Contract Review Panel to review pre-award procurement actions. (Completed March 2004)



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December 13, 2004

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- GSA established internal Procurement Management Review teams to review a randomly selected number of contract files from three services—FTS, FSS, and the Public Buildings Service (PBS). These teams will also review acquisition plans from across GSA and randomly select orders from other agencies against Schedule contracts. The teams will be looking for lessons learned and best practices to share, governmentwide. FTS set up a team that conducted three Procurement Management Reviews. A GSA-wide team has been formed and began GSA-wide Procurement Management Reviews the week of November 29, 2004, in Region 3. (FTS Procurement Management Reviews conducted May 2004-August 2004. GSA-wide Procurement Management Reviews are ongoing)
- FTS Client Support Centers (CSC) are conducting self-assessments to ensure they have the appropriate processes in place to supply customers with the best value solutions, compliant with applicable laws and regulations, in a timely fashion. (Ongoing)
- GSA's Office of the Chief Acquisition Officer worked with FTS to develop appropriate contract solutions in instances where contract irregularities were identified, and subsequently implemented them. (Completed by September 30, 2004)
- FSS developed a GSA Schedules Order Checklist that was added to the FSS Campus. Using a question and answer format, this checklist guides customers through all of the necessary steps to properly place and administer a Schedule order. (Completed September 2004)
- FSS completed its second annual customer compliance survey. This survey was a follow-up to the survey completed in FY03. Both surveys queried acquisition professionals about their knowledge and use of the GSA Schedules program. For the FY04 survey, FSS teamed with DoD to maximize the response rate. This effort led to a significant increase in the number of responses received – 805 in FY04 versus 478 in FY03. The results of both surveys provided useful information about FSS customers and highlighted opportunities within FSS to further improve training and marketing efforts. (Survey Completed September 2004)
- The critical element, "quality acquisitions," is now a consideration for GSA procurement associate performance plans. (Completed October 1, 2004)





## FACT SHEET GSA'S "GET IT RIGHT" PLAN

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5. Communicate with the acquisition community including agencies, industry partners, Office of Management and Budget (OMB), Congress, and other stakeholders regarding the use of GSA contracting vehicles and services.
  - GSA's Office of the Chief Acquisition Officer will continue to provide status briefings to the Office of Management and Budget and Congressional committees on the "Get It Right" action plan. (Ongoing)
  - GSA Administrator Stephen A. Perry convened a meeting of GSA program and contracting associates—both in person and via Web cast to GSA's 11 regional offices—to discuss with them the "Get It Right" plan. Deidre Lee, U.S. Department of Defense (DoD), Director of Defense Procurement & Acquisition Policy joined Administrator Perry in sharing how the plan, comprised of actions already underway to improve contracting and new initiatives would be implemented and continued within the contracting offices at GSA and DoD. This all-hands meeting was Web cast to all GSA associates. (Completed July 13, 2004)
  - Meetings between the Acting Chief Acquisition Officer (and/or Deputy Chief Acquisition Officer) with key members of the House and Senate Oversight Committees have been held and will continue to provide information concerning the agency's progress implementing the "Get It Right" plan. (Ongoing)
  - GSA developed and continues to enhance a Web page for the Office of the Chief Acquisition Officer that is accessible via [www.gsa.gov](http://www.gsa.gov). (Ongoing)
  - GSA Acting Chief Acquisition Officer established "Ask Acquisition" e-mail address account to quickly and easily respond to acquisition questions from the acquisition community—including GSA associates, customer agencies and industry. (Completed July 2004)
  - The Office of the Chief Acquisition Officer briefed the Chief Acquisition Officer's Council on the "Get It Right" plan. This Council is designated as the principal interagency forum for monitoring and improving the federal acquisition system. (Completed October 7, 2004)



## SECTIONS



AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
NEW ENGLAND REGION  
REPORT NUMBER A040096/T/1/Z05001  
December 9, 2004





U.S. GENERAL SERVICES ADMINISTRATION  
Office of Inspector General

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DATE: December 9, 2004

REPLY TO

ATTN. OF: Regional Inspector General for Auditing, Region (JA- 1)

SUBJECT: Audit of Federal Technology Service's  
Client Support Center  
New England Region  
Report Number A040096/T/1/Z05001

TO: Dennis Smith  
Regional Administrator (1A)

Sandra N. Bates  
Commissioner, Federal Technology Services (T)

This report presents the results of the Office of Inspector General's audit of the Federal Technology Service's Client Support Center in Region 1.

This audit was conducted in response to a request from Mr. Stephen A. Perry, GSA Administrator. Our specific audit objective was to answer the following question: Did the Client Support Center make and administer procurements in accordance with the Federal Acquisition Regulations (FAR) and the terms and conditions of the contracts utilized?

The audit identified a number of improper procurement practices used in task order awards, such as sole source awards without justification; inadequate competition; lack of price reasonableness determination; purchases of "open market items" without negotiation or price evaluation; use of time and materials contracting without justification; and the lack of monitoring task order billings and receipt of service. We also noted national security work of a classified nature, procured without contracting officials being privy to the nature of the task order.

We have included your written response to the draft report in the body of the report.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph B. Leland".

Joseph B. Leland  
Boston Regional Inspector  
General for Auditing (JA-1)

O'Neill Federal Building  
10 Causeway Street, Room 1003, Boston, MA 02222

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AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
NEW ENGLAND REGION  
REPORT NUMBER A040096/T/1/Z05001

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## RESULTS OF AUDIT

The audit identified a number of improper procurement practices used in task order awards, such as sole source awards without justification; inadequate competition; lack of price reasonableness determination; purchases of “open market items” without negotiation or price evaluation; improper order modification; use of time and materials contracting without justification; lack of monitoring task order billings and receipt of service. We noted instances where national security work of a classified nature was procured without contracting officials being privy to the nature of the task order. For some orders reviewed, awards were made to contractors that did little more than act as a “middle-man” in the transaction, adding unnecessary costs to the task.

Competition, or otherwise permitting vendors a fair opportunity to be considered for award 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; the CSC sacrificing adherence to proper procurement procedures in order to accommodate customer preferences; and a culture that emphasized revenue growth. 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.

Our evaluation of the impact of recent enhanced management controls put in place in the Region, as evidenced by discussions with CSC management, directives and instructions given to the procurement teams, as well as our review of 10 selected task orders, is inconclusive. Some improvement in the control environment, as well as task order management, is evident. The impact of some controls most recently implemented can't be evaluated until the Region has had some time to perform under their guidance.

### Inadequate Competition

The Region 1 CSC preference in awarding task orders was through FSS Multiple Award Schedule (MAS) contracts. Of the 31 orders in our sample, 27 used the MAS vehicle.<sup>1</sup> We found that 20 of these 27 tasks were issued on a “sole-source” basis; 14 of these were awarded without any justification.<sup>2</sup>

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. For most of the sole-source awards we reviewed, we concluded that the client generally had a vendor in mind before coming to GSA, and the prevalence of single source award (and when present, justifications) suggests that

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<sup>1</sup> Of the 4 remaining orders, 3 were awarded using a Government-Wide Acquisition Contract (GWAC); and 1 was an open market purchase.

<sup>2</sup> Even when justification for a sole-source award was presented, the CSC accepted the client's justification without scrutiny or effort to obtain additional sources. The CSC did not request any substantiation for assertions in the justifications, nor did it choose to make any further inquiries as to other Schedule contractors' ability to perform this work.

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.

Why adequate competition was not achieved, and in most cases not sought, is a not so complex question to answer. Client agencies generally came to the CSC knowing what contractor they wanted. (Indeed, we found 8 specific instances in our sample where the contractor actually brought the client to the CSC.) One method the CSC used to fulfill clients requests was an expedited procurement strategy that they felt would serve the clients interest, as well as fulfill their contracting responsibilities (to include providing adequate competition and reasonable pricing). A number of Blanket Purchase Agreements (BPAs) were set up with the contractors that clients wanted to do business with, contractors that held current MAS contracts (either on MAS ADP Schedule 70, or the Professional Engineering Services (PES) Schedule).

- One contractor, ACS Defense, had 4 separate BPA agreements in effect during our review period, (effective dates going back to March 2000). Our sample included 12 task awards under these BPAs. We consider these awards sole source, without proper justification.
- Another contractor, Anteon, was awarded 2 task orders in our sample, under their BPA. We consider these awards sole source, without proper justification.

Contractors awarded BPAs did not have to compete for the award. BPAs, particularly those awarded during CY2000 and CY2001, were given to pre-selected companies who were asked to submit pricing for items (in these instances labor categories for ADP or PES disciplines) that were included on their respective MAS contract. Some contractors offered further discounts from their MAS contracts (ACS offered discounts ranging from 1.75% to 6%) while others didn't (Anteon).

Once a BPA was awarded, it was the CSC's policy to consider procurement requirements regarding competition to be fulfilled, and additional companies need not be solicited. In addition, the CSC's position regarding price reasonableness was that the MAS contract award was a determination that the offered pricing was reasonable, and no further negotiation of price was required. Acquisition plans did not have to be prepared.

FSS Schedule service orders (that include a statement of work) expected to exceed \$2,500,<sup>3</sup> 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 require that the ordering office request quotes from additional Schedule contractors that offer services that will meet the agency's needs. Clearly this practice was not being followed in the Region 1 CSC for orders placed under BPAs, or for other orders placed as sole-source procurements. In addition, the region was not following the FSS ordering procedures regarding price reasonableness (see following report section).

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

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<sup>3</sup> The micro-purchase threshold is \$2,500.

professional services expected to exceed \$100,000 that are placed under multiple award contracts, including FSS Schedule contracts<sup>4</sup>. 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. (Of the orders we selected for review, 22 were for DOD activities.)

### Documentation Lacking to Assure Reasonable Pricing

All 31 task orders selected in our review were for services. For a majority of these orders (24 task orders), 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 CSC made an attempt to negotiate better pricing when processing and awarding orders. We (generally) found no Independent Government Estimates (IGE), and only infrequent evidence in the file that client agencies held any meaningful negotiations with contractors. Of particular concern is the fact that 20 of the 31 orders we selected for review were sole-source awards, lacking any competition; that the CSC held the position that having an MAS contract award itself was evidence of price reasonableness; and the fact that for several orders selected in our review significant (in value) “open market” items were purchased, and these items were not included on the MAS contracts used as the procurement vehicle (see finding below).

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.”

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<sup>4</sup> The legislation affects DOD orders placed under multiple award contracts on or after October 25, 2002.

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.

Our conclusion concerning lack of price reasonableness determination holds true not only for the initial task order award process, but also for modifications that were processed for these tasks. Nearly all of the modifications that we reviewed that involved an increase in task value, (particularly when the increase did not involve exercising a previously negotiated amount), lacked evidence of price evaluation, negotiation, IGE, or other means to determine price reasonableness. Some of the instances we found involved significant sums. For example:

- Task Order #R1PD97212012<sup>5</sup> grew from an initial award of \$3.3 million to more than \$8.5 million by modifications that lacked any pricing evaluation. The bulk (nearly 80%) of the initial task, and subsequent additions, were consultant costs not included in the MAS contract used as the contracting vehicle. This task was succeeded by Task Order # R1PD97213035, a task that grew even more dramatically (from \$9.7 million to \$31.4 million). Circumstances were the same, in that no pricing evaluation is evident for the purchase of essentially “open market items”.
- Task Order #R19701135 grew from an initial award of \$293,174 to more than \$8.6 million by modifications that lacked any pricing evaluation. The bulk of the initial task (95%) was for a consultant’s fee, and subsequent additions contain predominantly consultant costs. Modifications 9 and 10 added more than \$1.6 million of materials costs with no evidence of price evaluation. This task was succeeded by Task Order #R1PD97093009, a \$27.9 million task wherein 59% of the value is for consultant costs. We found no evidence of price evaluation for this task.

### Misuse of Contract Vehicle

As stated, most of the task orders we selected for review were awarded with an MAS contract as its basic contract platform. We evaluated each task order Statement of Work (SOW) using the premise that what the selected contractor was asked to do was a work item that the contractor had received an MAS contract award to do. Further, that the procurement procedures outlined by FSS (for purchases that required a SOW) were followed (discussed elsewhere in this report). We found that for some task orders reviewed, the CSC was asking contractors to do work, or provide equipment or materials, that were not included in their contract vehicles.

### *Open Market Items Purchased*

For many of the task orders reviewed, contractors purchased equipment or materials. The purchase of these items was not included in the MAS contract (or related BPA) that was used as the contract vehicle upon which the task was awarded. Further (and as stated previously in this report), we found little evidence that the pricing of these items was evaluated and determined to be reasonable. Some of the purchases were substantial, for example:

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<sup>5</sup> Reference our Appendix A, Note #1.

- Task Order #R1JC57170201, more than 95 percent (\$3.7 million) of the original order was for “test stations” (materials) supplied by a subcontractor. There was no evidence of price evaluation.
- Task Order #R1PD15252011, more than 65 percent (nearly \$1 million) of the original order was for materials. There was no evidence of price evaluation.
- Task Order #R11501355, more than \$5.2 million of materials costs were included on this order with no evidence of price evaluation.
- Task Order #R19701135, Modifications 9 and 10 added more than \$1.6 million of materials costs with no evidence of price evaluation.

We conclude that the manner used to purchase materials and equipment on these and other task orders reviewed did not follow proper procurement regulations. As a result, the Government may have paid more for the items than necessary.

### *Pass-Through Contracting*

For 5 of the task orders reviewed, award was made to a contractor who did little work on the project. Client agencies were really interested in having another contractor do the work, but for the sake of convenience, used an existing contract vehicle as essentially a “pass-through” contract. For example:

- Task Order #R1JC57170201, award made to Anteon “...because they had a contract (BPA) with GSA.” The client agency wanted a Teledyne product, but could not contract with Teledyne because there was no existing contract vehicle. Anteon acted as a “middleman”, providing only some labor related to product testing and installation.
- Task Order #R1PD97003013, award made to ACS Defense. Nearly 83 percent (\$3.3 million) of the award amount was subcontractor costs. Per discussion with the client agency, ACS was selected “as a middleman”. The client wanted another contractor, Decisive Analytics Corporation (DAC). However, ACS Defense was used because of an existing MAS BPA, which facilitated this contracting action.

We conclude that procurement regulations were circumvented in these 5 circumstances, we feel because the client agency was directing sole source procurements without providing justification. The Government may have paid more than necessary under this method of procurement. Task order file documentation limits our ability to be definitive as to amount. As price evaluation, negotiation, etc. was not evident in file documentation; price reasonableness could not be determined.

## Questionable Contracting Practices

Our review noted several contracting practices that affected the CSCs abilities to ensure that client agencies were receiving services intended at prices considered fair and reasonable. We found the following:

### *Ineffective Statement of Work (SOW)*

For 6 task orders we reviewed, the client-prepared SOW was vague, ill defined in scope, and we conclude of little practical use for soliciting offers (pre contract award), or for determining that defined deliverables were received (post contract award). All 6 tasks were sole-source awarded to contractors holding BPA agreements with the CSC. These tasks were all non-competitive awards, without price reasonableness evaluations. For 4 tasks, there was significant cost growth. It is our opinion that well-defined SOWs are essential for competitive contracting efforts and also essential for effectively measuring receipt of service. Even in non-competitive situations, well-defined SOWs provide the essential basis for price proposal evaluation. (We should note that our review of these 6 task order files gave us every indication that client agencies did not feel the need to define services; these tasks were generally of the “build as you go” variety, and as the client never intended competition in the award process, a defined SOW was no importance to them.) (See Appendix A for details.)

### *Lack of Contract Monitoring*

The CSC does not monitor delivery of service after contract award, or verify billings against contract terms and conditions. During our review, we contacted (or at least attempted to make contact) client agencies to determine what actions they were taking to ensure delivery of service and correct invoicing. Results were mixed. For example:

- Task Order #R1JC17070313, client U.S. Navy, determined a very intensive review process, for both service delivery and invoice verification. This process in fact found significant billing discrepancies during this past year resulting in corrective action by the contractor (Anteon).<sup>6</sup>
- Task Order #R15701201, client DOD, client professed having a review process, but failed to provide evidence (when requested) that invoices were reviewed. It appeared likely (to us) that substantive reviews of invoicing and receipt of service was not being performed.
- Task Order #R1PD97093009, client DOD, client was not evaluating contractor (ACS Defense) billings at all, at least since February 2004. (Process in effect prior to that date could not be determined – employees retired, no records left behind.) Responsibilities were split between parties for deliverable receipt and invoice verification.

Another matter of concern in this area is the fact that, for several orders we reviewed, task orders were modified – increased in value – without any documentation from the client, without any

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<sup>6</sup> Client commented that they were not receiving value for the 4 percent administrative fee paid to GSA, after evaluating all of the administrative effort they themselves had to go through in reconciling contractor billings. At the time of our review, they were considering using another procurement source for their needs.

submission by the subject contractor, and without any evidence that the CSC performed any evaluation of the reasons for increase in task value. For instance:

- Task Order #R1PD97212012, client DOD, Modifications #2, #4, and #5 increased the value of the order by a total of \$7 million, without any essential documentation as to why the order was being increased.
- Task Order #R1PD97213035, client DOD, (continuation of above order), Modifications #2, #3, and #4 increased the value of the order by a total of \$21.6 million, without any essential documentation as to why the order was being increased.

A third issue concerns extending task Period of Performance (POP); and also exercising options periods, without justification. This appeared to be a common practice at the CSC. It is our position that when a contract modification extends the POP (when extended option periods *were not included* in the original SOW – and *not price negotiated*), the extension is tantamount to a sole source award that should be justified, and priced after negotiations that ensure price reasonableness. When option years (that were provided for under the SOW) are exercised, contracting officials must still ensure that exercising the option is in the best interest of the Government and so state in a justification. (FAR 17.207(d)).

We conclude that the CSC is not performing the needed monitoring functions of task orders to ensure delivery of service. The CSC needs to ensure that when tasks are modified, it is clear that increases in task value and POP extensions are reasonably priced and are justified as being in the Government best interest.

One indication we observed that the CSC contracting practices needs to be strengthened is the *cost growth* of task orders selected for review. For example:

| Task Order # | Initial Award | Current Value |
|--------------|---------------|---------------|
| R1PD97213035 | \$630,000     | \$31,424,922  |
| R1JC57170201 | \$49,000      | \$10,477,666  |
| R19701135    | \$293,174     | \$8,620,626   |
| R19701134    | 1,405,510     | \$8,472,557   |

For these orders – and others, there was a general absence of a connection between the client agencies SOW, solicitation of offer, price reasonableness determination, and meaningful price negotiations. Not only at the initial award phase of the project, but as the projects grew over time. Indeed, several of the tasks we reviewed were characterized as “build as you go” projects where definitive SOWs were not developed initially or during the projects life span, making the contracting process difficult at best.

#### *National Security Tasks Not Properly Negotiated/Awarded*

Three of the task orders we reviewed were classified projects. Contracting officials did not have the proper clearance to view the specific information necessary to make an informed procurement. Yet the contract documents were signed and contracts awarded, with contracting officials relying on the evaluations done by others. All three awards were made on a sole source



basis. We consider these awards lacked evidence of proper contracting procedure (i.e. solicitation, offer evaluation, negotiation) by warranted, contracting officials.

### Frequent Use of Time and Materials Tasks

We found that the CSC exclusively used time-and-materials tasks versus fixed-price task orders. Of the 31 orders for services that we reviewed, all were solicited as time-and-materials type tasks.<sup>7</sup> Reasons why this method of contracting was used – documented in a determination and findings statement – were not prepared for any of the task awards. In all but one case, contract award documents failed to define the contract as a “time and materials” award, and all (but one) failed to define the contract ceiling amount (not to exceed amount).

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.”

Our discussions with CSC contracting officials indicated that the use of time and materials contracting is a long-standing, preferred practice fostered by Regional FTS officials. Further, that most client agencies that come to the CSC prefer that method be used. (Indeed, many of the SOW’s we reviewed that were developed by the clients stated specifically that the proposal be made on that basis.) However, 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 throughout this report.

### 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 client agency preferences, and an excessive focus on customer satisfaction and revenue growth. Some clients were motivated to use CSC because they knew that they could obtain supplies and services from the

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<sup>7</sup> One of the orders selected and reviewed curiously was solicited as a time and materials task; the contractor submitted an offer based on cost plus fixed fee; and the CSC accepted the contractor’s basis of award.

contractors they preferred in an expeditious manner. Also, CSC personnel were not generally familiar with prescribed ordering procedures, and contracting officers did not always adhere to proper procurement procedures designed to ensure the Government receives the best value.

Lack of management oversight at the CSC was most strongly evidenced by an environment of client-driven decisions. The CSC relied upon client agencies for proposal evaluations and task administration, including the propriety of task modifications that increased costs or extended the period for completion of the task. This environment undermined the authority of contracting officials. Effective management controls should have existed to prevent this from happening.

Our audit work indicated that the CSC contracting officials were not familiar with FSS's special ordering procedures for services under the Schedules program. This single issue, more than all others, we feel caused contracting officials to follow practices that did not ensure adequate competition and price reasonableness.

(In November 2000, the General Accounting Office (GAO) reported similar findings 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 has recently been finalized.)

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.

#### Impact of Recently Implemented Management Controls

We expanded our audit scope to include an evaluation of the implementation of enhanced management controls over the procurement process put in place in the Region over the last several months. As part of that evaluation, we reviewed a selection of procurement actions that occurred during the 3-month period March through May 2004. We selected 10 task orders as follows: (Note: As with our initial order selection method, we selected a risk-based judgmental sample of orders, which did not represent a statistical sample.)

| <u>Task Order #</u> | <u>New Task Value</u> | <u>Mod. to Task Value</u> |
|---------------------|-----------------------|---------------------------|
| R1PD97213035        |                       | \$8,970,874               |
| R11701701           |                       | 837,160                   |
| R1JC57170201        |                       | 0                         |
| R1PD97093009        |                       | 5,103,112                 |
| R1PNS03047          |                       | <u>1,343,255</u>          |
| R1AD96770475        | \$ 980,683            |                           |
| R1PNS04037          | 2,775,056             |                           |
| R1JC17070417        | 479,997               |                           |
| R1PD97004015        | 1,166,209             |                           |
| R1PD97004016        | <u>1,443,966</u>      |                           |
| Total Value         | <u>\$7,345,910</u>    | <u>\$16,254,400</u>       |

For these selected orders, we performed the same general audit steps – although not as in depth - as those followed during our initial review. We relied more heavily on information contained in the ITSS database, and supplemental electronic files maintained (by task order). We held discussions with CSC officials, contracting Officers and ITMs as necessary, in order to reach an understanding of how the procurement administration process has changed along with a change in the control environment. We used our review of the selected procurement actions as one measure of how effective the controls are.

Our review of selected task orders, along with discussions concerning new management controls and policy statements imparted on the CSC procurement staff, have drawn us to conclude that “work in progress” is the most reasonable characterization of the situation. We found some new controls are being followed, and are successful; others have been delayed in implementation and should be evaluated in the future. Some specific issues we found present in our selected sample are as follows:

- *Contract Management Review Panel (CMRP)* – was not an effective management control during the March – May 2004 time period. Definitive operating procedures did not go into effect until June 2004; a final charter of the panels operations became effective in July 2004. Most of the procurement actions selected in our sample did not pass through the CMRP for review. We reviewed the July 2004 charter and discussed its contents with Regional Officials. It appears to offer a reasonable plan to monitor procurement activity and requires documentation of the process for post evaluation purposes.
- *Acquisition Checklists* – although required, were not included in some of the task order files, or were not adequately filled out. The Region needs to reemphasize this requirement. This element of task order file documentation will be specifically addressed during CMRP review.
- *Sole-Source Awards* – 4 of the 5 new task orders reviewed were sole-source procurements. The ITMs/Contracting Officers could have more aggressively evaluated justifications provided by the client agencies. The justifications should have been signed (or signed off on) by the GSA Contracting Officers. The Region needs to further emphasize the need to seek competition to the maximum extent possible.
- *Modification Documentation* – modifications selected and reviewed generally demonstrated the same shortcomings noted in our initial review of task orders. However, it should be noted that 4 of the task modifications selected are for tasks included in our original sample of task orders. This element of task order file documentation will be specifically addressed during CMRP review, as modifications now are specifically to be addressed during that review process.

Some of the controls/actions taken by the Region that have been implemented include the following:

- *Actions concerning Implementation Sec. 803* - The procurement staff, at the least, have become acutely aware of this directive. CSC management has emphasized adherence to its requirements; the CMRP will specifically address compliance.

- *Legal Review* - Regional legal review has been in practice since shortly after October 2003. Our discussions with the legal staff and CSC management, along with an analysis of documentation of recent reviews, indicate that the process is in effect.
- *Regional Reorganization* - Operations in the CSC have been substantially reorganized. Several significant changes that effect the management control environment should lead to more effective over-site of procurement actions. Some vacancies remain; actions are underway to fill these positions.
- *CSC Management Plan* - The Region submitted a plan; its implementation is ongoing. Our sense of management's commitment to the process is that there is a serious effort to improve performance and adhere to good procurement practice; and a serious effort is underway to follow a defined plan of action.
- *Procurement Training* – A significant amount of training – both formal and informal – has taken place over the last several months. All members of the procurement team have participated. Training topics included such topics as use of BPAs; acquisition planning; performance-based contracting; developing SOWs and contract administration procedures.
- *BPA Review* - All BPAs that were put into effect by the Region over the last several years have been reviewed, and according to CSC officials, are no longer to be used in awarding task orders. Client agencies affected by this action have been notified that alternative contracting vehicles will be necessary.
- *CSC Procurement Practice Binder* - Each member of the procurement team received - and signed for receipt – of a binder containing relevant procurement policy directions, regulations, instructions, sample forms, etc. CSC officials intend to keep the contents of the binder current. It provides ready reference of the practices CSC officials state they expect from their procurement team.

In summary, some progress has been made over the past few months in improving the management control environment in the Region, and in the quality of procurement actions taken by the CSC staff. This “work in progress” effort, optimistically, will continue to evolve over the next several months. The effectiveness of controls during the period we reviewed was still problematical.

### Conclusions

We have concluded that the CSC 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 CSC made little attempt to secure competition, overly relied on client agencies for proposal evaluations and task administration, improperly modified orders, and frequently used time and materials task orders inappropriately.

The factors contributing to these circumstances are fundamental weaknesses within the CSC 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. 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 CSC as well as the control environment. (See Audit Report Number A020144/T/5/Z04002 for additional details.) This Region has been asked to take such steps. Implementation is an ongoing process.

### Recommendations

Based on the comprehensive recommendations contained in Audit Report Number A020144/T/5/Z04002, dated January 8, 2004, no further recommendations are deemed necessary at this time.

### Management Response

In response to our draft audit report (see Appendix B), the Regional Administrator generally agreed with our findings and conclusions. The response sets out in some detail the comprehensive steps the Region has taken, and will take, to correct identified procurement deficiencies. The Region intends to monitor the impact these initiatives are having over the coming months. The response also lists FTS Central Office initiatives that address matters from a national perspective.

## INTERNAL CONTROLS

It was evident from our work that the internal control structure was not effective. We identified a number of improper procurement practices (outlined in our report details). We believe that an effective internal control structure, which has the on-going endorsement of management, would have identified and prohibited many of these actions. During the past several months, the Region began to intensively focus on improving the internal control environment by implementing a series of national and regional measures. Once successfully adopted, these measures should address the internal control concerns cited in this report. The Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC program during fiscal year 2005.

SCHEDULE OF ORDERS REVIEWED IN NEW ENGLAND REGION

| Order Number | Order Date | Client                   | Contract Type | Contractor                        | Contract/BPA Number                   | Task Value <sup>8</sup> | Notes |
|--------------|------------|--------------------------|---------------|-----------------------------------|---------------------------------------|-------------------------|-------|
| R1PD97212012 | 07/31/02   | DOD                      | MAS/BPA       | ACS Defense                       | GS-35F-4039G, BPA#<br>GS00T99SJA0697  | \$ 8,510,684            | 1     |
| R15701201    | 04/05/01   | DOD                      | MAS/BPA       | ACS Defense                       | GS-35F-4039G, BPA #<br>GS01K00BKM0014 | \$ 33,477,806           | 2     |
| R1PD97213035 | 09/02/03   | DOD                      | MAS/BPA       | ACS Defense                       | GS-35F-4039G, BPA#<br>GS00T99SJA0697  | \$ 31,424,922           | 3     |
| R1JC57170201 | 11/02/01   | Air Force                | MAS/BPA       | Analysis & Technology<br>(Anteon) | GS-23F-0076K, BPA#<br>GS01K01BKM0016  | \$ 10,477,666           | 4     |
| R1PD97093009 | 02/23/03   | DOD                      | MAS/BPA       | ACS Defense                       | GS-23F-0232K, BPA #<br>T0102B0002     | \$ 27,909,597           | 5     |
| R1150180     | 06/11/00   | Nat'l Inst.of<br>Justice | MAS/BPA       | ACS Defense                       | GS-35F-4039G, BPA#<br>GS01K00BKM0014  | \$ 2,157,572            | 6     |
| R11501180    | 01/17/01   | Nat'l Inst.of<br>Justice | MAS/BPA       | ACS Defense                       | GS-35F-4039G, BPA#<br>GS01K00BKM0014  | \$ 16,192,426           | 7     |
| R1PD15003033 | 09/24/03   | DOJ                      | MAS           | ACS Defense                       | GS-23F-0232K                          | \$ 45,012,545           | 8     |
| R1PD97003013 | 01/31/03   | Air Force                | MAS/BPA       | ACS Defense                       | GS-35F-4039G, BPA#<br>T0103B0001      | \$ 3,999,982            | 9     |
| R19701134    | 06/01/01   | DOD                      | MAS           | Oracle Corp.                      | GS-35F-0108J                          | \$ 8,472,557            | 10    |
| R19701135    | 07/13/01   | DOD                      | MAS/BPA       | ACS Defense                       | GS-23F-0232K, BPA#<br>GS01K01BKM0072  | \$ 8,620,626            | 11    |
| R1PD97003042 | 09/11/03   | Air Force                | MAS/BPA       | ACS Defense                       | GS-35F-4039G, BPA#<br>T0103B0001      | \$ 10,252,410           | 12    |
| R1PD15252011 | 08/23/02   | Marshall Service         | MAS/BPA       | ACS Defense                       | GS-23F-0232K, BPA#<br>GS01K01BKM0072  | \$ 3,578,073            | 13    |
| R11501355    | 11/15/00   | Marshall Service         | MAS/BPA       | ACS Defense                       | GS-35F-4039G, BPA#<br>GS01K00BKM0014  | \$ 7,437,922            | 14    |
| R1PD15253028 | 08/29/03   | Marshall Service         | MAS/BPA       | ACS Defense                       | GS-23F-0232K, BPA#<br>GS01K01BKM0072  | \$ 5,392,761            | 15    |
| R1PD97003036 | 09/12/03   | Navy                     | MAS/BPA       | ACS Defense                       | GS-23F-0232K, BPA#<br>T0102B0002      | \$ 12,197,396           | 16    |
| R1ST57000316 | 05/01/03   | Air Force                | MAS           | ACS Defense                       | GS-23F-0232K                          | \$ 13,299,855           | 17    |
| R1ST57000236 | 12/20/02   | DOD                      | MAS           | Autometric                        | GS-23F-0264L                          | \$ 2,488,062            | 18    |
| R1PD97002002 | 10/22/01   | DOD                      | MAS           | Synergy, Inc.                     | GS-35F-4657G                          | \$ 4,824,081            | 19    |
| R1JC17070352 | 03/31/03   | Navy                     | MAS           | Anteon Corp.                      | GS-23F-0076K                          | \$ 4,268,874            | 20    |
| R15700312    | 02/10/00   | Air Force                | MAS           | TASC, Inc.                        | GS-35F-4597G                          | \$ 2,053,772            | 21    |
| R1JC17070301 | 09/24/02   | Navy                     | MAS           | GEO-CENTERS                       | GS-35F-5176H                          | \$ 11,738,869           | 22    |
| R1PNS03047   | 04/11/03   | Navy                     | MAS           | Defense Systems Inc               | GS-35F-0209J                          | \$ 18,610,877           | 23    |
| R1JC17070313 | 12/03/02   | Navy                     | MAS/BPA       | Anteon Corp.                      | GS-23F-0076K, BPA#<br>GS01K01BKM0016  | \$ 1,293,580            | 24    |
| R1AD96200362 | 09/08/03   | US Corps of<br>Engineers | MAS/BPA       | ACS Defense                       | GS-35F-4039G, BPA#<br>GS00T99SJA0697  | \$ 462,077              | 25    |
| R1AD96200210 | 01/09/02   | US Corps of<br>Engineers | MAS/BPA       | ACS Defense                       | GS-35F-4039G, BPA#<br>GS00T99SJA0697  | \$ 245,915              | 26    |
| R1JC17070307 | 01/24/03   | Navy                     | Open Mkt      | Univ. of Rochester                | GS01T03BKM5000                        | \$ 400,000              | 27    |
| R1PD15252013 | 09/19/02   | Marshall Service         | MAS/BPA       | ACS Defense                       | GS-23F-0232K, BPA#<br>GS01K01BKM0072  | \$ 254,223              | 28    |
| R1PD97003050 | 09/30/03   | Navy                     | GWAC          | Innovative Decisions              | GS-10F-0303M                          | \$ 647,803              | 29    |
| R1ST57000304 | 09/30/02   | Air Force                | GWAC          | TRW                               | GS07T00BGD0066                        | \$ 10,900,109           | 30    |
| R1JC17070356 | 09/12/03   | Navy                     | GWAC          | Anteon Corp.                      | GS07T00BGD0029                        | \$ 658,654              | 31    |

<sup>8</sup> Represents total value of task through July 2004 per audit.

SCHEDULE OF ORDERS REVIEWED IN NEW ENGLAND REGION

(Continued)

Notes for Schedule of Task Orders Reviewed

1. This was a sole-source award, time and materials task awarded to ACS Defense (ACS) through the “Safeguard BPA Program”<sup>9</sup>. The client selected ACS without competition with other “Safeguard” contractors. Sole-source justification cited “Unusual and Compelling Urgency” and appeared adequate to support the action. However, we found no support for price reasonableness; no Independent Government Estimate (IGE); no indication that a negotiation of price took place; no determination finding that a time and materials contract was warranted. The contractor developed the Statement of Work (SOW). Of the original task order (of \$3.3 million), 79% was for non-ACS costs, (to include consultants, materials, equipment, and travel expense) with the bulk of the dollars earmarked for consultant costs. These costs were not included in the “Safeguard” BPA or Schedule 70 MAS contract; we consider them open market purchase, without price reasonableness determination. This task order is classified. The GSA contracting officer signed the award (and latter modifications) without adequate knowledge of the task order - the contracting officer did not have the required security clearance. GSA took no post award actions relative to receipt of service or invoice verification.

2. This task order was issued to ACS through BPA # GS01K00BKM0014.<sup>10</sup> The contractor approached GSA on behalf of the client, stating that ACS had been performing preliminary work for the client and needed to get a contract vehicle in place as the then current contract vehicle was expiring. The SOW for this project stated that this project would be for 1 year with 5 option years yet the RFQ was only for the initial year. This task order has shown a large cost growth (initial quote for \$17.7 million for initial year, growing to over \$37 million over a 3-year period); the project was not priced out fully initially but as option years were exercised, a RFQ was sent to ACS. We found no support for price reasonableness, no IGE, no indications that negotiations took place and no determination that a time and materials contract was warranted. There was no price reasonableness performed for other direct costs (i.e. computer materials,), which are not covered by the BPA. For this task order, the client is responsible for verification/receipt of goods and services; however, we were not able to verify receipt of other direct sub-contractor cost charged on various invoices. According to the client, periodic checks are made for receipt of services; however, documents we received to verify some charges were inconclusive and could not be traced back to specific charges. This task has since been set up with a new task order number (R1PD97003042) for the OSD/C3I office (responsible for the CISA program) which consist of two major components: Architectural programs undertaken in direct support of Unified Commands and support for defining the Global Information Grid (GIG) which enables Net Centric Operations world-wide.

3. This task order replaced #R1PD97212012 (see #1 above). The reason is not clear. ACS continued as the selected contractor (sole-source carried forward from predecessor award), at the client’s request. Funding for this task grew from \$9.1 million (the amount transferred in from the prior task) to its current value of \$31.4 million, without benefit of a revised SOW, IGE, contractor proposal(s), price negotiation(s) or price reasonableness determination(s). The task order is time and materials based (no justification). The bulk of the task order value continued to be consultant costs. The GSA contracting officer continued to sign award documents without adequate knowledge of this classified task order. GSA continued to take no post award actions relative to receipt of service or invoice verification.

4. This sole source award, time and materials task order was issued to Anteon under BPA# GS01K01BKM0016.<sup>16</sup> This award was initiated when Anteon suggested that the client approach GSA because Anteon had a contract with GSA, and Anteon could act as the “middleman” for the task order. (Anteon did no substantive work on this task.) GSA accepted this task order with a vague and scope less SOW. The Air Force at the time of the initial order did not have a handle on the scope of the project although they knew it would be massive. This project involved updating hardware and software associated with an automated test system refereed to as the *Minute Man Missile*

<sup>9</sup> The “Safeguard BPA Program” began in July 1999 to provide a vehicle to meet customized, efficient solutions for meeting all security and information assurance-related directives and regulations. The program was created by the Center for Information Security Services (CISS), FTS, and was administered jointly by that office in Washington, D.C. and the FTS field office in Region 9. The program signed BPA’s with 27 contractors holding Schedule 70 MAS contracts, and operated similar to a GWAC. That is, all 27 contractors were notified/solicited when the procurement of a task order was processed through the program. This program is to end in October 2004.

<sup>10</sup> It is our opinion that the method used to award this BPA was improper and results in our determination that this task order constitutes a sole-source award without proper justification. (See report narrative on page 7.)

*System.* This system was 20 years old and at the end of its life cycle. This task has grown tremendously over time; the task is not competed; the majority of costs are for test stations that were sole sourced to a subcontractor, Teledyne; file does not show that any price reasonableness was determined; and no IGE is on file. The file does not indicate any justification for utilizing a time and material contract. This task order began with a promissory Military Interdepartmental Purchase Request (MIPR) for \$49,000 and quickly grew to over \$11 million. (Note: It was not until Mod. 2 (dated 3/20/02) that a quote was even received for the project, reflecting a price of \$3.9 million.) This project continues to grow in size; completion time continues to get extended. Eventually (December 2003) the project was re-competed via E-Buy and another task order was created to continue the project.

5. This task order succeeded #R19701135 (see #11 below). This task order was issued to ACS through BPA # T0102B0002.<sup>11</sup> Our discussions with CSC personnel indicated that this task continued a (essentially) research and development project, a “build as you go” effort being directed by the client. Nearly 59% of the \$27.9 million proposal submitted by the contractor was for consultant costs. As with its predecessor task order, we found no IGE, price negotiation(s) or price reasonableness determination(s). This task is a time and materials award without justification. As with other task orders reviewed, GSA took no post award actions relative to receipt of service or invoice verification. Of note on this task is that the fact that our discussions with client agency representatives indicated that since February 2004, the client agency was taking no actions to ensure delivery of task requirements.<sup>12</sup> The contractor was not even submitting detailed invoices for review and approval.

6. This task order was the original order for the Department of Justice. The task was competed with ACS winning the award. Award was for a 9-month period ending in December 2000 with one option year. From the limited paperwork found, it appears that DOJ evaluated the offers received and selected ACS. However, the file does not adequately show if negotiations were held in order to get a better price; there was no IGE in the file. In December 2000, this order was closed down and monies transferred to the new task order #R11501180. A new task order was set up because FTS’ fee was reduced.

7. This task order was the new task set up, in January 2001, because of a surcharge reduction. The task started by exercising the option year originally under task order R1150180 (see #6 above). Shortly after exercising the option year, a quote went out for consultant services relating to personal protection standards including body armor and weapons. Shortly thereafter, the CSC purchased approximately \$52,000 of ballistic test panels used to test software included under the task. This task was extended through September 2003 without competition, (reportedly to allow time for a re-competition) and additional work was added. The file did not always have supporting documentation to follow what happened; no IGE found in file, no price reasonableness documentation, and no justification for this time and material award. As with its predecessor task, GSA continued to take no post award actions relative to receipt of service or invoice verification. The client is responsible for reviewing invoices.

8. This task order is the re-competition of the above task (see #7 above) for DOJ’s ongoing requirements through FY 2008. DOJ, with some help from FTS, selected the contractors to solicit for this effort. Only the incumbent, ACS responded to the RFQ. The client did remark that (she) received two calls asking if DOJ was going to award to someone other than the incumbent, which DOJ stated that if another contractor met the qualifications they would award to a contractor other than the incumbent. The client stated that (she) evaluated ACS’s offer, however the file does not reflect this and we were unable to get supporting documentation from the client. The IGE on file only shows detail for the first 15 months of the task, and does not reflect cost for the 4 option years. The file does not reflect that an evaluation or negotiation of price was performed. ACS is now billing the client on a lump sum basis, making verification of rates impossible. The client could not provide any documentation to demonstrate that an evaluation of rates could be performed.

9. The task was awarded, at the client’s request, to ACS through a client specific, sole sourced BPA # T0103B0001. The file does not reflect a price reasonableness determination and there is no IGE in the file. This task is a time and materials award without justification. The SOW was vague, in several instances citing “...as required” rather than defined deliverables. The contractor’s estimate contains a number of questionable add-ons (i.e. “marketing materials” @ \$6,000; “BPA Subcontractor Fee” @ \$46,530; material handling @ \$68,970; and “Misc. ODC” @ \$249,501). Award was made at the amount proposed by the contractor. Nearly 83% (\$3.3 million) of the award

<sup>11</sup> Although it is not clear why this task order was issued to replace its predecessor, it is apparent that the CSC placed importance on the fact that this order was placed under what they considered to be a competed, client specific BPA.

<sup>12</sup> The client stated that what transpired prior to February 2004 could not be ascertained, as those officials cognizant of service receipt had retired and left no documentation as to what steps they took in this matter.



amount was for subcontractor costs; no detail was on file to support the award amount/contractor proposal for these costs. Discussions with client agency determined that ACS "...was simply paid to be the middleman" as the client agency really wanted the subcontractor used on the project (Decisive Analytics Corporation). GSA took no post award actions relative to receipt of service or invoice verification. Inquiries as to what the client agency was doing to ensure delivery of service went unanswered.

10. This task order was a sole source award to Oracle Corporation. The project was originally for a one year period but quickly grew from \$1.4 million to over \$10 million (obligated amount) before this task was cancelled and a new task was set up to continue the project for DOD (task # R1PD970943040) which again was sole sourced to Oracle Corporation. There were no price negotiations, no indication that labor mix was evaluated, no IGE on file, and no findings and determination or price reasonableness determination made when the contract was extended. This task is a time and materials award without justification.

11. The task was awarded to ACS through BPA# GS01KBKM0072. This contractor apparently "brought" this client to the CSC in Region 1. The base task order award (of \$293,174) is essentially a sole-source award - directed by the client - to a subcontractor (Applied Solutions, Inc.), as 95% of the order value is earmarked for this subcontractor. The value of this task grew from \$293,174 to \$8,620,626, without benefit of a revised SOW, IGE, contractor proposal(s), price negotiation(s) or price reasonableness determination(s). Several of the modifications added value/funding to the task without any documentation concerning SOW or price justification. (We noted that Modifications 9 and 10 added a total of \$1,639,267 to the task based on an ACS submission for materials purchased **during the prior calendar year**. This amount was added to the contract value without a price reasonableness determination, negotiation, verification of equipment receipt, or justification of need. Equipment is not included in the BPA or referenced MAS contract with ACS, and is considered an "open market" item). This task is a time and materials award without justification. GSA took no post award actions relative to receipt of service or invoice verification.

12. This task is the follow-on to task #R15701201 (see #2 above). A new task order was set to split up the project so that the CO, ITM and client could better manage this massive, ongoing effort. This task order was sole sourced to the contractor (ACS) selected by the client, under BPA# T0103B0001.<sup>13</sup> This task is a time and materials award without justification. GSA took no post award actions relative to receipt of service or invoice verification.

13. This task order is a follow-on to #R11501355 (see #14 below). ACS continued as the selected contractor (sole-source carried forward from predecessor award), at the client's request. The bulk of the initial task order value was materials costs - of the contractor cost proposal of \$1,500,782, materials costs were \$974,456. The initial SOW called for a performance period of 3 months (4/3/01 through 6/30/01); the contractor's proposal, accepted without evidence of negotiation, considered a 12-month period (8/1/02 through 9/30/03). The contractor's accepted cost proposal contained no details concerning labor hours, mix of employees, or labor rates for the \$501,226 in labor costs. Funding for this task grew from \$1.5 million to \$3.5 million without benefit of a revised SOW, IGE, contractor proposal(s), price negotiation(s) or price reasonableness determination(s). The task was described by the ITM as a "build as you go" project. The task order is time and materials based but contained no determination that a time and materials contract was warranted. GSA continued to take no post award actions relative to receipt of service or invoice verification.<sup>14</sup>

14. This task order was issued on a time and materials basis to ACS through BPA #GS01K00BKM0014. The contractor "brought" this client to the CSC. We consider the task a sole source award, without justification. The SOW for this project was very limited and of little practical use. The ACS submission was accepted without evidence of negotiation. We found no support for price reasonableness, no IGE, and no determination that a time and materials contract was warranted. The task order grew from an initial amount of \$29,307, to more than \$7.4 million, again without benefit of a price reasonableness determination, IGE, or evidence of price negotiation. There

<sup>13</sup> We were informed that the CSC in Region 1 was instructed by FTS Central Office that generalized BPAs (those available for use by all customer agencies) had to be replaced by client specific BPAs. Thus the CO awarded "a sole source BPA" to ACS (BPA# T0103B0001). The file does indicate that the CSC negotiated a reduced rate (from the ACS's MAS contract rates), however, as the contractor is billing the client in lump sum and no detail could be provided to show rates billed, this could not be verified.

<sup>14</sup> It should be noted that we attempted to discuss i.e. verification of receipt of service, invoice review/processing, employee qualifications, etc. with the client agency. We were informed by the current client agency representative that all of the client employees who dealt with this task order have since left the agency; and there are no records available to demonstrate what actions they were taking regarding these post award activities. Or, for that matter, what pre-award actions they had taken.

was no price reasonableness performed for other direct costs (primarily computer equipment – pricing for which is not covered by the BPA or referenced MAS contract). Approximately \$5.2 million of equipment was charged by the contractor on this task order without price support. (Note: Included in the amount for materials is approximately \$100,00 of G&A/Material Handling Costs added on by the contractor. This amount is unsupported.) GSA took no post award actions relative to receipt of service or invoice verification.

15. This task order is a follow-on to #R11501355 (see #14 above) and #R1PD15252011 (see #13 above). ACS continued as the selected contractor (sole-source carried forward from predecessor awards), at the client's request. The SOW for this task was detailed. There was evidence of negotiations (conducted by the client agency). A statement of price reasonableness was not in the file, nor an IGE. Our discussions with the client representative indicated that this task, and (his) over-site of it, represented a reigning in of a "...build as you go" project ... "out of control". The task order is time and materials based but contained no determination that a time and materials contract was warranted. GSA continued to take no post award actions relative to receipt of service or invoice verification. Although not in the ITSS, the client representative offered evidence of modification negotiation and price reasonableness determination, to include materials and equipment purchases. (As noted on the predecessor tasks, materials and equipment are not included in the BPA or referenced MAS contract with ACS, and should be considered "open market".) The client representative offered that a lesser fee was negotiated with GSA to reflect the actions he is performing on the task.

16. The task was awarded to ACS through BPA# T0102B0002. This contractor "brought" this client to the CSC. (Note: This task is related to Task Order #R19701135 (see #11 above).) The file does not contain a sole source justification, or reflect that any price reasonableness was determined; there is no IGE, no obvious price negotiation. This task is a time and materials award without justification. GSA took no post award actions relative to receipt of service or invoice verification. Efforts to discuss this task with the client agency did not meet with success.

17. This task was competed among three vendors with all three returning bids. The client, Department of Air Force, evaluated all three offers based on technical approach, transition plan and past performance. ACS won the task order. A comparison of price by task was also done by the Air Force, however, there is no indication that further negotiations of price was done, no IGE in file, and no determination and finding was found for the option year exercised. According to the client representative, (she) looks at monthly reports provided by the contractor and as long as ACS is within the "burn rate", she does not verify individual rates. This task order is to provide "bodies" to keep specific systems up and running 24/7.

18. This task was awarded as a sole source, time and materials task to Autometric Inc. The project has grown in size over time. It appears from the file that the contractor proposed starting labor price before offered discount is much higher than their published MAS schedule prices. Numerous attempts to get MAS pricing were unsuccessful. The file does not indicate that a price reasonableness determination of the contractor's proposal was performed, no IGE, and no indication that ODC were reviewed for price reasonableness. The task was awarded for the initial period of date of award thru April 2003. The initial RFQ called for a firm fixed price award, whereas the proposal from the contractor was as a time and material award. (According to the ITM, the RFQ should have reflected time and material contract.) This task is being extended by modifications without valid findings and determinations. The latest period of performance is thru 9/30/04. Invoices verified reflect rates per quote, however, the rates and disciplines per Autometric's MAS contract do not reflect what they offered in their quote. We were not able to verify disciplines and rates to the MAS contract rates provided.

19. This task order was awarded to Synergy, Inc. as a sole source; however, a formal sole source document was never prepared. Task continues to grow with no competition; has been in effect since 2001 and is expected to continue past 2004 as long as funding is made available. The file does not show that price was evaluated; or that negotiations were held; and there is no IGE on file. Rates charged on invoices are lower than Synergy's MAS Schedule Contract rates.

20. This task was a sole source award to Anteon using appropriated monies for the FY03 defense budget to provide acceleration of a submarine fleet-wide modernization upgrade to tactical control and information systems. The file does not contain evidence of price negotiation, price reasonableness, and there is no IGE. The task contains substantial ODC's, considered "open market" items, as they are not included on Anteon's MAS contract. The client receives reports so that he can verify that they do not spend more money than they have. Invoices are paid unless the client calls up.

21. This task was a sole source award to TASC, Inc. The file does not contain evidence of price negotiations, price reasonableness and there is no IGE. The SOW is vague; period of performance is extended and the obligated amount of the task appears to be higher than what the contract is worth. The file appears to have substantial files missing like RFQs, revised SOWs, and quotes for additional work. The ITM provided quote documentation but the information was not adequate to substantiate what appears to be missing documents.
22. This task was awarded to GEO-CENTERS (incumbent and only contractor to respond to RFQ). The file does not reflect any indication of price reasonableness determination; no IGE; no price negotiation memorandum; no finding and determination performed when the option year was exercised.
23. This task order was awarded under a sole source justification prepared by the client. The justification was adequate. The file does not demonstrate price reasonableness was evaluated and no finding and determination was prepared when option year 1 was exercised.
24. This task was a “directed buy” that was considered “critical in winning additional work from strategic new client”. The task was awarded without competition or sole source justification to Anteon under their BPA# GS01K01BKM0016. The file does not reflect that price reasonableness was determined; that any further negotiations were held; there was no IGE; and no findings and determination performed on extension period. According to the client, the Navy performed an evaluation of price and hours; however, we were not able to get copies from the client.
25. This task order constitutes an option under task order #R1AD96200210 (see #26 below). Our audit comments are the same in nature.
26. This task order was competed under the “Safeguard” BPA program, awarded to ACS. We found no issues involving the award of this task order, although it is clear that the GSA contracting officer had limited involvement. This task is a time and materials award (as stipulated by the client) without justification. The client agency developed the SOW. We noted that the ITSS file did not adequately document modifications made to the contract as options were exercised, and GSA had no involvement in managing the task. We found that Modification #8 to the project added a subtask that was clearly outside the scope of the SOW. GSA took no post award actions relative to receipt of service or invoice verification. Discussions with client agency representatives indicated that they provided substantial post award effort, observing work being done, evaluating on an ongoing basis the deliverables; and verifying invoiced costs.
27. This task was awarded to the University of Rochester and appears to be R&D. Three vendors were solicited; only one response was received. We found no support for price reasonableness; no IGE; no indication that a negotiation of price took place and no determination finding that a time and materials contract was warranted. We could not verify invoice pricing to contract vehicle (appears that award vehicle was a grant which does not break down rates just allocates lump sum dollars per year). GSA took no post award actions relative to receipt of service or invoice verification.
28. This was a sole-source award, time and materials task awarded to ACS (at the client’s request) through BPA# GS01KBKM0072. There was no sole-source justification in the file. We found no support for price reasonableness; no IGE; no indication that a negotiation of price took place and no determination finding that a time and materials contract was warranted. Of the task order, more than 50% was for non-ACS costs, with the bulk of the dollars earmarked for subcontract costs. These costs were not included in the cited BPA or referenced MAS contract; we consider them open market purchase, without price reasonableness determination. This task order is classified. The GSA contracting officer signed the award without adequate knowledge of the task order - the contracting officer did not have the required security clearance. GSA took no post award actions relative to receipt of service or invoice verification.
29. This task was a sole source award to Innovative Decisions, Inc. through a MOBIS contract. The client completed the IGE, SOW, and sole source justification. No negotiations were held with the contractor; current MOBIS rates were accepted. It was determined by the ITM and CO (without justification) that a time and materials contract would be the best fit.

30. This task order was competed under the Millennium Lite Contract. The contracting officer for Millennium Lite evaluated the original offer and deemed the pricing acceptable, however, when additional work was added on Mod. 8 effective September 2003, acceptance of costs was performed by the agency client representative (although the file does not reflect a price reasonableness documentation). This task was accepted as a cost plus fixed fee contract. Neither GSA nor the client is verifying individual cost; rather, the client looks at the overall "burn rate" so as not exceed what has been obligated to date.

31. This task was competed under the Millennium Lite contract. No negotiations were performed because the contractor offered rates that were discounted from their Millennium Lite scheduled rates. Although a price reasonableness determination was not on file, an IGE (not very detailed) was included in the file.



GSA/FTS  
NEW ENGLAND REGION  
RESPONSE

To

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
REPORT NUMBER A040096/T/1/Z04---

September 24, 2004

RESPONSE  
 AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
 CLIENT SUPPORT CENTER  
 NEW ENGLAND REGION  
 REPORT NUMBER A040096/T/1/Z04---

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September 24, 2004

MEMORANDUM FOR       JOSEPH B. LELAND  
                                  REGIONAL INSPECTOR GENERAL FOR AUDITING (JA-1)

FROM:                   DENNIS R. SMITH  
                                  REGIONAL ADMINISTRATOR

SUBJECT:                Audit of Federal Technology Service's  
                                  Client Support Center  
                                  New England Region  
                                  Report Number A040096/T/1/Z04---

GSA's Regional leadership team has reviewed the draft report of the Office of Inspector General's audit of Federal Technology Service's Client Support Center in Region 1 conducted in response to the request from GSA Administrator, Stephen A. Perry.

We would like to express our appreciation to the Inspector General's Region 1 team for its comprehensive assessment of the Client Support Center's administration of procurements in accordance with the Federal Acquisition Regulations (FAR). The report has provided specific information that has been useful to the Region in identifying the existence of both knowledge and process gaps that require immediate closure and planned action.

This report expands upon the earlier findings of the Regional Acquisition Executive (APPENDIX A) in his assessment and report issued on October 29, 2003) initiated at the request of the Acting Assistant Regional Administrator following the concerns raised in Region 10.

The following response details the actions taken by the New England Region to address, mitigate and correct the deficiencies identified in Report Number A040096/T/1/Z04.

Cc: Sandra N. Bates



AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
NEW ENGLAND REGION  
REPORT NUMBER A040096/T/1/Z04---

Background

Concerns regarding the competency and leadership capabilities of the regional FTS Management Staff had begun to become evident in the spring of 2003. The Senior Leadership team initiated discussions with the Assistant Regional Administrator to obtain answers to questions regarding the nature and types of management controls employed within FTS. Subsequently, the Assistant Regional Administrator transferred to Central Office in August of 2003 and retired in March of 2004.

This departure placed the Chief of Staff in the position of Acting Assistant Regional Administrator coincident with the beginning of the Inspector General's review. This vantage point provided the Chief of Staff with the opportunity to begin the process of conducting an in depth assessment of the organizational deficiencies that were the root cause of many of the issues to be later identified and documented in the report of the Inspector General.

The deficiencies identified included:

- 1) Insufficient human resources
- 2) Misaligned organization
- 3) Deficient senior management within the FTS organization
- 4) Absence of management controls
- 5) Poorly trained associates and contracting officers

Action plans were developed to address these immediate and pressing issues. One of the outcomes was the development and proposal for reorganization for FTS New England. This plan was ultimately approved by the Commissioner in May of 2004. Recruitment of associates with the requisite skills to lead the transformation of the service was also aggressively undertaken.

This has resulted in nearly 100% replacement of the FTS management team. As referenced in the report, a permanent ARA was appointed on April 19<sup>th</sup>, 2004. The CSC IT Solutions Director continues to be on extended leave since December 2003, but a number of new strategic hires at the management and working levels have been made that have assisted in the transformation of the CSC management of operations and process improvements continue to evolve.

### *Duties and Responsibilities*

Work has been ongoing with associates to clearly define and emphasize the full scope of their roles and responsibilities. The process will be facilitated with the implementation of APPAS, the provision of updated Position Descriptions, delivery of critical elements and customization and development of individual associate performance plans which will be linked directly to the GSA/FTS Regional Goals.

In order to address individual skills gaps, the performance plan is outlining necessary development for each associate for 2005 to ensure their success within their organizational role.

### *Funding*

CSCs have profit and loss responsibility. The CSCs assess fees to client agencies for the services provided. Management has made financial accountability a top priority and goal for 2005 for all FTS associates. The newly hired Business Manager reports weekly on outstanding invoices by associate. Associates are tasked with reporting to their respective managers on the reasons invoices remain unpaid. 0% is the goal established for FTS in 2005 with regard to interest penalties or un-recovered expense.

Emphasis has been placed on the process for accepting customer funding documents to ensure that contracting officers and account managers work closely with their customers to fully understand the nature of the governing appropriations and to clearly identify funds to a bona fide requirement as part of the acceptance process.

### ACTIONS INITIATED IN ADVANCE OF AUDIT FINDINGS

Once management investigated and determined the nature of the issues, we implemented a comprehensive management approach to address the situation. Actions taken by the region include:

- Receipt and implementation of the FTS Action Plan for task order transactions in November of 2003. This plan established a national standard governing internal control for task order acquisition activities. A copy of the plan and the progress made against the plan is attached as Appendix C.
- Implementation of an Associate Communications Strategy, that included monthly FTS Forums to keep everyone well informed of the progress of major initiatives such as the implementation of the reorganization, "Get It Right Plan", the Procurement Management Review, APPAS, associate coffee hours and weekly staff meetings.
- *Actions concerning Implementation Sec. 803* – The procurement staff are acutely aware of this directive. CSC management has emphasized adherence to its requirements; the CMRP is specifically addressing compliance.
- *Legal Review* – Regional legal review has been in practice since shortly after October 2003. The FTS acquisition process necessitates legal review both pre-solicitation and pre-award for complex tasks and for tasks that meet or exceed the \$5,000,000 threshold as a prescribed and required step in the acquisition process.
- *Regional Reorganization* – Recruitment and hiring of a new management team. Operations in the CSC have been substantially reorganized. Several significant changes that effect the management control

environment are leading to more effective oversight of procurement actions. Some vacancies remain; actions are underway to fill these positions.

- *CSC Management Plan* – The Region is aggressively working toward the fulfillment of all deliverables comprising the CSC Management plan; implementation is ongoing. FTS Management is strongly committed to continuous process improvement and the creation of a first in class acquisition organization. Serious effort to improve performance and adhere to good procurement practice has been underway since mid-May 2004 and standardized procedures will be implemented across all aspects of the acquisition life cycle to ensure consistency and quality. Back-end quality reviews are planned for implementation in 2005.
- *Procurement Training* – a significant amount of training – both formal and informal – has taken place over the last several months. All members of the procurement team have participated. Training included such topics as use of BPAs; acquisition planning; performance-based contracting; developing SOWs; and contract administration procedures.
- *BPA Review* – All BPAs that were put into effect by the Region over the last several years have been reviewed. The three active BPAs are in the process of being closed down through competition of the underlying tasks and allowing the tasks to expire as a means of preventing the government from incurring significant termination for convenience charges. Support and assistance in correcting these improper sole source awards is being provided by FTS Central Office Contracting and Legal. The amount of work and periods of performance for some of these tasks will require that the clean-up efforts extend into FY2005.
- *CSC Procurement Practice Binder* – each member of the procurement team received and signed for receipt of a binder containing relevant procurement policy directions, regulations, instructions, sample forms, etc. CSC officials intend to keep the contents of the binder current. A session is planned for late September to review all associate questions regarding the review of the materials provided. Written Q&A will be a deliverable of this session which will also be provided to associates for inclusion in the reference guides.
- Outreach to our customers to educate them in the “Get It Right” program.

An additional action step taken to impose much needed management controls was the creation and establishment of the Contract Management Review Panel. The team first convened on March 8, 2004. The initial team was comprised of the Acting Service Delivery Managers, Program Management Director and Acting IT Solutions/Network Director. Membership has been expanded to include the Assistant Regional Administrator and Lead Contracting Officer.

An excerpt for the Charter of the CRMP is as follows:

- a. The purpose of this charter is to establish an internal management review process for Region 1 contracting actions.
- b. The prime objective of the Contract Management Review Panel (CMRP) is to ensure that contracting actions are accomplished in compliance with established laws, regulations, policies, procedures and directives.

c. The second objective is that the CMRP will provide Region 1 management with an ongoing quality assurance and improvement program. The CMRP will constantly analyze the region's acquisition processes and will ascertain problem areas and weaknesses. This will allow Region 1 Management to direct corrective actions in order to ensure that the best possible assisted services are being provided to Region One's clients.

The full text of the CMRP Charter is attached (APPENDIX B).

### Process

The CMRP process has evolved over the past months since its inception to address any noted process gaps. Each task valued at \$100,000 or greater must be reviewed by the CRMP *pre-solicitation* and *pre-award*. This process is helping to reinforce "best acquisition practice" and to ensure the elimination of improper procurement practices identified in this report.

Work with our largest customers to educate them on what it means to "Get It Right" has been under taken by the Regional FTS Management team. This education program is critical to change the culture and behavior of GSA/FTS customers in recognizing the inherent benefit to their agencies mission and the government through increased competition.

Invitations to the joint web cast of Administrator Perry and Department of Defense Chief Acquisition Officer Deidre Lee were extended to our DoD customers. This presentation was attended by all FTS staff.

Senior management has made it a priority to schedule meetings with our larger DoD customers to explain the benefits and the requirement for us to partner and embrace the policies and practices associated with Get It Right. These meetings have been largely successful and will be continued and expanded in the coming year.

## AUDIT FINDINGS/ACTIONS TAKEN

### Inadequate Competition

The goal established is to maximize competition regardless of the dollar threshold. In addition, in order to better align or procurement practices with that of the DoD, all task orders valued at \$100,000 or greater are required to be Performance Based. This is a metric that we are tracking and will be reporting on as part of the PMT. Since all such tasks must be brought before the CMRP prior to solicitation and award, this procedure will prevent any unjustifiable sole source procurements from being awarded.

All inadequately competed tasks are being systematically addressed. All BPA's for Region 1 are being closed out and the underlying tasks are in the process of being examined. In situations where the government may be subject to termination for convenience liability, the tasks are being allowed to expire and successor tasks to satisfy the requirement are in the process of being developed and prepared for competitive solicitation.

This transition process is complex since FTS can not just cut off these flawed acquisition vehicles without providing a bridge to fulfilling the customers' requirement. We have been working very closely with customers to assist in the development of performance based Statements of Work to sequentially replace the problematic task orders. News of the need to close out these long standing tasks has been met with some resistance by our

customers who have expressed concern with the amount of time and effort they may have to invest in order to “Get It Right.” We continue to work with them to overcome some of this anxiety.

### Documentation Lacking to Assure Reasonable Pricing

As part of the CMRP review of tasks, the panel checks for the completion of an Acquisition Plan developed using the Acquisition Wizard as defined by monetary thresholds, the acquisition checklist has been prepared and for the completion of an Independent Government estimate. If the nature of the task recommended is Time and Materials that the Determination and Findings has been completed.

Prior to approving the award of a task, evidence of price negotiation and price evaluation must be present in the recommendation for award.

To minimize and eliminate the “Build as You Go” approach identified with development tasks, the recommended approach is to uncouple the architectural definition portion of the requirement and compete the task separately. Once the architecture has been defined, a subsequent task for the build could then be solicited with the clearly defined architecture as the source of information for the Statement of Work. This will greatly reduce the cost to the government of this type of project.

All modifications including requests for incremental funding that are valued at \$100,000 or greater must be reviewed by the CMRP. This will curtail the kind of exponential unchecked growth of tasks previously evidenced.

### Misuse of Contract Vehicle

The joint review process established with the CMRP in addition to extensive training offered to all associates engaged in the acquisition process will ensure that appropriate contract vehicles are used. Some of the training provided to associates includes use of BPAs; acquisition planning; performance-based contracting; developing SOWs; and schedules training.

### *Pass-Through Contracting*

Elimination of the use of BPA’s and working with our customers early in the acquisition cycle to develop well defined Statements of Work will prevent this practice on a going forward basis.

### Questionable Contracting Practices

#### *Ineffective Statement of Work (SOW)*

This issue has been addressed above under Pass-Through Contracting.

#### *Lack of Contract Monitoring*

Responsibility for contract monitoring has been defined for both the contract officers and account managers. It is part of the critical elements of each of these position descriptions and performance against these responsibilities will be assessed through Customer Satisfaction Surveys, performance of contract surveillance and the financial management responsibilities that relate to the acceptance and prompt processing of vendor generated invoices.

A process for the managing the Periods of Performance has recently been implemented. Managers are reviewing reports that provide information on task expiration. Currently the service is using this reporting to manage and

address sole source tasks for which the base period will expire at the end of this fiscal year. For sole source tasks, the option years will not be exercised. Transition to competed vehicles is the goal for all such tasks with time and resources permitting. Going forward these reports will be used to assist in planning and proactively managing the Center's workload.

### *National Security Tasks Not Properly Negotiated/Awarded*

All classified tasks have been transferred to FTS Central Office until such time that the Region 1 staff acquires the necessary skills and clearances to be able to perform this category of work. Remediation of flawed classified tasks is in process.

### Frequent Use of Time and Materials Tasks

All tasks of \$100,000 or greater must be performance based and firm fixed price. D&F's must accompany any recommendation for T&M tasks going forward.

### Causes of Improper Procurement Practices

We concur with the conclusions of the Office of Inspector General as to the factors contributing to the improper contracting practices:

- 1) Ineffective system of internal management controls
- 2) CSC personnel sacrificing adherence to proper procurement procedures in order to accommodate client agency preferences
- 3) An excessive focus on customer satisfaction and revenue growth
- 4) CSC personnel were not generally familiar with prescribed ordering procedures
- 5) Contracting officers did not always adhere to proper procurement procedures designed to ensure the Government receives the best value.
- 6) ITMs and contracting officers did not have the expertise to evaluate contractor proposals for best value

### Impact of Recently Implemented Management Controls

Based upon the gaps that existed in the FTS management organization at the time of the subsequent review and due to the developmental nature of the relatively immature review process in place during the March to early May timeframe, a review of the 10 tasks revealed that 40% of them were not presented to the CMRP for review. We do not feel that the review at this point in time is a true measure of the effectiveness of the process put into place.

Further, the process has continued to evolve and improve as the team acquires much needed resource and experience. The regional office is still not at full staffing and is continuing its efforts to recruit and fill against critical vacancies.

A review of tasks completed in the October/November timeframe will likely provide a more representative example of the quality improvements made against the initiatives described.

In spite of many obstacles and challenges, significant progress has been made and will continue to be made in the coming months as critical vacancies are filled and additional repeatable processes are created and established. Any organization committed to quality principles understands that continuous improvement is a journey and not a

destination.

The efforts of FTS New England represent “work in progress” and the CSC will continue to improve over the next several months.

The following table lists the issues identified in the report of the Office of Inspector General with the corrective action taken or planned to address noted deficiencies

### AUDIT ISSUES LIST

| ISSUE                           | ACTIONS TAKEN  | ACTIONS PLANNED IN 2005   | SCHEDULE FOR COMPLETION |
|---------------------------------|--|---|-------------------------|
| Inadequate Competition          | CRMP REVIEW<br>CASD FORM                                     | ASSOCIATES PERFORMANCE PLANS WILL CONTAIN OBJECTIVES AND MEASURES FOR ADHERENCE TO PRESCRIBED ACQUISITION PROCEDURES. | OCT. 2005               |
| Documentation Lacking           | CRMP REVIEW<br>CASD FORM                                     | CREATION AND IMPLEMENTATION OF A BACK-END QUALITY REVIEW PROCESS  | DEC. 2005               |
| Pricing Reasonableness          | TRAINING<br>CRMP REVIEW                                      | CRMP REVIEW , ONGOING TRAINING  | Ongoing                 |
| Misuse of Contract Vehicle      | TRAINING AND CRMP<br>REVIEW                                  | CRMP REVIEW, ONGOING TRAINING   | Ongoing                 |
| Questionable Contract Practices | TRAINING<br>CRMP REVIEW                                      | ETHICS TRAINING   | SEPT. 2004              |
| Use of Time and Materials       | TRAINING<br>CRMP REVIEW                                      | CRMP REVIEW, ONGOING TRAINING   | Ongoing                 |
| Inadequately Trained Associates | APPAS DEFINED<br>ASSOCIATE<br>PERFORMANCE AND TRAINING PLANS | MONITOR PERFORMANCE AGAINST PLAN<br>QUARTERLY REVIEWS   | Ongoing                 |

In conclusion, we concur with the findings and appreciate the personal attention and understand that many of the deficiencies cited in the report of the Inspector General are not unique to Region 1.

## Appendix A

**FTS REPORT**

**BACKGROUND** At the request of the Acting Assistant Regional Administrator for the Federal Technology Service New England a procurement review was conducted of the procurement operation for the Region 1 FTS . This request was in response to an Alert Report issued by the IG Office identifying serious concerns with FTS procurement practices in Region 10.

The majority of acquisitions accomplished by the R1 FTS are task or delivery orders issued for Information Technology products or services against the FSS Multiple Award Schedule 70 in support of various military and civilian agencies located not only in New England but nationally as well as worldwide. Many of these orders are for IT support services, an area of acquisition that has experienced rapid growth in recent years given the trend of contracting-out prior government operations to the private sector.

The review was conducted by reviewing contract files and by interviewing contracting support staff. It should be noted that the IG's office earlier conducted a survey of the Region 1 FTS procurement operation as part of their nationwide FTS review with no apparent findings issued.

**OBSERVATIONS and RECOMMENDATIONS**

The FTS procurement staff should be commended for accomplishing the amount of acquisitions transacted as well as achieving a high level of customer satisfaction with the limited resources available. It should be noted that there were no observations of inappropriate use of funding; the finding that precipitated the IG Alert Report issued for Region 10.

There were however some important areas in the acquisition process that need improvement especially given the high dollar value and complexity for many of these procurements. These areas concern accomplishing and documenting acquisition planning and market research, source selection evaluation and documentation, and improving the levels of competition.

**Acquisition Planning and Market Research** Accomplishing and documenting acquisition planning and the market research that is an important part of developing the acquisition strategy needs to be improved. More recent FAR guidance emphasizes the need for market research and acquisition planning. These initiatives provide the opportunity to develop technical evaluation factors, discuss the type of contract to be used, consider firm fixed price versus a labor hour or time and material arrangement, develop an independent government estimate, and identify realistic supply or service sources. Although the Federal Supply Service markets the Multiple Award Schedule (MAS) program as a streamlined method of acquisition there are still a number of important steps that should be accomplished; especially for high valued technically complex IT service contracts.



## Appendix A

**Source Selection Decision** Although a formal source selection plan may not be necessary the acquisition team led by the Contracting Officer needs to establish technical evaluation factors and determine the relative importance of those factors relative to other technical factors as well as to cost and price. Technical factors to be considered need to be included in the RFQ and the source selection decision should be based on those identified factors with appropriate documentation included in the contract file as to why the selected contractor provides the best value to the government. Past performance should always be considered as a technical factor. Other factors that may be appropriate for service contracts include technical qualifications, experience, and approach to accomplishing the required work.

**Competition** Observed more than expected non-competitive (directed) acquisitions including a long term non-competitive Blanket Purchase Agreement with ACS Defense Inc. With over 3,000 vendors available for Special Item Number (SIN) 132-51 on MAS Schedule 70 it is difficult to understand why there were as many directed acquisitions. Guidance for use of MAS schedules requires soliciting 3 or more vendors and if the requirement exceeds the maximum order threshold at least 4 contractors should be sent RFQ's. There appears to be a gaping hole in the implementation of CICA in that multimillion dollar acquisitions are being accomplished through the MAS program with no competition and with no review beyond the Contracting Officer level. Customer convenience for vendor continuity is not an acceptable justification. Improved acquisition planning and market research should improve the level of competition and translate into improved pricing arrangements for the customer. Strongly recommended that all non-competitively issued BPA's be canceled. BPA's are designed to administratively streamline the issuing of orders and never intended to avoid competition requirements.

Part of the above mentioned concerns can be attributed to the lack of training and guidance made available to the FTS procurement staff specific to awarding large valued task orders for IT services. The recently developed online course by FSS University of Multiple Award Schedules (UMAS) should be helpful and does provide some general guidance on the process and the level of documentation that is appropriate. It is recommended that not only the GS-1102 Contract Specialists, but all associates involved in the acquisition team take that course. Included in the course reference material and appendices are suggested levels of acquisition planning, market research, and best value technical factors. These tasks when meaningfully accomplished provide for a better procurement allowing for improved business judgment, improved value for the customer, and therefore a better value to the taxpayer. They do, however, take time and resources.

In addition to the UMAS course it is recommended that the FTS National Office develop additional training specifically concerning the issuing of task orders for IT services from Multiple Award Schedules focusing on developing performance based SOW's and incorporating appropriate technical factors and identifying adequate levels of documentation. An evaluation of national transaction data by region shows comparable if not greater performance totals in other regions suggesting the concerns mentioned above may be issues there as well.

## Appendix A

SUMMARY

The FTS procurement operation processes a large number of transactions with a large dollar value with minimum documentation. Given the existing performance measures it is predictable that revenue generation and customer satisfaction achievements score well while there has been little management attention or controls concerning the acquisition system other than perhaps "Clinger-Cohen" compliance. These issues go beyond the New England Region FTS procurement operation and need national attention. Recent IG findings suggest there is a problem. Improved training opportunities and development and inclusion of performance standards and measures that reflect the importance of acquisition performance and business judgment are essential to balance the current efforts to maximize revenues. With these revenue generating opportunities comes the responsibility to insure adequate training, management controls, and performance standards and measures to provide a system not only responsive to the customer but also to the integrity of the acquisition system.

Report of Regional Acquisition Executive, Greg Bowman (since retired)

Issued October 28, 2003

July 2, 2004

## CONTRACT MANAGEMENT REVIEW PANEL

### CHARTER

#### 1. OVERVIEW

- a. The purpose of this charter is to establish an internal management review process for Region 1 contracting actions.
- b. The prime objective of the Contract Management Review Panel (CMRP) is to ensure that contracting actions are accomplished in compliance with established laws, regulations, policies, procedures and directives.
- c. The second objective is that the CMRP will provide Region 1 management with an ongoing quality assurance and improvement program. The CMRP will constantly analyze the region's acquisition processes and will ascertain problem areas and weaknesses. This will allow Region 1 Management to direct corrective actions in order to ensure that the best possible assisted services are being provided to Region One's clients.

#### 2. Membership of the CMRP:

The CMRP will be comprised of the two Service Delivery Managers, the Contracting Team Leader, the Director of Program Management, and the Director I.T. Solutions and will be chaired by the Contracting Team Leader.

#### 3. Meeting Times:

The CMRP will meet on Tuesdays at 1:00 pm and on Thursdays at 1:00 pm and will provide a maximum 72 hour turnaround. Deadline for submission for the Tuesday CMRP is COB on the previous Friday. Deadline for the Thursday is COB the previous Tuesday

#### 4. CMRP Reviews:

- a. All contracting actions \$100,000 or greater are subject to review prior to solicitation issuance, and then again, prior to award. The following are the only exceptions:
  1. Incremental funding modifications need only be reviewed once, prior to award.
  2. No-cost administrative modifications are exempt from CMRP review
  3. De-obligation modifications are exempt from CMRP review.
- b. Review by the CMRP will entail a review of the Contract File to ensure compliance with laws, regulations, policies, procedures, and directives. The CMRP and the project team will each use the current version of the Acquisition Checklists to ensure compliance. (See attachments 1 through 4).

#### 5. CMRP Actions:

- a. After a review is completed, the CMRP will complete a Contract Action Status Document (CASD) which will include approval, comments, approval with revisions, rejection. This form with the panel's findings will be sent to the Contracting Officer and ITM.

b. If the CMRP cannot resolve a contracting action issue, the chairperson will elevate it to the ARA for final resolution.

**6. CMRP Reporting:**

The CMRP will submit a monthly report to the ARA. This report will contain the CMRP's overall findings for the previous month along with the associated performance measurement results.

**References:**

Region One Management Plan  
Acquisition Checklists  
CMRP Procedures  
FAR Part 8  
FAR Part 15  
GSAM

|   | FTS   | Management  | Plan   |                       |          |        |                         |
|---|---|---|--------|-----------------------|----------|--------|-------------------------|
|   |   | New England   |        |                       |          |        |                         |
| Methods   | Measure   | Test  | Target | Responsible Associate | Due Date | Status | Comments                |
| <b>1. CSC Self Assessment</b>   |   |   |        |                       |          |        |                         |
| a. Review Task Orders and Mods.   | The ARA will conduct a random sample of 20 task orders (at a minimum) to ensure compliance with applicable laws and regulations.                          | Submit report of reviewed contract actions with findings. |        | CSC Director          | 03/04    | C      | Implemented<br>03/08/04 |
| b. Conduct annual assessment of selected areas to provide evidence that management controls are working properly. | Conduct self-assessment using FTS "Internal Control Management and Evaluation Tool". Selected areas to include Acquisition, Financial and Administration. | Submit report of reviewed areas with findings.            |        | ARA                   | 09/04    | P      |                         |
| <b>2. CSC Management Review</b>   |   |   |        |                       |          |        |                         |

|   |  |   |  |                     |              |          |                                |
|---|--|---|--|---------------------|--------------|----------|--------------------------------|
| <p>a. Establish critical elements of Associate Performance Plans to ensure quality acquisitions.</p>  | <p>Critical Elements include compliance with acquisition and financial procedures, policy and guidelines, Contract Administration and close out requirements. Additional revisions pending revised Performance Appraisal System.</p> | <p>Provide performance plan for personnel. i.e. CO, ITM, FM</p> |  | <p>CSC Director</p> | <p>10/04</p> | <p>P</p> |                                |
| <p>b. Establish award plan for each business units based on balanced score cards, to include performance measures for customers, associate, financials and processes.</p> | <p>Review award plan and recognition policies to ensure they meet performance measures.</p>  | <p>Provide award plan.</p>                                      |  | <p>ARA</p>          | <p>10/04</p> | <p>P</p> | <p>Implemented<br/>9/17/04</p> |

|  |  |   |  |                     |              |          |  |
|--|--|---|--|---------------------|--------------|----------|--|
| <p>c. Associate Training - annual ethics training, section 803 and 508, GSA Acquisition Letter MV 04-03, and IDP training.</p> | <p>Implement Formal "standardized" Training Plans. Associates should have competency-based IDP's, ethics training, section 503 and section 508. Acquisition associates should follow the OPM qualification standards for 1102's and PM's should follow the approved FTS-ACT program in accordance with the CIO Memorandum: Accelerated FTS-ACT (PM) Training, dated November 20, 2003.</p> | <p>Provide associates completed training records.</p> |  | <p>CSC Director</p> | <p>09/04</p> | <p>P</p> |  |
|  | <p>Directors shall conduct annual assessments of their associates to record completed training courses, assess whether associates meet the qualifications needed to perform their work, determine future training requirements, and revise training accordingly.</p>   |   |  |                     |              |          |  |
| <p><b>3. Procurement Management Review</b></p>   |  |   |  | <p>TQ</p>           | <p>07/04</p> | <p>C</p> |  |

|  |  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|
| a. Triennial Procurement Management Review (Office of Acquisition). In accordance with November 14, 2003 "Guidance concerning PMR Program for FTS Acquisition Matters. |  |  |  |  |  |  |  |
| i. Compliance with FTS Policy/Internal Controls  |  |  |  |  |  |  |  |
| ii. Local Contracting Policies and Procedures  |  |  |  |  |  |  |  |
| iii. Contracting Activity Review Process   |  |  |  |  |  |  |  |
| iv. Extent of Competition Achieved   |  |  |  |  |  |  |  |
| v. Justification and Approval Process  |  |  |  |  |  |  |  |
| vi. Use of Appropriate Contract Clauses  |  |  |  |  |  |  |  |
| vii. Use of Performance-based Services Acquisition   |  |  |  |  |  |  |  |
| viii. Pricing  |  |  |  |  |  |  |  |
| ix. Administration of Contracts  |  |  |  |  |  |  |  |
| x. Simplified Acquisition  |  |  |  |  |  |  |  |
| xi. Management of the Contracting Function   |  |  |  |  |  |  |  |
| xii. Training - Mandatory and In-house   |  |  |  |  |  |  |  |
| xiii. Special Interest Items (Program or "Hot Topic" specific)   |  |  |  |  |  |  |  |
| xiv. Small Business Program  |  |  |  |  |  |  |  |



|  |   |   |  |              |       |   |                                       |
|--|---|---|--|--------------|-------|---|---------------------------------------|
| b. Legal Review: TOs >\$5 Million  | A Sample review of all or 20 (whichever is less) task orders > \$5M will be reviewed.                               | Provide results of annual review. Report should include actions on all legal concurrences and non-concurrences with explanations. |  | ARA          | 10/03 | C | Implemented 10/03                     |
| c. Utilize Contract Review Panel.  | ARA/AC will check panels work twice a year.   | Provide results of PMR or semi-annual report.   |  | ARA          | 10/03 | C | Implemented 03/08/04                  |
| d. Employ Standard Acquisition checklist.  | The ARA will conduct a random sample of at least 20 TO's to ensure compliance with applicable laws and regulations. | Submit report of reviewed contract actions with findings.   |  | ARA          | 10/03 | C | Implemented 10/03                     |
| e. Develop Acquisition Plan and Source Selection Criteria to accompany SOW for schedules and GWACs services > \$500K, and develop acquisitions strategy for commodity buys > \$1M. | The ARA will conduct a random sample of at least 20 TO's to ensure compliance with applicable laws and regulations. | Submit a list of the actions reviewed by CRP annually.  |  | ARA          | 05/04 | C | Implemented use of Acquisition Wizard |
| <b>4. ITS Management Review</b>  |   |   |  |              |       |   |                                       |
| a. Assign work to CO's and Project Managers, taking into account their experience with the complexity of the work.   | Results of ITS Management Study   | Submit analysis of ITS Management Study recommendations.  |  | CSC Director | 04/04 | C |                                       |

|  |  |  |  |              |       |   |                               |
|--|--|--|--|--------------|-------|---|-------------------------------|
| b. Determine the appropriate ratio of Project Managers to Contracting Officers.  | Results of ITS Management Study          | Submit analysis of ITS Management Study recommendations. |  | CSC Director | 06/04 | C | annually                      |
| c. Review Client Support Center organizational structure to ensure management controls are in place to support the operations for the business unit (ITS Management Study - Independent Report). | Results of ITS Management Study          | Submit analysis of ITS Management Study recommendations. |  | ARA          | 09/04 | P | Study completed July 20, 2004 |
| d. Performance Measure Study (Gartner)   | Results of FTS Performance Measure Study | Submit analysis of FTS Performance Measures.             |  | ARA          | 06/04 | T |                               |
| e. Benchmark New Measures in FY05  |  |  |  |              | 10/04 | P |                               |
| f. Implement New Measures in FY06  |  |  |  |              | 10/05 | P |                               |
| <b>5. Financial Review</b>   |  |  |  |              |       |   |                               |

|  |  |                  |  |                  |       |   |          |
|--|--|------------------|--|------------------|-------|---|----------|
| a. National Financial Guidance on Revolving Funds/IT vs. Non-IT Matrix issued 6/7/04. CSCs to distribute guidance to all associates. | ARA will provide a copy of memo to all associates. |                  |  | ARA              | 06/04 | C |          |
| b. Submit Written Closeout Procedures  | Submit Written Closeout Procedures                 |                  |  | ARA/CSC Director | 06/04 | C |          |
| c. Review/Approve Written Closeout Procedures  | Approval to CSC                                    |                  |  | AC               | 06/04 | C |          |
| d. Implement Written Closeout Procedures   | Publish Closeout Procedures                        |                  |  | ARA/CSC Director | 06/04 | C |          |
| e. Submit Quarterly Report on Closeouts  | In accordance with approved plan                   | Quarterly report |  | ARA/CSC Director | 10/04 | P | On-going |

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
NORTHEAST AND CARIBBEAN REGION  
REPORT NUMBER A040123/T/2/Z05006

DECEMBER 9, 2004





General Services Administration  
Office of Inspector General  
Jacob K. Javits Federal Building  
New York, NY 10278



Date: December 9, 2004

Reply to: Howard Schenker  
Attn of: Audit Manager, NY Field Audit Office (JA-2)

Subject: Audit of Federal Technology Service's Client Support Center  
Northeast and Caribbean Region  
Report Number A040123/T/2/Z05006

To: Eileen Long-Chelales  
Regional Administrator (2A)

This report presents the results of our review of the Federal Technology Service's Client Support Center in Region 2. A draft report was submitted to you and to the Assistant Regional Administrator, Federal Technology Service for his review and comments. Your comments were considered in preparing this final report and are included in their entirety as an Appendix to this report.

We wish to express our appreciation to the GSA officials and other employees in the Federal Technology Service for their cooperation and courtesies extended during the review. We look forward to working with you and members of your staff in the future.

If you have any questions and/or comments, please address them to Mr. Howard Schenker, Audit Manager who can be reached on (212) 264-0672.

  
HOWARD R. SCHENKER  
Audit Manager  
New York Field Audit Office



AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
NORTHEAST AND CARIBBEAN REGION  
REPORT NUMBER A040123/T/2/Z05006

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## RESULTS OF AUDIT

The audit identified a number of deficient procurement practices used in task order awards, such as sole source awards without justification; inadequate competition; deficient price reasonableness determinations; inappropriate use of the IT fund, use of time-and-materials contracting without justification, questionable use of a “pass-through” contractor and inadequate monitoring of task order billing and receipt of service. Please refer to Appendix A-1 for details of task orders reviewed. During the second half of FY04, regional officials began to focus on improving the control environment in order to prevent further occurrences of deficiencies such as these. The impact of this effort cannot be assessed until FTS has had some time to ensure that the intended changes have been effectuated. If successfully adopted, these new measures should address the internal control concerns cited in this report.

The factors that appear to have contributed to the identified problems included: an inadequate system of internal management controls, CSC personnel sacrificing adherence to proper procurement procedures to accommodate customer preferences, an over-reliance on client agencies, excessive focus on customer satisfaction and a national overall culture of revenue growth within FTS. In addition, regional officials cited the need for additional staffing and training of the existing procurement staff.

Our evaluation of the impact of recent enhanced management controls implemented in the Region is inconclusive. Our review of selected task orders (please refer to Appendix B-1), in conjunction with related discussions concerning new management controls and regional policy statements, have led us to conclude that the control environment can best be characterized as a “work in process”. We found some new controls were being followed, while others had delayed or partial implementation. The Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC program during fiscal year 2005.

### Inadequate Competition

The CSC was not proactive toward expanding the competitive environment for task orders. As a result, the Government did not obtain the benefit of competition and potentially lower costs.

The following table summarizes the extent of competition for the task orders in our FY03 audit sample:

|   |                  |
|---|------------------|
| <b>Indefinite Delivery/Indefinite Quantity (IDIQ)</b> | <b>4</b>         |
| <b>FAST 8(A)</b>                                      | <b>2</b>         |
| <b>Sole Source</b>                                    | <b>5</b>         |
| <b>Single Bid Received</b>                            | <b>14</b>        |
| <b>Multiple Bids Received</b>                         | <u><b>5</b></u>  |
| <b>Total Sample</b>                                   | <u><b>30</b></u> |

As seen above, the sample included 24 FSS Schedule orders that did not involve an IDIQ or an 8(A) set-aside award. The CSC awarded 19 (79%) of these orders without the benefit of competition. Out of 19 sample task orders where the CSC solicited more than one vendor, 14 awards were based on a single offer. Nine of those 14 single offer awards were made to an incumbent contractor.

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. For most of the non-competitive procurements reviewed,

we concluded that the client generally had a particular vendor in mind before coming to GSA, particularly when the order involved an incumbent contractor. This was reflected in client MIPRs and statement of work transmittal letters that directly referred to the incumbent.

FSS Schedule services orders (that include a statement of work) expected to exceed \$2,500, 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.

On certain older orders, the CSC placed reliance on the FAR 8.404 provision that GSA had already determined the prices of items and services under schedule contracts to be fair and reasonable and therefore, did not seek more than one quote. For more recent orders, contracting officials generally solicited offers from only three vendors, including the incumbent, regardless of the size and complexity of the procurement. Additionally, the task order files did not include sufficient support documentation concerning market research efforts by the ITMs. This made it difficult for us to ascertain who determined which contractors were to receive Request For Quotes (RFQs) and the basis of this selection.

In 2002, 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 Department of Defense (DOD) orders for professional services expected to exceed \$100,000 that are placed under multiple award contracts, including FSS schedule contracts. 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. While most of the task orders in our sample predated the October 25, 2002 effective date of this legislation, the limited extent of competition is troublesome, in view of our observations concerning CSC price reasonableness determinations and the lack of support for fair and reasonable pricing, discussed below.

### **Inadequate Support for Fair and Reasonable Pricing**

For the majority of the orders for IT services that we reviewed, there was insufficient documentation to support that the Government received a fair and reasonable price. The task order files did not show how CSC officials followed FSS Ordering Procedures for Services to ensure fair and reasonable pricing, or whether they attempted to negotiate better pricing when processing and awarding orders, particularly when orders exceeded the MOTs of the underlying GSA schedule contract.

FSS has developed a set of procedures for services orders placed against its schedule contracts. These procedures include provisions for obtaining competition for task orders, as well as giving consideration to the level of effort and labor mix when making a price reasonableness determination. FAR 8.405-2 (d) provides that:

“The ordering activity shall evaluate all responses received using the evaluation criteria provided to the schedule contractors. The ordering activity is responsible for considering the level of effort and the mix of labor proposed to perform a specific task being ordered, and for determining that the total price is reasonable.”

The CSC generally did not ensure that task order documentation reflected a proper evaluation of labor mix and level of effort. The price reasonableness determination was often based on labor rate comparisons with other schedule contractors, without consideration of the proposed level of effort or labor mix.

### Independent Government Cost Estimates

Due to the complexity of the task orders being processed, the CSC placed great reliance on the technical expertise of the requiring agency, especially with regard to the preparation of independent government cost estimates (IGCEs). However, the CSC incorporated the estimates into the Justification For Awards (JFAs) without establishing the validity of the amounts. The IGCEs were often undated and without an identified preparer. In several instances, the IGCE consisted of total amounts, without underlying support. We were particularly concerned about estimates that exactly matched or closely approximated the proposed amounts. One example involved task order 02FM213706 awarded to Dataline, Inc., an 8(a) Federal Acquisition Service for Technology (FAST) contractor that had provided hardware to the client agency under two previous task orders. Dataline submitted a \$1,407,908 proposal on February 20, 2003, the same date that FTS issued the RFQ. Although the RFQ was based on a February 11, 2003 request from the client agency, Dataline had already forwarded a \$1,407,908 price quote to the client on February 3, 2003. In fact, the client agency's IGCE, dated February 12, 2003, was nothing more than a copy of the contractor's proposal. The JFA referred to this "independent" estimate but did not address the total price reasonableness of the proposal.

Although the FAR does not require IGCEs, FSS' Ordering Procedures for the FAST contract aptly points out that it is advisable for contracting officials to have an IGCE, particularly when negotiating task orders that are sole source or when there has been no similar or predecessor task from which to draw information. The guidelines provide that the estimate must address the resources necessary to accomplish the task requirements and a narrative in support of the hours and skill levels estimated. Moreover, the guidelines state that " Since the main purpose of the IGCE is to provide a tool to evaluate the contractor's proposal to determine if the price is fair and reasonable and the contents show a thorough understanding of the task to be accomplished, the IGCE will be prepared prior to, and independent of, the contractor's proposal."

An example of the CSCs' seeming over-reliance on the client-prepared IGCE involved a large task order (02FM213631) awarded to Sytex, Inc. The JFA for this task order incorporated IGCEs that were single line item amounts, without detailed support. We could not determine which client official prepared the estimates and the date they were prepared. Moreover, we noted that the ITM's cost evaluation used incorrect estimated amounts. For Contract Line Item Number (CLIN) 10, involving Data Seat Management, the ITM compared the contractor's \$47,894,108 proposal to a \$54,922,590 estimated amount, when correctly determining that the offer was 7 percent lower. However, the ITM mistakenly used the same IGCE amount for CLIN 8, involving video conferencing seat management. The correct IGCE for CLIN 8 was \$24,750,000. As a result, the ITM incorrectly determined that the contractor's \$32,049,366 proposal was 43 percent **lower** than the IGCE, when it was actually 29 percent **higher**.

### **Other Direct Costs**

Several task orders in our sample included a significant amount of other direct costs (ODCs) that were not addressed in the underlying multiple award schedule (MAS) or IDIQ contracts. The contracting officer did not prepare a separate price reasonableness determination for such costs. In addition, the contractors generally invoiced the ODCs as a single line, without detailed support, leaving the CSC without any knowledge of what the contractor was purchasing with the client's funds. As an example, task order 02KP21102 was awarded with proposed ODCs totaling \$1,127,679, without the contracting officer making a separate price reasonableness determination. CSC officials concurred with the cited weakness in the acquisition process relating to ODCs under MAS and IDIQ contracts. They cited the limited overall guidance concerning ODCs, as well as past regional ODC management policies that proved to be ineffective.

### **Inappropriate Use of the IT Fund**

Our review of FY04 task order modifications identified a task order that represented an inappropriate use of the IT Fund. The CSC awarded task order number 02KC21102 to Maden Tech Consulting, Inc. (MTCI) on January 25, 2001. The task order, having a quoted value of \$267,706, was awarded under the contractor's FAST 8(a) contract. The 8(a) FAST is a small business set-aside contract vehicle for technology solutions, with a unique Special Item Code (SIC) 7373- Computer Integrated Systems Design. The labor categories under MTCI's FAST contract were computer systems analyst, computer programmer, LAN Technician, Technician and Program Manager. Although a FAST contract modification permitted additional labor categories, the work has to be consistent with SIC 7373. Although the task order specified a Junior Systems Analyst, the awarded labor category was Staff Assistant I, derived from MTCI's GSA Schedule 70 contract, rather than the FAST contract. According to MTCI's own labor category description, the Staff Assistant's responsibilities could include word-processing and general and clerical and secretarial functions.

According to the task order statement of work, the client agency (United States Army, Program Executive Office for Command, Control and Communications, Human Resources Office) required a Junior Systems Analyst/Equipment Manager to be in charge of property and equipment. The client specifically requested MTCI because they were employing the individual who had already been performing the required task. The duties covered by the task order included scheduling conference room reservations, assisting the Security Manager with the distribution of badges, distributing mail, faxing, answering telephones and preparing and mailing FedEx packages. While the position also included maintaining an inventory of automation equipment, even this work item would not fall under the FAST contract labor categories.

The task order scope of work did not meet the intent of the IT Fund. 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)).

In reviewing sample task order invoices, we noted that at some point before March 2003, MTCI had begun billing at an unapproved Administrative Assistant III rate (\$50) instead of the awarded Staff Assistant I rate

(\$37.90). In addition, the March 2003 invoice included 152 hours for a second Administrative III position when the task only called for one position.

In addition to the award and billing concerns, we also noted the absence in the files of critical documents such as the RFQ, JFA, Findings and Determination (F&D) for a Time-and-Materials procurement and the task order award. The noted deficiencies went undetected when the CSC added \$34,466 to the task order by issuing contract modification Number four on April 23, 2004.

### **Frequent Use of Time-and-Materials Tasks**

We found that the CSC almost exclusively used time-and-materials tasks versus fixed-price task orders. Of the 29 orders for services that we reviewed, 23 were solicited as 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 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 change in the ceiling price.”

Our review identified five task orders where the contracting officer did not prepare a determination and findings concerning the use of time-and-materials awards. In addition, we noted that the task order ceiling prices were derived from the contractors’ base year proposals (e.g. 02FM212512 and 02FM212625). In view of the noted lack of competition and our previously discussed concerns regarding IGCEs and price reasonableness determination deficiencies, it is not clear that the contractors were actually taking on any risks under these time-and-materials task orders.

### **Questionable Use of Contract Vehicle**

The CSC awarded a sole-source task order, with a potential value of \$8,180,648, to BAE on February 26, 2001. The task order work entailed repairing communications equipment. According to the client agency’s sole-source justification, BAE’s subcontractor, Talla-Tech, was the main producer of much of the equipment that needed repair and the Government-furnished test equipment needed for the repairs was in Talla-Tech’s possession. The task order file did not address BAE’s role in this procurement. According to the ITM, Talla-Tech lacked its own GSA schedule contract and therefore needed to serve as a subcontractor to a GSA schedule contract holder, such as BAE, who would manage the contract. By taking the approach of using BAE as a “pass through”, instead of awarding an open market contract to Talla-Tech, the CSC caused the

client agency to expend significant management support costs that were likely unnecessary. BAE accounted for approximately \$650,000 of the proposed \$1,566,860 base year costs.

The task order file did not include an IGCE. According to CSC officials, the client estimated the annual cost to be approximately \$1,000,000 and, at the time of award, CSC policy did not require detailed estimates. The officials informed us that the use of an IGCE was not sufficient, in and of itself, and a price comparison with existing contracts was the prime determinant of fair and reasonable pricing. However, in this instance, such a comparison would not have been possible since the Talla-Tech portion of the proposal was presented as a single “subcontracting” line item. The BAE invoices billed Talla-Tech’s work in a similar manner.

### **Need For Increased Invoicing Oversight**

The CSC did not have sufficient controls in place to ensure that contractor billings were accurate and in sufficient detail to permit a verification of goods or services received. Until recently, the FTS invoice approval function was being performed at the Region 3 FTS Financial Service Center and the client representatives did not even have to validate that the invoiced goods and services had been received in accordance with the terms and conditions of the task order.

Our review noted three instances where incorrect labor rate billings by the contractor went undetected. In addition, contractors were permitted to invoice subcontractor labor as a separate line item, without detailed support. According to CSC officials, the prime contractor should have invoiced the subcontractor labor as if their own staff had performed the work.

### **Causes of Procurement and Task Order Administration Deficiencies**

A previous OIG Audit Report (A020144/T/5/Z04002, dated January 8, 2004), attributed procurement and task order administration deficiencies in other regional CSCs to factors such as: an inadequate system of internal management controls, CSC personnel sacrificing adherence to proper procurement procedures to accommodate customer preferences, an over-reliance on client agencies, excessive focus on customer satisfaction and an overall culture of revenue growth within FTS, nationally. Although the procurement deficiencies were not as egregious as those discussed in the prior report, our findings suggest that a similar control environment existed in the Region 2 CSC. Regional FTS officials also cited the lack of sufficient staffing to accomplish the workload and critical need for staff training.

Our audit work indicated that CSC contracting officials were either not familiar with, or were not following, FSS’ special ordering procedures for services under the Schedules program and, as a result, they followed practices that did not ensure adequate competition and price reasonableness.

(In November 2000, the General Accounting Office (GAO) reported similar findings and recommended that the Office of Federal Procurement (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 has recently been finalized.)

With regard to our concern about reliance on client agencies, regional FTS officials indicated that participation of the client’s technical experts is a vital and prudent standard of action. They cited that FAR 15.404-1(e)(1) *Technical analysis* provides that “The contracting officer may request that personnel having

specialized knowledge, skills, experience or capability in engineering, science, or management perform a technical analysis of the proposed types and quantities of materials, labor, processes, ... and other associated factors set forth in the proposal(s) in order to determine the need for and reasonableness of the proposed resources, assuming reasonable economy and efficiency.” However, FAR 15.404-1(e)(2) provides that, at a minimum, the technical analysis should examine the types and quantities of material proposed and the need for the types and quantities of labor hours and the labor mix.

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.

### **Impact of Recently Implemented Management Controls**

We expanded our audit scope to include an evaluation of the implementation of enhanced management controls over the procurement process that the Region put in place over the last several months. As part of that evaluation, we reviewed a selection of procurement actions that occurred during the 3-month period from March through May 2004. For those selected orders (please refer to Appendix B), we performed the same general audit steps, although our analysis was not in all cases as extensive as it was for the review of FY2003 task orders. We held discussions with CSC officials in order to reach an understanding of how the procurement administration process had changed relative to the enhanced control environment. We used our review of the selected procurement actions to measure the effectiveness of the controls.

Our review of selected task orders, in conjunction with related discussions concerning new management controls and regional policy statements, has led us to conclude that the control environment can best be characterized as a “work in process”. We found some new controls were being followed, while others had delayed or partial implementation. Some specific issues found present in our selected audit sample are as follows:

- Acquisition Checklists – Although required, were not included in some of the task order files, or were not adequately filled out.
- Documentation – the modifications and new task orders generally demonstrated some of the same shortcomings noted in our initial review of task orders.
- Implementation of Section 803- our review demonstrated that CSC procurement staff are aware of this directive, although task order justifications for exceptions to this policy were somewhat lacking.
- Legal Review – in conjunction with Regional Counsel, the CSC has implemented a legal review process with a Regional attorney assigned to review new task orders and task order modifications in excess of \$5 million. However, the attorney did not review one of the FY04 task orders that exceeded this threshold and another order apparently had verbal legal concurrence.

The Region is in the process of implementing the following internal control measures that are in addition to those mandated by Central Office:

- Regional Contract Review Panel – this Panel, chaired by the Deputy Director for the IT Solutions Division, will review all incoming projects to determine the appropriateness of the task, the applicable business line and project team members assignments for the task.



- The Region has prepared a draft charter for the Panel and is Beta testing a Lotus Notes Acquisition e-Approval document traffic system with a common drive on LAN to facilitate the review process.
- DAH Consulting Review – the Region hired this contractor to document the applicable Regional and national acquisition policy, procedures and related guidance concerning the FTS business lines.
- Internal Study- the Region is augmenting the DAH review with an internal work flow study followed by intensive training concerning procurement regulations and responsibilities.
- Acquisition Handbook- the Region has issued a draft revised acquisition handbook to reflect current policy and guidance.
- ODC Policy – in response to matters raised by this audit, the Region established a policy that limits ODCs to \$2,500 per task order and requires that ODCs be clearly defined and priced with a separate fair and reasonableness determination. The Region is reviewing all active task orders to determine whether it is necessary to issue modifications to remove ODCs, in view of this policy.
- Invoicing Procedures/Receiving Report - as of November 2003, the CSC suspended the invoice approval authorization that was previously issued to the Financial Center in Region 3. The current Regional policy requires that the ITM obtain validation from the client agency that the products or services have been received in accordance with the terms and conditions of the order. In the past, this did not occur. In response to audit observations, the CSC has revised the task order invoicing requirements to ensure that contractors provide sufficient details to clearly delineate the products and services being billed. In addition, the ITM is responsible for ensuring that order pricing does not exceed the pricing allowable under the base contract. While the Region intends to modify existing task orders to reflect the detailed invoicing requirement, this had not yet been done for the FY 04 orders in our control review sample. In addition, the Region is creating a new Invoice Resolution Manager position.
- Training Curriculum – the Region is in the process of developing a mandatory training curriculum for all FTS associates.
- Acquisition Policies Memorandum- on June 9, 2004, the IT Division Director issued a memorandum that provided an overview of existing and recently implemented policies. In addition to previously discussed controls, the memorandum provided for market research documentation and validation of information forwarded by client agencies.
- Personnel – the Region intends to hire additional contracting staff in order to be better able to accomplish the existing workload.

## **Conclusion**

The audit identified a number of deficient procurement practices used in task order awards, such as sole source awards without justification; inadequate competition; deficient price reasonableness determinations; inappropriate use of the IT fund, use of time-and-materials contracting without justification, questionable use of a “pass-through” contractor and inadequate monitoring of task order billing and receipt of service. As a result, for the orders reviewed, the CSC could 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. During the second half of FY04, regional officials began to focus on improving the control environment in order to prevent further occurrences of deficiencies such as these. The impact of this effort cannot be assessed until FTS has had some time to ensure that the intended changes have been effectuated. If successfully adopted, these new measures should address the internal control concerns cited in this report.

The factors that appear to have contributed to the identified problems included: an inadequate system of internal management controls, CSC personnel sacrificing adherence to proper procurement procedures to accommodate customer preferences, an over-reliance on client agencies, excessive focus on customer satisfaction and an overall culture of revenue growth within FTS, nationally. In addition, regional officials cited the need for additional staffing and training of the existing procurement staff.

Our evaluation of the impact of recent enhanced management controls implemented in the Region is inconclusive. Our review of selected task orders, in conjunction with related discussions concerning new management controls and Regional policy statements, have led us to conclude that the control environment can best be characterized as a “work in process”. We found some new controls were being followed, while others had delayed or partial implementation.

## **Recommendations**

Based on the comprehensive recommendations contained in Audit Report Number A020144/T/5/Z04002, dated January 8, 2004, no further recommendations are deemed necessary at this time.

## **Management’s Response**

The Regional Administrator generally concurred with our findings. The response, which is presented in full in Appendix D-1, stated that the Region recognized that there were areas where previous management controls within the CSC needed to be strengthened. The Regional Administrator expressed confidence that the management controls now in place, the Region’s commitment to strengthening those controls and the OIG’s continuing efforts will ensure that the CSC acquisition process will be efficient, effective and provide the best value with the highest level of integrity.

The response included comments on certain audit report findings. Concerning independent Government cost estimates, the Region acknowledged the need for more independent and reliable cost data and is taking actions to improve the estimate validation and approval process through revised market research procedures. With regard to the audit finding concerning the limited extent of competition, our primary concern had been the number of FY03 task orders that were awarded based on a single bid. Although the response indicated that 29 schedule vendors had been solicited for one of these orders, the normal practice during this time

frame had been to solicit three vendors, including the incumbent. However, the Regional response correctly noted that the reviewed task orders from March through May 2004 were all in compliance with DOD Section 803.

While concurring with the numerous deficiencies associated with task order 02KC21102, the Regional response disagreed with our characterization of this order as an inappropriate use of the IT fund. The response took into consideration the prevailing guidance at the time of the award and the customer agency's affirmation that a primary requirement of the task order was to maintain the inventory of automation equipment. We continue to believe that the scope of work for this task order did not meet the intent of the IT Fund. The required duties were that of an administrative assistant, as indicated by the contractor's own labor category description for the position billed under this task order.

### **Internal Controls**

It was evident from our work that the existing internal control structure was not effective. We identified deficient procurement and administrative actions (outlined in our report details). We believe that an effective internal control structure, having the on-going endorsement of management, would have identified and prohibited many of these actions. During the past several months, the Region began to intensively focus on improving the internal control environment by implementing a series of national and regional measures. Once successfully adopted, these measures should address the internal control concerns cited in this report. The Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC program during fiscal year 2005.

**AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
NORTHEAST AND CARIBBEAN REGION  
REPORT NUMBER A040123/T/2/Z05006**

**SCHEDULE OF FY03 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION**

| <b>Order Number</b> | <b>Order Date</b> | <b>Client Organization</b> | <b>Service (S) or Commodity (C)</b> | <b>Acquis. Vehicle</b> | <b>Contractor</b>   | <b>Projected Value of Task</b> | <b>Notes</b> |
|---------------------|-------------------|----------------------------|-------------------------------------|------------------------|---|--------------------------------|--------------|
| 1 02FM213631        | 1/7/2003          | Army                       | S & C                               | MAS                    | Sytex, Inc.   | \$130,843,619                  | ( 1 )        |
| 2 02FM212523        | 12/17/2001        | Army                       | S                                   | MAS                    | Booz-Allen Hamilton   | \$56,615,316                   | ( 2 )        |
| 3 02FM211120        | 7/13/2001         | Army                       | S                                   | MAS                    | Nations Inc., a BTG Company   | \$35,757,845                   | ( 3 )        |
| 4 02FM213687        | 1/10/2003         | Army                       | S                                   | IDIQ                   | General Dynamics Gov't<br>Contract Systems Corp                                     | \$5,394,832                    | ( 4 )        |
| 5 02FM212616        | 7/30/2002         | Army                       | S & C                               | MAS                    | Galaxy Scientific Corp.   | \$10,870,719                   | ( 5 )        |
| 6 02FM212625        | 8/12/2002         | Army                       | S & C                               | MAS                    | JB Management Inc.  | \$142,218,161                  | ( 6 )        |
| 7 02KP21102         | 4/10/2001         | Army                       | S & C                               | MAS                    | TRW Systems and Information Technology Group  | \$17,723,141                   | ( 7 )        |
| 8 02DM21111         | 1/16/2001         | Army                       | S                                   | PES                    | Booz-Allen Hamilton   | \$10,792,177                   | ( 8 )        |
| 9 02FM212502        | 2/14/2002         | Army                       | S & C                               | IDIQ                   | General Dynamics Gov't  | \$6,593,372                    | ( 9 )        |
| 10 02DM21005        | 12/15/2000        | Army                       | S                                   | MAS                    | BAE Systems Applied   | \$53,561,589                   | ( 10 )       |
| 11 02MC21101        | 1/31/2001         | Army                       | S                                   | MAS                    | Titan Systems Corp.<br>( Lincom Division)   | \$12,741,599                   | ( 11 )       |
| 12 02FM212519       | 11/20/2001        | Army                       | S                                   | MAS                    | BAE Systems Applied   | \$13,342,155                   | ( 12 )       |
| 13 02FM212581       | 4/24/2002         | Army                       | S                                   | GWAC                   | Signal Corporation/<br>(Millennia Veridian IT Sevices, Inc.<br>Lite) as of 12/23/02 | \$4,785,167                    | ( 13 )       |
| 14 02FM213706       | 2/21/2003         | Army                       | S & C                               | FAST 8(a)              | Dataline, Inc.  | \$1,407,908                    | ( 14 )       |
| 15 02JC473101       | 8/30/2002         | GSA                        | S                                   | MAS                    | Management Technology, Inc.   | \$30,928,461                   | ( 15 )       |
| 16 02DM21107        | 1/4/2001          | Army                       | S                                   | MAS                    | Information Technology and Applications Corp.                                       | \$10,695,174                   | ( 16 )       |
| 17 02FM572633       | 11/12/2002        | Air Force                  | S & C                               | MAS                    | Northrup Grumann/Logicon  | \$1,637,500                    | ( 17 )       |
| 18 02FM212512       | 6/12/2002         | Army                       | S & C                               | MAS                    | VertexRSI   | \$12,682,207                   | ( 18 )       |
| 19 02DM21108        | 1/2/2001          | Army                       | S & C                               | PES                    | BAE Systems Applied   | \$27,160,693                   | ( 19 )       |
| 20 02JC683101       | 8/29/2002         | EPA                        | S                                   | MAS                    | Management Technology, Inc.   | \$25,622,350                   | ( 20 )       |
| 21 02MT21132        | 2/16/2001         | Army                       | S                                   | MAS                    | Systems Integration and<br>Research Inc. (Subsidiary<br>of C-Cubed Corporation)     | \$2,625,711                    | ( 21 )       |
| 22 02FM213691       | 2/17/2003         | Army                       | S                                   | IDIQ                   | General Dynamics Gov't  | \$868,228                      | ( 22 )       |
| 23 02MT213008       | 5/14/2003         | Army                       | S & C                               | FAST 8(a)              | Dynamic Technology<br>Systems, Inc.   | \$781,941                      | ( 23 )       |
| 24 02FM212510       | 6/6/2002          | Army                       | S                                   | IDIQ                   | General Dynamics Gov't<br>Contract Systems Corp                                     | \$3,111,121                    | ( 24 )       |
| 25 02FM211535       | 8/2/2001          | Army                       | S                                   | MAS                    | Titan/Semcor/Advanced Communications  | \$2,795,794                    | ( 25 )       |
| 26 02EN21116        | 2/26/2001         | Army                       | S & C                               | PES                    | BAE/Tall-Tech   | \$8,180,648                    | ( 26 )       |
| 27 02PH75108        | 2/5/2002          | HHS                        | S                                   | GWAC                   | Booz-Allen Hamilton   | \$1,780,903                    | ( 27 )       |
| 28 02PH573010       | 3/38/03           | Air Force                  | C                                   | MAS                    | Vindicator Technologies   | \$299,191                      | ( 28 )       |
| 29 02FM212564       | 6/30/2002         | Army                       | S & C                               | MOBIS                  | Navigator Development Group   | \$2,709,479                    | ( 29 )       |
| 30 02FM213720       | 8/13/2003         | Army                       | S                                   | MAS                    | Riverside Research Institute  | \$839,055                      | ( 30 )       |

SCHEDULE OF FY03 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

- (1) This task, performed at the request of the Program Manager Defense Communications and Army Transmission System, located at Fort Monmouth, New Jersey, related to the relocation of the Army Material Command Headquarters (AMCH) from leased space to Fort Belvoir, Virginia, in order to afford the Commander and staff the force protection required for an Army Major Subordinate Command. The AMCH operates a 24-hour operations center to meet the worldwide requirements to support the war fighting Combatant Commanders.

The CSC, employing a teaming arrangement under the FSS Schedules Program, issued RFQs to nine vendors; however, Sytex was the only firm to submit a proposal. The CSC did not prepare a written determination, required by Section 803, that no additional contractors that could fulfill the requirements could be identified despite reasonable efforts to do so. Although Section 803 was already in effect at the time of the order, the Region had not yet implemented the guidelines.

While the CSC was aware that Sytex's FSS schedule contract did not include the appropriate Special Item Number (SIN) to accomplish this task order, due to an oversight, no corrective action was taken to rectify the situation.

This was a complex task involving both IT and non-IT efforts, with input provided by PBS, FSS and Regional and Central Counsel. The CSC coordinated the effort with the Regional FSS office, as the overall requirements included both IT and non-IT items, necessitating an allocation between the IT Fund and the General Supply Fund. However, the proper allocation did not always occur. While the modular buildings were funded through the General Supply Fund, the \$1,540,000 delivery charges were paid with IT funds. In addition, ODCs were paid with IT funds and the \$1,985,635 ODC total was well above the task order's \$500,000 Not To Exceed amount. Furthermore, over \$500,000 of space planning costs were paid with IT funds.

- (2) This task order represented a consolidation of the software requirements for the Army Battle Command System. The client agency requested that the CSC issue an RFQ to the five vendors who had been performing the work under separate task orders; Booz-Allen & Hamilton (BAH) and SAIC were the only vendors that submitted proposals. SAIC's \$8,125,570 base year proposal was 22 percent lower than BAH's \$10,450,426 proposal. The client's task evaluation summary noted that although the BAH proposal was "slightly higher" than the SAIC submission, BAH offered the best value and better met the requirements. However, when factoring in the four option periods, the total cost difference between the two proposals was \$14,719,028 (\$56,615,316 - \$41,896,288). The IGCE for this task order was \$45,850,000.

SCHEDULE OF FY03 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

- (3) This was a sole source procurement in the form of a repetitive follow-on to previous task orders. There was no determination of overall price reasonableness. Contract modification number 16 increased the ceiling price for the four option years due to several factors, including ongoing combat efforts. The client agency representative's request letter for this modification presented increased ceiling amounts as the adjusted IGCE, with no detailed support. The requested ceiling amounts almost exactly matched the contractor's proposal as seen below:

|               | <u>Per Client</u> | <u>Per Proposal</u> |
|---------------|-------------------|---------------------|
| Option Year 1 | \$8,316,838       | \$8,306,753         |
| Option Year 2 | \$9,001,613       | \$9,001,182         |
| Option Year 3 | \$9,244,525       | \$9,244,288         |
| Option Year 4 | \$9,494,723       | \$9,490,065         |

The contractor's proposals for the base task order and modification number 16 only provided for discounts on certain disciplines; the ITM did not request discounts on the remaining disciplines. The task order file did not include a statement from the client concerning the contractor's performance during the base year and the continuing need for the contractor's services prior to the exercise of option year one.

- (4) This task order was awarded against a single award IDIQ contract held by General Dynamics. The task order, providing for an upgrade from a single band to a broad base band communications switch node, was awarded on January 10, 2003, on a price to be determined basis, with a not-to-exceed (NTE) ceiling of \$1,463,414. On May 8, 2003, modification one increased the NTE amount to \$2,926,829. While the justification for the modification stated that the initial Government estimate was \$4,000,000, the files did not include a formal IGCE in support of this amount. On July 30, 2003, General Dynamics submitted a proposal in the amount of \$5,594,832 which became the task order's new NTE ceiling when the contracting officer issued modification two on September 2, 2003. Once again, there was no formal estimate on file to support the increased amount and the justification for award did not address total price reasonableness.

The invoices against this task order did not provide sufficient detail (e.g. rates, hours, quantities) to permit an evaluation of billing accuracy. Using Invoice Number 983687, dated October 13, 2003 as an example, the following are some of the task order charges that were not broken out in detail:

SCHEDULE OF FY03 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

(4)

|                              |           |
|------------------------------|-----------|
| Materials                    | \$ 45,935 |
| Section Engineering Labor    | 155,779   |
| Engineering/Section Overhead | 160,764   |
| Sector Field Labor           | 44,836    |
| Division G&A                 | 71,244    |
| Excess Addback               | 139,625   |
| Fee                          | 306,776   |

Being particularly concerned about the nature of charges such as excess addback and fee, we requested that the CSC obtain supporting documentation for these items. This information was not provided.

- (5) FTS awarded this \$10,870,719 task order to incumbent contractor Galaxy Scientific Corporation on July 30, 2002. None of the other four solicited vendors submitted a proposal. The IGCE was undated and did not identify the preparer. Approximately 65% of the base year costs were for material costs, most of which were computer hardware purchases. The ITM's price reasonableness determination was based on a requirement that the contractor contact three sources for quotes. However, there was no support that this condition was met.

We identified two invoices where the contractor incorrectly billed the higher contractor site rate for work performed at the Government facility.

- (6) The CSC awarded this task order to JB Management (JBM), with a potential value of \$142,218,161 over five years, on August 12, 2002. The task order objective included obtaining software development, software integration, configuration management, testing, program management, training and systems engineering support to aid the Project Manager, Ground Combat Command and Control at Fort Monmouth. For an order of this magnitude, the CSC solicited a total of three contractors, two of which were small businesses, including the incumbent contractor, JBM. One of the contractors submitted a no bid response and another elected to team with JBM as a subcontractor. The task order files did not include details of any market research efforts that led to these particular contractors being solicited and CSC officials were unable to provide any further information.

Although the task order file made reference to an IGCE, the actual estimate document was unavailable for our review. We therefore could not determine who prepared the estimate and the basis of the comparison with the JBM proposal. JBM's schedule contract had a Maximum Order Threshold of only \$500,000. Yet, despite the significant

SCHEDULE OF FY03 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

(6)

potential order value, the contractor proposed the schedule contract labor rates without any discounts. The task order file gave no indication that the contracting officer attempted to negotiate any price improvements.

JBM's underlying Multiple Award Schedule (MAS) contract was not specific with regards to ODCs. The contracting officer did not prepare a separate price reasonableness determination for the proposed \$8,146,035 of ODCs and apparently did not consider a separate competitive procurement, despite the significant potential cost.

JBM's invoices did not provide sufficient detail to permit a determination as to whether the ODCs and subcontractor costs were fair and reasonable, as these two cost items were invoiced as summary line items. At \$1,404,484, subcontract costs accounted for approximately 34 percent of the \$4,105,982 total task order billings through December 31, 2003. In addition, although the task order only provided for an indirect handling charge against long distance travel, JBM inappropriately applied a 6 percent material handling charge against ODCs and subcontract costs, which included labor performed by Booz Allen & Hamilton. The resultant overcharge totaled \$88,076.

(7) The CSC awarded this \$17,723,141 task order for Army Battle Command System Foundation Infrastructure to incumbent contractor TRW Systems and Information Technology (TRW) on April 10, 2001.

The MIPR, dated February 28, 2001, identified TRW as the contractor even though the RFQ was not issued until March 12, 2001. Although three other contractors were solicited, the incumbent was the sole offeror. The ITM did not prepare an Acquisition Plan and FTS was unable to provide information as to the market research that led to these contractors being issued RFQs. The price reasonableness determination was based on a comparison of the FSS Schedule contract rates for TRW, General Dynamics and Information Systems Support, who were not included among the contractors solicited for this task order. These two contractors had lower rates for several labor categories. ODCs, which were not specifically addressed in TRW's contract, totaled \$1,127,679.

(8) This task order, valued at \$10,792,177, was awarded to the incumbent contractor BAH on January 16, 2001, without the benefit of competition. The ITM did not prepare an Acquisition Plan or a sole source justification for this task order. CSC officials contend that orders placed during this time frame were accomplished in accordance with prevailing CSC policy, prior to the Section 803 legislation. They cited FAR 8.404, which provides that an order placed against an MAS contract was to be considered as having been issued using full and open competition and that GSA had already determined that



SCHEDULE OF FY03 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

(8)

the prices of schedule contract items to be fair and reasonable. However, FTS never addressed the reasonableness of the proposed labor hours. There was no IGCE and the CSC accepted the proposal without negotiation, even though the task order was well in excess of the contract's \$750,000 maximum order threshold. The JFA indicated that the ITM had performed a price analysis against two other schedule contracts but the analysis was not included in the task order files. ODCs, which were not specifically addressed in BAH's contract, totaled \$412,967.

(9) This task order, valued at \$6,593,372, was a directed buy to General Dynamics for tactical high-speed data networking. At a total of \$2,506,143, ODCs constituted a significant portion of the contractor's proposal. The General Dynamics contract was not specific with regards to ODC pricing and the contracting officer did not perform an analysis to determine whether these costs were fair and reasonable.

(10) The task order was awarded to BAE Systems Applied Technologies Inc. (BAE), the incumbent for the prior five years under an Army contract.

On October 23, 2000, the client agency's representative forwarded a request letter, including a statement of work and a support cost estimate, for the purpose of initiating a delivery order with BAE. The MIPR issued that same day also identified BAE as the contractor.

The ITM, who did not prepare an acquisition plan, solicited two small-business contractors who declined to submit a proposal. The file did not include information as to how these particular two contractors were selected to receive RFQs. CSC officials indicated that this represented an effort to encourage small business participation; however, the two contractors would have had to compete against a large business incumbent.

The estimate that the client agency forwarded on October 23, 2000, totaled \$53,560,733 for the base year and four option years. On December 8, 2000, BAE submitted a proposal in the total amount of \$53,561,589. The estimator's almost exact approximation of the eventual proposal was remarkable in view of the RFQ having been issued without any predetermined labor hours. In fact, the contractor's proposal showed one overall lot for annual labor hours, whereas the estimate broke out hours by individual labor category. The JFA did not include a comparison of the IGCE and the proposal and did not address total price reasonableness.

SCHEDULE OF FY03 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

- (11) The CSC awarded this task order to the Lincom Division of Titan Systems Corporation (Titan) on January 31, 2001. Titan had been the incumbent contractor since 1996. The client agency's November 28, 2000 letter, forwarding the statement of work and the IGCE, identified Lincom as the prospective contractor. The ITM, who did not prepare an acquisition plan, issued RFQs to two other contractors who declined to submit a proposal. The JFA addressed the reasonableness of Titan's unit prices through a comparison with two other, non-solicited, schedule contractors; however, the ITM did not address the reasonableness of the proposed hours. The IGCE presented costs in a summary manner, without addressing the labor mix.

The CSC exercised three option years without the benefit of an IGCE. Contract modification number 20 added software maintenance support for option years as follows:

|        |             |
|--------|-------------|
| Year 2 | \$ 933,324  |
| Year 3 | \$ 988,651  |
| Year 4 | \$1,047,271 |

While the client did not prepare a formal estimate for this modification, the task order file included an e-mail wherein the client estimated that the cost would range from \$500,000 to \$900,000.

Our review determined that the contractor had been over-billing the Government by invoicing at rates that exceeded those included in the FSS contract. Although the awarded task order included option year rates that were adjusted for escalation, the FSS Contracting Officer had never approved an economic price adjustment for the underlying schedule contract. The CSC has taken corrective action concerning the over-billing.

- (12) The CSC did not prepare an acquisition plan for this task order and the client agency did not provide an IGCE for the base year and option period. The JFA did not address total price reasonableness and supporting documentation was unavailable concerning the price reasonableness of material costs invoiced under this task order.
- (13) The RFQ, issued to more than 10 vendors under the Millenia Lite government-wide acquisition contract, included a notification statement that "Signal has been the incumbent for the past five years and has successfully led the systems engineering team and met all the requirements of the customer ". The incumbent was the sole contractor to submit a proposal. The IGCE presented labor costs as a single \$500,000 total without addressing the labor mix and the JFA did not address the option years when comparing the offer to the estimate.

SCHEDULE OF FY03 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

(13)

CLIN 5 (development activities) was added to the contract at \$750,000 per annum for option years one through four. The task order file did not include an IGCE, a quote or even a detailed description of the nature of this work item.

The awarded task order included schedule contract materials and incidental materials for the base year and first option year. The task order files did not include information, such as providers, contract numbers and line item details, to enable a fair and reasonable price determination.

(14) Our concerns about the IGCE for this task order are discussed in detail in the body of the report. In addition, the JFA for modification number 2, which added \$257,312 of labor to this task order, did not address the labor mix.

(15) The IGCE was undated and did not identify the preparer. The JFA included a comparison between the estimate and the quotes for the base year. The price reasonableness determination should have addressed the four option periods as well.

(16) This task order, valued at \$10,695,174, was awarded to the incumbent contractor Information Technology & Applications Corporation (ITAC) on January 4, 2001, without the benefit of competition. The ITM did not prepare an Acquisition Plan, JFA or a Findings and Determination (F&D) for this task order. The CSC contends that this order was placed in accordance with prevailing CSC policy at the time, prior to the Section 803 legislation. They cited FAR 8.404, which provides that an order placed against an MAS contract was to be considered as having been issued using full and open competition and that GSA had already determined that the prices of schedule contract items to be fair and reasonable. However, the ITM never addressed the reasonableness of the proposed labor hours. The contractor's proposal was accepted without negotiation, even though the task order was well in excess of the contract's \$500,000 maximum order threshold. In addition, the client agency's IGCE, dated October 19, 2000, showed a total cost of \$5,826,714 for the base year and first three option years. The awarded task order amount for the same period totaled \$8,436,004 with the difference largely attributable to a much greater number of labor hours in the contractor's proposal.

(17) The JFA refers to an IGCE but the estimate document was not included in the task order file.

(18) This technical support services task order, with a potential value of \$12,682,207, was awarded to Vertex RSI on June 12, 2002. Although two other contractors were solicited,

SCHEDULE OF FY03 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

(18)

Vertex was the sole offeror. The IGCE, which the client agency forwarded to the contracting officer on January 2, 2002, used Vertex's labor rates even though the RFQ was not issued until February 5, 2002. Thus, it appears that the client was anticipating an award to Vertex.

The estimated amounts in the contracting officer's comparative review between the IGCE and the proposal did not tie back to the IGCE document. The review showed an estimated cost total of \$14,477,500, whereas the IGCE total was \$8,342,622 total. The client agency's technical evaluation even noted that the proposed labor costs exceeded the IGCE for all years.

It appears that Vertex was invoicing at escalated rates prior to the FSS contracting officer's approval of an economic price adjustment.

- (19) On October 23, 2000, the client agency forwarded a statement of work and an IGCE for a task order covering the integration, testing and fielding of the Ultrahigh Frequency Satellite Communications On The Move, a program that was intended to provide satellite range extension of the tactical Internet. The client's letter specifically requested that the CSC initiate the delivery order with BAE. In fact, the IGCE, which was undated and did not identify the preparer, incorporated BAE's schedule contract rates.

On December 5, 2000, the CSC issued an RFQ to BAE and two small business contractors. One contractor declined to bid and the other never responded to the RFQ. The Vice President of the latter company informed us that his firm had no record of having received the RFQ, and after hearing the project requirements, he stated that his company lacked the expertise to perform the task order. The task order file did not document the market research that led to these particular firms being solicited. In addition, the file did not include an Acquisition Plan. CSC officials indicated that the absence of other key documents, such as the BAE proposal and the ITM's comparative analysis, was due to problems experienced during the data migration to the new ITSS.

On January 2, 2001, the CSC awarded this task order, having a potential value of \$27,839,803, to BAE. The awarded amount was strikingly similar to the IGCE as seen in the following table covering the base year:

SCHEDULE OF FY03 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

(19)

| <u>Cost Category</u> | <u>Per IGCE</u>    | <u>Per Award</u>   |
|----------------------|--------------------|--------------------|
| Labor                | \$2,676,045        | \$2,673,553        |
| Other Direct Charges | 375,000            | 375,000            |
| Travel               | 175,000            | 175,111            |
| Material             | <u>1,900,000</u>   | <u>1,900,000</u>   |
| Total                | <u>\$5,126,045</u> | <u>\$5,123,664</u> |

With regard to the material costs, on December 12, 2000, FTS' technical expert, upon reviewing the proposal, notified the contracting officer that the material costs were not acceptable, without back-up documentation. We found no supplemental data request in the files.

- (20) The IGCE was undated and did not identify the preparer. The JFA included a comparison between the estimate and the quotes for the base year. The price reasonableness determination should have addressed the four option periods as well.
- (21) The ITM did not prepare a formal RFQ and formal task order. In lieu of a JFA, the ITM prepared a decision document that did not address total price reasonableness. Other than informal or "cuff" notes, there was no record concerning contractors solicited and other bids that may have been received. In addition, the IGCE was undated and did not identify the preparer.
- (22) This task order, with a potential value of \$868,228, was a directed buy to General Dynamics for the development and conduct of training and operational/contingency planning related to communications switches. The General Dynamics contract was not specific with respect to ODC and material pricing and the contracting officer did not perform an analysis to determine whether these costs were fair and reasonable. The task order file did not include an IGCE and the invoices did not provide sufficient detail to enable us to determine whether the contractor had been properly billing at the contractually agreed upon rates.
- (23) The IGCE was undated and did not identify the preparer. In addition, the IGCE referenced the contractor's proposed unit quantities but only showed a lump sum total (\$626,000) for hardware. At \$621,671, hardware costs accounted for 80% of the awarded task order.

SCHEDULE OF FY03 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

- (24) The task order was awarded against General Dynamics' single award IDIQ contract. The CSC did not request IGCEs for the original task order award and the contract modifications and the JFA did not address total price reasonableness.
- (25) This logistical support task order was awarded to the incumbent contractor on August 2, 2001 based on an RFQ with a three-day response turnaround. The other two solicited contractors elected not to submit a proposal. The task order file did not include a findings and determination justifying a time-and-materials procurement or an overall JFA. E-mail from the client agency's representatives referred to an IGCE for the base year but the estimate was not included in the task order files.
- (26) This task order is discussed in the body of the report.
- (27) This task order, having a potential value of \$1,780,903, was awarded to BAH on February 5, 2002. According to the JFA, the stated objective of the procurement was to obtain management, administrative and technical support for the Department of Health and Human Services' Head Start program by providing high-quality grants management and programmatic services. BAH had been performing similar work for other regional Head Start Bureaus.
- The statement of work included certain administrative tasks that appear to be non-IT related such as audit resolution and grant closeout activities. Other tasks involving internal systems support were more of an IT nature. The IGCE did not address the four option periods.
- (28) This was a directed buy for the purchase and installation of an Air Force approved integrated automated access control and intrusion detection system. The ITM's market analysis document compared a proposed cost line item breakdown to a Government estimate total. The task order file did not include support for this estimate.
- (29) On February 26, 2002, the U.S. Army Air Maneuver Battle Lab forwarded a statement of work for a task order calling for the development, refinement, and documentation of Objective Force war fighting scenarios for modeling and simulation. On February 27, 2002, the client agency representative offered to prepare a sole source justification for a task order award to Navigator Development Group (Navigator) at an estimated annual cost of \$1,000,000. The client did not provide a detailed IGCE to the CSC.

SCHEDULE OF FY03 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

(29)

On April 2, 2002, the CSC contracting officer issued an RFQ to three contractors, including Navigator, who was the only vendor to respond with a proposal. The task order file did not address the market research that led to these contractors being solicited. The President of one of the firms declining to bid informed us that a key factor in reaching that decision was that they would have had to compete against large companies and/or a large incumbent.

The contracting officer's analysis noted that Navigator's \$521,992 proposed base year costs came in 47% lower than the Government estimate because the client overestimated the labor required for this task. While the \$2,709,479 potential order value exceeded the MOT of Navigator's contract, the task file gave no indication that the contracting officer attempted to negotiate discounted prices. The JFA indicated that the contracting officer had performed a comparison and determined that Navigator's pricing was comparable to other vendors. We saw a comparison with only one (non-solicited) vendor whose rates were actually lower in two out of three categories.

- (30) The CSC awarded this task order, having a potential value of \$839,055, to Riverside Research Institute (RRI) on August 13, 2003. The task order required the contractor to conduct Measurement And Signature Intelligence Phenomenology studies to support Army Science and Technology, requirements development and system evaluation and material for future Army multi-sensor programs. This appears to be a research oriented task that would have been more appropriately funded through the General Supply Fund.

Incumbent contractor RRI was the only one of the 23 solicited contractors to submit a proposal. We surveyed eight contractors who had declined to submit an offer; five indicated that they lacked the necessary subject matter expertise.

Although the JFA compared RRI's proposal to an IGCE summary, the actual estimate document could not be found. Without the IGCE, we could not evaluate the contracting officer's price reasonableness determination that RRI's proposal was 10 to 20% lower than the IGCE for the base year and option periods, respectively.

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
NORTHEAST AND CARIBBEAN REGION  
REPORT NUMBER A040123/T/2/Z05006

SCHEDULE OF FY04 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION

| <u>Order Number</u> | <u>Order Date</u> | <u>Client Organization</u> | <u>Service (S) or Commodity(C)</u> | <u>Acquisition Vehicle</u> | <u>Contractor</u>                                | <u>Projected Value of Task</u> | <u>Notes</u> |
|---------------------|-------------------|----------------------------|------------------------------------|----------------------------|--|--------------------------------|--------------|
| 2                   |                   |                            |                                    |                            |  |                                |              |
| 1 02FM214526        | 04/27/04          | Army                       | S&C                                | MAS                        | DLT Solutions, Inc                               | \$2,160,000                    | (1)          |
| 2 02FM214525        | 03/22/04          | Army                       | C                                  | MAS                        | CounterTrade Products, Inc.<br>d.b.a. CEWinc.com | 161,785                        | (2)          |
| 3 02KP2110314       | 04/21/04          | Army                       | S                                  | BPA                        | Information Systems Support Inc.                 | 455,000                        | (3)          |
| 4 02FM214517        | 04/08/04          | Army                       | S                                  | MAS                        | Titan Systems Corporation                        | 5,170,306                      | (4)          |
| 5 02PA213773        | 03/25/04          | Army                       | S                                  | MAS                        | Robbins-Gioia                                    | 1,991,075                      | (5)          |
| 6 02FM213725        | 09/30/03          | Army                       | S                                  | MAS                        | Booz – Allen Hamilton Inc.                       | 141,424,641                    | (6)          |
| 7 02FM211081        | 12/31/01          | Army                       | S                                  | MAIQ                       | Logicon Inc.                                     | 83,417,226                     | (7)          |
| 8 02FM213539        | 02/26/04          | Army                       | S&C                                | MAS                        | D & S Consultants, Inc                           | 57,430,660                     | (8)          |
| 9 02FM213727A       | 10/15/03          | DOD                        | S                                  | MAS                        | JB Management Inc.                               | 24,364,294                     | (9)          |
| 10 02KC21102        | 01/25/01          | DOD                        | S                                  | FAST 8(a)                  | Maden Tech Consulting Inc.                       | 267,606                        | (10)         |

<sup>2</sup> Task Orders 1-5 represent those that were newly awarded during the period 3/1/04 – 5/31/04. Task Orders 6-10 represent those orders in which one or more modifications were issued during the same period.



SCHEDULE OF FY04 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

- (1) On April 27, 2004, the CSC awarded this \$2,160,000 task order for off-the-shelf Linux operating system subscriptions and support. Out of 29 FSS schedule contractors solicited through GSA e-Buy, DLT Solutions, Inc. (DLT) was the sole offeror. The contracting officer determined that Section 803 requirements were met by virtue of having solicited through e-Buy. However, the task order files did not document the market research that resulted in those 29 contractors being recipients of the RFQ.

DLT's offer was submitted on March 19, 2004. Eleven days prior, on March 8, 2004, the client agency forwarded a revised IGCE that exactly matched the DLT offer. Thus, it would appear that the client agency anticipated an award to DLT. According to the ITM, the prices were previously negotiated by the client agency. We could not tie the proposal to the FSS Schedule contract, as the subscription prices for the base year uniquely incorporated five years of support costs.

The task order files did not include the pre-solicitation and administration checklists.

- (2) This task order provided for the purchase of 55 Dell laptop computers. The ITM did not prepare a JFA and pre-solicitation checklist.
- (3) Information Systems Support, Inc. (ISS) was awarded this task order on April 21, 2004 under a Blanket Purchase Agreement (BPA) dating back to 2001. The CSC solicited sixteen vendors for the BPA and received three offers, with ISS being the highest at \$23,434,085 and BAE the lowest at \$19,921,950. While the JFA for the BPA referred to an offer evaluation, none was on file. In addition, the price reasonableness determination was only based on a labor rate comparison, as there was no IGCE.
- (4) The statement of work for this \$5,170,306 task order provided for programmatic, technical and administrative support for the US Army Communications-Electronics Command/Research and Development Center/Intelligence and Information Warfare Directorate. The CSC issued an RFQ to five vendors on January 29, 2004. The task order file did not include any details concerning market research efforts that led to these vendors being selected to receive RFQs. Titan was the sole offeror and continued to be so even when the CSC extended the response time for the RFQ. Although the JFA did not specifically address Section 803 compliance, the client agency contended that a delay in awarding the contract would impede schedule milestones and potentially impact the delivery of a \$23,000,000 system.

SCHEDULE OF FY04 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

(4)

The IGCE was undated and did not identify the preparer. In addition, neither the IGCE nor the proposal addressed the labor mix, as both documents presented labor costs as line item totals for the base year and the four option years.

Although the estimated value exceeded the \$5,000,000 threshold for legal review, the CSC did not forward this task order to Regional Counsel. In addition, the task order files did not include an acquisition plan and a contract administration checklist.

(5) The contractor's proposal indicated that they were offering a 1.32% discount off the FSS Schedule contract labor rates. However, the proposed and invoiced rates tie directly to the FSS Schedule contract, without the additional discount. In addition, the task order files did not include the contract administration checklist.

(6) This task order, awarded with an estimated value of \$141,424,641 over a five-year period, provided for systems engineering and integration services. While the RFQ was submitted to 23 vendors, only two (BAH and Northrup Grumman) responded with proposals. The JFA did not specifically address that there was an urgent and compelling need that would permit a waiver of the Section 803 three-bid requirement. However, in conjunction with the client agency representative, the contracting officer determined that the two proposals were sufficient, in view of deployment requirements in support of Operation Iraqi Freedom.

At \$141,424,641, the BAH proposal was significantly higher than both the Northrup Grumman proposal (\$125,060,927) and the IGCE (\$136,870,525) which was not on file. While awarding the task order to BAH based on the client's technical evaluation, the contracting officer did not address the cited weakness that BAH had only proposed management level labor categories. In that regard, the technical evaluation noted that "The grades are over loaded at the high dollar and high highly technical levels- there is (sic) no documentation categories proposed".

(7) Due to time constraints and the voluminous documentation pertaining to this task order, our analysis was limited to a review of basic award documents and recently implemented internal controls. We noted that the file did not include an Acquisition Plan. In addition, while the latest modification incorporated the required administration checklists, the task order does not yet include the CSC's revised invoice submission clause.

(8) This task order, awarded with a potential value of \$57,430,659, provided for expert Modeling and Simulation IT services, products and materials for the Project Manager Future Combat Systems (FCS) Network Systems' Integration. The ITM researched the

SCHEDULE OF FY04 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

(8)

requirement in e-Buy but found no matches for the support required by the client. The JFA did not indicate what other market research was performed in selecting the eight vendors that ended up receiving the RFQs. D&S Consultants, Incorporated was the only vendor to submit a proposal. Although the JFA did not specifically address Section 803 compliance, the contracting officer incorporated the client agency's technical justification that the task order related to work that was on the critical path for the FCS program.

The JFA incorporated a summary IGCE that was undated and did not identify the preparer. In addition, the ITM's comparison of the IGCE with the proposal did not address the option periods and the JFA did not include an evaluation of the labor mix.

The task order file did not include a written legal concurrence, although an internal CSC e-mail noted that a CSC official had received Counsel's approval for award. The task order included contract material costs with an annual ceiling of \$2,799,000. We noted that the contractor burdened the material costs with a general and administrative rate when invoicing GSA. While the task order called for necessary contract materials to be purchased through a FSS Schedule contract, it did not permit the application of an indirect rate to such costs.

- (9) This task order, awarded to JBM on October 15, 2003, provided for support in software integration, systems engineering and technical functions to the Army Central Technical Support Facility. Although the CSC solicited 22 FSS Schedule vendors, JBM was the sole contractor to submit an offer by the RFQ deadline. A second contractor indicated that they would have submitted a bid but they missed the deadline. After the client declined the contracting officer's offer to reissue the RFQ, the contracting officer determined that Section 803 requirements would be waived due to the potential impact on overseas deployment. In an e-mail dated August 13, 2003, the ITM had anticipated both JBM's participation and the need for the client to cite deployment urgency, relative to meeting Section 803 requirements.

On September 4, 2003, twelve days before the issuance of the RFQ, the client forwarded an IGCE that mentioned JBM by name. That same day, the ITM informed the client representative that the IGCE "...must come from the Government, not the proposed contractor." That same IGCE was apparently used as the basis for the JFA analysis; where the ITM performed a summary comparison with JBM's offer, on a per CLIN basis, without evaluating the labor mix.

SCHEDULE OF FY04 TASK ORDER AWARDS AND MODIFICATIONS  
REVIEWED IN THE NORTHEAST AND CARIBBEAN REGION  
(Continued)

NOTES:

(9)

Although JBM's proposal was well above the schedule contract's \$500,000 MOT, the contractor initially did not offer a labor discount for this task order. After the client requested that the ITM pursue a discount, the contractor responded with an offer of 0.5 percent from October 15, 2003 through the December 31, 2003, or only 2 ½ months out of the 3-year base period. The CSC accepted this nominal discount without any further negotiation.

The awarded task order included significant costs for CLINs 1C Schedule Materials (\$824,000) and 1D Incidental Materials (\$206,000). The JFA did not address the price reasonableness of the proposed amounts for these items. The proposed Schedule Materials costs included non-material items such as computer consulting and reproduction services that would normally be included as an element of overhead. The proposed Incidental Material costs inappropriately included items such as cell phone charges and seminars/conferences. In addition, JBM burdened all proposed costs for both these CLINs with a six percent indirect load rate. Section H.1.2 of the task order only permitted an indirect handling rate on costs incurred for long distance travel.

Although this procurement was well above the FTS \$5 million dollar legal review threshold, legal concurrence did not occur until one week after the award. In fairness, the legal review policy had just been issued when the task order was awarded.

(10) This task order is discussed in the body of the report.





OCT 19 2004

MEMORANDUM FOR: JOSEPH M. MASTROPIETRO  
REGIONAL INSPECTOR GENERAL FOR AUDITING  
NEW YORK FIELD AUDIT OFFICE (JA-2)

FROM: EILEEN LONG-CHELALES *Eileen Long Chelales*  
REGIONAL ADMINISTRATOR  
NORTHEAST AND CARIBBEAN REGION (2A)

SUBJECT: Regional FTS CSC OIG Draft Audit Report Number A040123

Thank you for providing us with this opportunity to respond to your Draft Audit Report regarding the acquisition process within the Regional FTS CSC. We recognize that there are areas in which our previous management controls within the Regional FTS CSC needed to be strengthened and appreciate the acknowledgement of the Regional actions towards accomplishing this task. We are confident that the management controls now in place, our continued commitment to strengthening those controls and the efforts of your office will ensure that the acquisition process within the Regional FTS CSC will not only be efficient and effective, but will allow us to provide best value with the highest level of integrity.

The following are areas within the report that we would like to comment.

- **Sampling Methodology:**  
It was clear from the orders identified that highly complex and challenging projects were selected as the sample. Choosing high risk orders for analysis was effective in pointing out weaknesses in our management controls. However, the more commonly used random sampling approach would produce a more representative picture of the Regional CSC program.
- **Extent of Competition:**  
The conclusion that the Regional CSC was not proactive in expanding competition based on the receipt of single bids is not reflective of our efforts. One such order identified as awarded without the benefit of competition had 29 schedule vendors solicited and the solicitation was posted to FSS' E-Buy notification system. It should also be noted that the March through May 2004 portion of the audit found that all orders sampled were in compliance with DOD Section 803.
- **Use of the IT Fund:**  
We concur with a number of the noted deficiencies with task 02KC21102. However,

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considering the prevailing guidance at that time of award and the affirmation by the customer agency that a primary requirement of this task was to maintain the inventory of automation equipment, we do not feel this was an inappropriate use of the IT Fund. Furthermore, please note that this task order was a modification issued against a task awarded prior to the implementation of current management controls, that the modification was issued to allow the customer agency adequate time to determine an alternative method for meeting this ongoing requirement and that the modification only allowed the continuation of this task to its original end date of October 1, 2004.

The Regional FTS CSC partnered with the Regional offices of FSS in accomplishing the procurement under 02FM213631, which was the relocation effort for the Army Material Command Headquarters. This coordinated effort was established to effectuate the appropriate use of both the IT and GS Funds. We acknowledge that funding covering certain component parts, which was intended for the GS fund, was inadvertently awarded under the IT Fund. This was clearly an administrative oversight and not a deliberate misuse of the IT fund. The total miscoded items were valued at \$1.86 Million (5% of total). The error was found February 6, 2003 and corrected February 12, 2003.

- **Development of the Independent Government Cost Estimates:**

This Region recognizes the necessity to improve on and become more independent of cost estimates that rely on customer provided data. In order to ensure more independent and reliable cost data, we are taking actions to improve our validation and approval process of the IGCE through revised market research procedures.

Again, we appreciate this opportunity to address the findings within the draft audit report of the Regional FTS CSC. Please be assured that we will continue to address the shortcomings identified in this report in order to ensure that we operate effectively and efficiently when providing best value to our customer agencies and the taxpayers.

If you require additional information, please do not hesitate to call me at 212-264-2600.

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
MID-ATLANTIC REGION  
REPORT NUMBER A040126/T/3/Z05005  
DECEMBER 9, 2004







U.S. GENERAL SERVICES ADMINISTRATION  
Office of Inspector General

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**Date:** December 9, 2004

**Reply to**  
**Attn. of:** Mid-Atlantic Regional Inspector General for Auditing (JA-3)

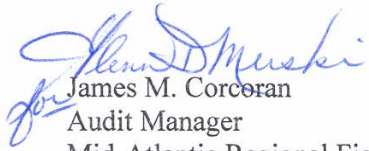
**Subject:** Audit of Federal Technology Service's  
Client Support Center  
Mid-Atlantic Region  
Report Number A040126/T/3/Z05005

**To:** Barbara L. Shelton, Regional Administrator  
Mid-Atlantic Region (3A)

This report presents the results of our review of the Federal Technology Service's (FTS) Client Support Center (CSC) in the Mid-Atlantic Region. The purpose of the review was to determine whether the CSC made procurements in accordance with the Federal Acquisition Regulations and the terms and conditions of the contracts utilized in the procurements.

A draft copy of this report was provided to you for your comments. Any comments received were considered in preparing this final report, and are included in their entirety as Appendix B to this report.

Thank you for the courtesies extended to our auditors during the course of this review. Should you have any questions, I can be reached at (215) 446-4840.

  
for James M. Corcoran  
Audit Manager  
Mid-Atlantic Regional Field Audit Office (JA-3)





AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
MID-ATLANTIC REGION  
REPORT NUMBER A040126/T/3/Z05005

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## **RESULTS OF AUDIT**

### ***Results in Brief***

The audit identified instances where CSC officials did not consistently adhere to Government procurement rules and regulations. We identified issues in the following areas as they pertain to the 21 task orders reviewed: inadequate competition, file documentation (especially as it relates to the preparation of Determinations & Findings and Acquisition Plans), lack of documentation supporting the proper handling and evaluation of other direct costs, questionable contracting actions, contract oversight, inadequate monitoring of task order activities, and a task order that would be better suited for other than Information Technology (IT) funding. Details regarding the issues identified during our review are outlined below and in Appendix A of this report.

In addition to the above, we also conducted a limited review of contracting actions that were executed by the Regional CSC during the three-month period March 1, 2004 through May 31, 2004 as taken from a judgmental sample of 10 task orders. This was performed for the purpose of providing further information on recent actions the CSC has taken in implementing a series of management control improvements and, therefore, we did not perform the same level of analysis as conducted with regard to the fiscal year 2003 task orders. The results of this review show that the contracting actions we examined reflected the Mid-Atlantic Region CSC has instituted the control improvements, which is an improvement when compared to the issues identified in our review of fiscal year 2003 task orders as outlined in this report. Further, our limited review of this sample of contracting actions did not identify any issues which would indicate the contracting actions were not made in accordance with the FAR and the terms and conditions of the contracts utilized. The Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC Program during fiscal year 2005.

### **Inadequate Competition**

Of the 21 task orders reviewed, 13 task orders were awarded under the FSS Multiple Award Schedules (MAS) program. We determined that, for six of these 13 orders, FTS did not adhere to the Special Ordering Procedures stipulated in FAR 8.402. These procedures were issued by FSS and are applicable to orders placed against its schedule contracts for services requiring a statement of work. Excerpts from these procedures follow:

*ORDERING PROCEDURES FOR SERVICES  
(REQUIRING A STATEMENT OF WORK)<sup>15</sup>*

“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)....

“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.* (emphasis added)

“For agency requirements in excess of the micro-purchase threshold, the order file should document the evaluation or 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 CSC did not ensure compliance with the special ordering procedures by expanding the contractor Request for Proposal (RFP) list beyond the standard three vendors when the anticipated order value exceeded the schedule maximum order threshold. Of the six orders not complying with the special ordering procedures, five received only 1 bid. These five task orders were valued at \$74.4 million. As a result, the Government did not obtain the benefits of additional competition and potentially lower costs.

**Determination & Findings for Use of Time-and-Material Task Orders**

We found that the CSCs frequently used time-and-materials tasks versus fixed-price task orders. Of the 21 orders for services that we reviewed, 90 percent (19) were time-and-materials type tasks. A time-and-materials contract provides for acquiring services on the basis of (1) direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit and (2) materials at cost, including, if appropriate, material handling costs as part of material costs. 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.

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<sup>15</sup> These procedures were amended to reflect the implementation of Section 803 of the National Defense Authorization Act of 2002 requiring ordering agencies to obtain a minimum of three offers for DOD procurements for the purchase of services over \$100,000 under multiple award contracts.

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.”

Of the 19 time-and-material orders in our sample, 16 of the order files (with a total value of \$158.4 million) did not document a formal Determination and Findings (D&F) that explains the contracting officer’s conclusion that no other contract type was suitable and, therefore, the use of the time-and-material task order was justified. Many of the task order files do contain a paragraph in varying pieces of the contract documentation similar to the paragraph above, which states that, at the time of placing the contract, it was not possible to accurately estimate the amount of work, or the anticipated costs with any reasonable degree of confidence, but no D&F document could be found in these files.

When questioned about the lack of a D&F on these task orders, Region 3 representatives stated that the Determination & Findings document is not a required document for a GSA schedule procurement task order under FAR 8.404 since it is silent on the need for a D&F when time-and-materials or labor hour task orders are contemplated.

In addition to FAR 16.601 mentioned previously, it should be noted that, included in an FSS publication entitled, “Multiple Award Schedules Program Owner’s Manual” dated Spring 2001, are documentation requirements for the acquisition of services requiring a statement of work. On page 20 of this document it states, “If other than a firm-fixed priced order is placed, include the basis for the determination to use a labor-hour or time-and-materials order.”

In addition to MAS task orders, we also identified time-and-materials task orders placed against the Millenia Lite contract vehicle without the preparation of a D&F. Included in the Millenia Lite Ordering Guidelines document is a discussion similar to that mentioned previously, that time-and-materials tasks provide little incentive for cost control or labor efficiency. It also provides a sample D&F as Appendix N to the guidelines document that includes instructions on its preparation that requires the contracting staff to state the findings that support the particular procurement.

Per FTS, it is now preparing D&Fs for all time-and-materials task awards, regardless of whether they are issued based on FSS schedules, or one of the other available contract vehicles.



### **Acquisition Plans**

Seventeen of the 21 orders reviewed did not include an acquisition plan. These 17 orders had a total value of \$147.3 million. An acquisition plan is a tool used to help ensure that the Government meets its needs in the most effective, economical, and timely manner. When questioned about the reason behind the lack of an acquisition plan, Region 3 representatives responded by stating that the FAR requirement for acquisition plans for GSA schedules (and Government-wide Acquisition Contracts-GWACS) was not effective until the September–October 2002 time period. We then questioned them about the requirement for acquisition plans as provided in the General Service Acquisition Manual (GSAM) 507.102 that states, “All acquisitions exceeding the simplified acquisition threshold must have, at a minimum, a limited acquisition plan.” (This is dated September 1, 1999.)

The response from FTS stated this applied to acquisition planning for contracts above the \$100,000 threshold, not necessarily task orders. Thus, in the opinion of the Regional FTS, there are lingering questions as to whether this requirement extends to the task order/delivery order level.

Per FTS, it is now preparing acquisition plans for all task awards over the \$100,000 acquisition threshold.

### **Lack of Documentation Supporting the Proper Handling and Evaluation of Other Direct Costs (ODCs)**

Our audit found six task orders where there was a lack of documentation evidencing that the CSC evaluated the reasonableness of the costs of the proposed ODCs. This includes three task orders involving the leasing of office space for which no documentation was found determining whether the lease was found to be fair and reasonable. We also noted one order that included a facilities charge for use of contractor office space.

For example, one task order (R320020863) contained an ODC for moving a subcontractor employee and two family members to Hawaii at an estimated cost of \$25,000. The file indicates the FTS representatives informed the client that they were not required to pay the relocation costs and that if they did, under FAR 31.205-35, the costs would be allowable “so long as the task is not less than 12 months.” Despite FTS’ comments, the client agency insisted that the contractor include these relocation costs in its proposal, and FTS agreed. However, we found at the time of the actual move of the contractor employee, the task order had less than one year of performance left, a violation of FAR 31.205-35.

As mentioned previously, we found three task orders involving the leasing of office space for which no documentation was found determining whether the lease was found to be fair and reasonable. These task orders included provisions for leased office space that was required by the statements of work and leased specifically for the task order under which the charges were incurred. In these instances, the contractor charged the Government for office space as an ODC.

For example, we reviewed a task order (R320000232) awarded to PricewaterhouseCoopers (PwC) LLP, valued at \$60.4 million at the time of our review, on behalf of the Defense Security Cooperation Agency in January 2000, for IT work relative to its Defense Security Assistance Management System (DSAMS). We determined that the proposed ODCs included in the

contractor's proposal included costs for leased office space at PwC's Skyline facility located in Falls Church, VA. This was initially proposed by the contractor, in response to the Statement of Work that included a line item for a facility lease, in the amount of \$42,000 per month (\$420,000 for the initial 10-month base period), as well as additional monthly costs for telephone equipment/service and office equipment/supplies. When compared to the total proposed cost of the base period of \$11,988,161, the facility lease cost represents approximately 3.5 percent. However, per the contractor's initial proposal, the facility lease costs escalates to \$53,500 per month (\$642,000 per year) for Option Year 5 (February 16, 2005 – February 15, 2006) when the total proposed costs for this option year are only \$3,302,461. As a result, the facility cost represents 19 percent of the Option Year 5 costs.

Per FTS, it determined the reasonableness of the facility cost by consulting with the GSA Public Buildings Service (PBS), and conducting a realty rate examination. However, no documentation could be found evidencing either of these efforts.

In addition to the above, as a result of this situation, the contractor proposed travel costs under this task order associated with regular trips made from Virginia to Mechanicsburg, PA. These trips were estimated to cost, on average, in excess of \$110,000 per year. Per the FTS contracting officer, the contractor could not recruit qualified personnel in the Mechanicsburg, PA, area (the client's location), and elected to recruit them in Virginia and have them work out of this leased space.

It should be noted that the two remaining task orders involving the leasing of office space do not represent material dollars when considering the total value of the task orders.

### **Questionable Contracting Actions**

#### **Restrictive Statement of Work**

Our review found one task order (R320021391), valued at \$491,456, which appears to have an inadequate scope of work.

Contained within the Statement of Work for the task order issued to Powerware, Inc. (Powerware), for circuit distribution and the integration of system sensors was the fact that Powerware was already performing work within the facility. By including the name of the current vendor within this scope of work, as well as the requirement that, "It is imperative that the contractor selected for this task has personnel that hold current facility clearances . . ." at a very restricted site, FTS is hampering its ability to foster competition because potential contractors may understand the current vendor to have an distinct advantage of obtaining any additional work at the facility.

#### **Exercise of Contract Options Lack Proper Documentation**

We identified two instances where task order options lacked proper documentation.

As an example, Option Year 1 was exercised under a task order (R320020147) awarded to NCR Government Systems Corporation on behalf of the Defense Commissary Agency for implementation and maintenance support for its Enterprise Network Management System. This task order modification, in the amount of \$899,257, was for work to be performed during the

period October 1, 2002 to September 30, 2003. However, other than identifying that funds were available, the documentation required by FAR 17 could not be found in either the ITSS or the task order file and, thus, there is no assurance that the actions required of the contracting officer per the FAR were appropriately conducted.

Specifically, FAR 17.207, Exercise of Options, states the contracting officer may exercise options only after determining that funds are available, the requirement covered by the option fulfills an existing Government need, and the exercise of the option is the most advantageous method of fulfilling the Government's need, price and other factors considered. The determination of the other factors should take into account the Government's need for continuity of operations and potential costs of disrupting operations. After complying with the above, and before exercising an option, the contracting officer shall make a written determination for the contract file that the exercise is in accordance with the terms of the option, and the requirements of this section.

### **Contract Oversight**

FTS' inconsistent oversight of its task and delivery orders resulted in several questionable practices, including the lack of monitoring with regard to contractor billings under its task orders and the lack of effective monitoring of task order deliverables. We also determined that, as a result of awarding a task order involving national security of a highly classified nature, the FTS contracting staff is restricted as to what task order documentation is available for their review, thus impeding its oversight responsibility.

### **Improper Billings**

Our review found FTS does not provide adequate oversight of contract billings. CSC officials rely on the client agencies to review contractor billings for accuracy. During our review, we encountered three task orders where the billings from the contractor did not adhere to the base contract pricing terms.

One task order (R320031798), with a total value of \$12.6 million at the time of our review, was awarded to Signal Corporation, Inc., (now Veridian IT Services, Inc. - Veridian) under its Millenia Lite Contract Number GS07T00BGD0063. Under Millenia Lite task orders, contractors are permitted to attach an Other Direct Cost (ODC) multiplier to its other direct costs incurred under the task order. As determined at basic contract award, each contractor has a ceiling ODC multiplier rate that cannot be exceeded. Our review of recent invoices from Veridian evidences that the rate applied to its ODCs is above the ODC multiplier rate established for this vendor at the time of the basic contract award. This award was further complicated because the vendors submitting a proposal were given mis-information by FTS regarding the ODC multiplier rate they were allowed to bid. The documentation shows the vendors were instructed that the cap on the multiplier rate was one percent. However, as stated above, each vendor has its own multiplier rate they can bid. The one percent appears to represent the Contract Access Fee allowed to be charged by the vendor under the Millenia Lite program. (The situation involving the higher-than-permitted ODC multiplier rate was also found on a second task order awarded to the same contractor.)

A review of an FSS schedule task order (R320020399) awarded to the Spencer Reed Group found that, in accordance with FSS policy effective January 1, 2004, it revised its schedule labor

rates to reflect the reduction in the Industrial Funding Fee from 1% to .75%. A review of recent invoices from the contractor revealed that the task order rate for one labor category had not been reduced to match the revised schedule contract rate resulting from this reduction. We found the task order rate exceeded the new schedule labor rate by a minimal amount. Upon being notified of this situation, the contracting officer for this task order contacted the vendor and resolved this issue.

While these instances did not result in material cost impacts to their respective task orders, they do illustrate the need for FTS to monitor billings under its task orders. It cannot rely on client agency representatives to have detailed knowledge of the terms and conditions of the various contract vehicles/programs under which their task orders are awarded to ensure they are being properly billed.

### **Task Order for National Security Work**

We reviewed a task order (R320031656) awarded to ACS Government Services, Inc. that, at the time of review, had a total order value of \$12,071,496. The task order is to provide support for the U.S. Air Force Headquarters Air Combat Command for intelligence, surveillance, and reconnaissance operations and planning, with emphasis on the Senior Year (U-2) Program. It consists of national security work, the nature of which is highly classified. A review of the Statement of Work indicates that 26 of the estimated 41-Full Time Equivalent (FTE) positions require a Top Secret/Special Compartmented Information (TS/SCI) clearance, while the remaining 15 FTE require a Secret Clearance. Our review resulted in several issues that warrant inclusion in this report, the details of which follow.

### **Inadequate Monitoring Permitted Work to be Performed Outside of the Scope of the Base Contract**

A review of a contract deliverable, the Monthly Status Report, identified the performance of work that is outside the scope of the base contract. This report was provided to the auditor by the ITM for the task, and included administrative and tactical/operational activities that are not IT in nature. Had this Monthly Status Report been effectively monitored by FTS, these activities would have been detected and identified by the ITM for corrective action.

Per the Millenia Lite Ordering Guidelines, the “services offered under this area include a broad range of IT related to Mission Support Services (MSS). The anticipated services require a diversity of skills suitable to a variety of information technology environments.” A review of the Monthly Status Report for the month of March 2004 identified numerous activities that are not IT-related. Rather, they represent administrative and tactical/operational activities (and, in some cases, related travel) performed by various contractor personnel holding IT positions. As these are not IT-related functions, the Government is paying for work performed outside the scope of the Millenia Lite base contract.

When this information was presented to FTS, the contracting officer was instructed to discuss this matter with the contractor to determine the nature of these activities and take any necessary corrective action.

The review of task order deliverables by FTS is an important oversight function, as they provide an indication of level of performance by a vendor under a particular task order. Without the

function, the Government is vulnerable to increased task order costs as a result of waste, fraud, and abuse if a vendor's activities are left unchecked.

### **Contract Oversight of National Security Task Order**

As stated previously, this task order consists of national security work, the nature of which is highly classified. (See "Task Order for National Security Work.") Per a representative of the contractor performing the work under the contract, approximately 30 percent of the documentation generated under this task order is classified and could only be reviewed by individuals possessing a Secret Clearance. Of this amount, 3-5 percent would require a Top Secret Clearance before it could be examined. When asked, neither the GSA ITM nor contracting officer responsible for this task order possess either type of clearance. As a result, GSA does not have access to an estimated 30 percent of the documentation generated under this task order and, therefore, cannot adequately monitor contractor performance.

The question arises whether GSA should have awarded a task order in which, as the official ordering activity, its access to task order documentation is restricted. In the event performance issues/disputes arise under this order, this documentation could be crucial for the contracting staff to analyze in attempt to resolve these issues. Regional management indicated that, if that situation occurred, there are individuals within FTS who possess the necessary clearances and could review this documentation. However, in this instance, replacing the individuals with the intimate knowledge of the task order would result in splitting the oversight responsibilities for the procurement between those reviewing unclassified materials and those able to review the sensitive materials. This may not be the most effective method of monitoring contractor performance.

### **Order Better Suited for Other Than IT Funding**

In one of the 21 task order awards we reviewed it was determined that the CSC procured, on behalf of a client, services which would have been better suited for funding other than IT. 40 USC Section 322 (the statute creating the IT 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 U.S.C. Section 322(c)(1)&(2)].

The task order (R320020295) we identified was for work performed by KPMG Consulting, LLC, (now Bearing Point, LLC) on behalf of the Air Force Base Conversion Agency (AFBCA). At the time of our review, this order was valued at \$2.6 million. The scope of the order, as included in the Statement of Work, is to provide services that will support AFBCA's role and responsibility to determine all Base Realignment and Closure (BRAC) environmental contracts are detailed to a level to identify all unliquidated outstanding obligations by contract end date. A review of the requirements included in the statement of work indicate the contractor is to expedite documents through the Defense Finance Accounting System, reconcile funding discrepancies, identify excess funds, realign funds, attend AFBCA meetings, and liquidate all

unliquidated outstanding obligations within 90 days of identification. Based on this, we believe this task order is for consulting/financial management activities rather than for IT services as defined above. As such, this task order would have been better administered/funded using the General Supply Fund rather than the IT Fund.

#### *Agency Comment*

In her response, the Regional Administrator, Mid-Atlantic Region, disagrees with this assessment. After a detailed review of this task order, it is the Region's opinion that the Information Technology Fund was appropriately utilized for this procurement. (See Appendix B for the agency's comments.)

#### *OIG Position*

Regional officials cited the need for contractor personnel to understand and manipulate data in a variety of automated financial information systems as the skills element that made this task order suited to the IT fund. We understand their position.

Our view is based on the Statement of Work that reflects performance of financial management functions more than technology tasks. In addition, review of the resumes of the contractor personnel proposed for this work found all key staff listing extensive accounting or financial backgrounds while all are silent regarding any technology expertise. Given this orientation, we believe the project would have better fit under the General Supply Fund.

#### **Form 300 Does Not Contain a Not to Exceed Amount**

Of the 21 time-and-material orders in our sample, two of the order files did not define a contract ceiling amount (not to exceed amount). This is necessary in order to identify the maximum amount of funds available to be obligated under a particular task order.

#### **Causes of Inconsistent Compliance With Procurement Regulations**

Our audit work indicated that several factors contributed to the contracting practices identified in this report, which include an increasing workload, an unfamiliarity with prescribed ordering procedures, and Regional interpretations of the FARs/General Services Acquisition Regulations on the part of Regional FTS management.

Based on statistics provided by FTS, the Mid-Atlantic Region CSC has experienced an increase in the obligated value of its contracting actions from \$141.3 million in fiscal year 2000 to \$397.4 million in fiscal year 2003. Additionally, the number of contracting actions has increased from 1,726 to 2,376 for the same time periods. We believe this growth may be a contributing factor behind some of the issues identified in this report.

We also determined that CSC personnel were not generally familiar with the special ordering procedures for services under the schedules program, designed to ensure the Government receives the best value. As stated previously under "Inadequate Competition," we found numerous instances where the contracting staff did not expand its contractor list when soliciting requests for proposals from vendors for acquisitions over the maximum order threshold. When asked, it was brought to our attention that their actions were in accordance with FAR 8.404.

However, the FAR also states that GSA may establish special ordering procedures for services placed against its schedule contracts, as discussed previously. When applicable, these special ordering procedures supercede FAR 8.404(b)(2) through (b)(3). These procedures can be found on GSA's Website on the use of FSS schedules. GSA also published the procedures in the Multiple Award Schedules Owner's Manual for ordering agencies.

As stated previously regarding the preparation of Acquisition Plans and Determination & Findings, FTS provided us with its interpretations of the FARs and the General Services Acquisition Regulations as to why these documents were not required. However, it is our position that the regulations support the need for these documents as well as the requirement for their preparation.

### **Review of FTS Client Support Centers – Testing of FY 2004 Transactions**

In June of 2004, the GSA Administrator requested the OIG conduct a review of recent task orders processed by the regional CSCs to evaluate the impact of recent CSC control improvements. These control improvements were to be instituted in all of the regional CSCs in response to an audit of the Region 4, 6, and 10 CSCs, the results of which were detailed in Audit Report Number A020144/T/5/Z04002, dated January 8, 2004. The control improvements included: 1) a legal review policy for new contract awards over \$5 million; 2) incorporating FTS Acquisition Checklists; 3) developing a Client Support Center Management Plan; 4) implementing Section 803 of the National Defense Authorization Act of FY 2002; 5) instituting a Procurement Management Review program; and 6) establishing ITS contract/project closeout guidance.

Accordingly, we have conducted a review of contracting actions that were executed by the Regional CSC during the three-month period March 1, 2004 through May 31, 2004 from a judgmental sample of 10 task orders. These 10 task orders had a total value of \$8,431,643. This was a limited review for the primary purpose of providing further information on recent actions the CSC has taken in implementing those control improvements mentioned above. These actions/orders consisted of a judgmental, rather than a statistical, sample and we did not perform the same level of analysis on these orders as was conducted with regard to the fiscal year 2003 orders reviewed.

The results of this review show that the contracting actions we examined reflected that the Mid-Atlantic Region CSC has instituted the control improvements. Further, this limited review did not identify any issues which would indicate the contracting actions examined were not made in accordance with the FAR and the terms and conditions of the contracts utilized. This represents an improvement when compared to the issues identified in our review of fiscal year 2003 task orders as outlined in this report. The Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC Program during fiscal year 2005.

### **Conclusions**

Our review of 21 task orders active during fiscal year 2003 within the Mid-Atlantic Region CSC, worth \$191.5 million, identified control issues where procurement rules and regulations were not consistently adhered to, and on one occasion a task order was issued that would be better suited for other than IT funding. (Our report details a number of key examples of these instances, while Appendix A provides a snapshot of all issues noted during the review.) We identified issues in

the following areas as they pertain to the 21 task orders reviewed: inadequate competition, file documentation (especially as it relates to the preparation of Determination & Findings and Acquisition Plans), lack of documentation supporting the proper handling and evaluation of other direct costs, questionable contracting actions, contract oversight, inadequate monitoring of task order activities, and a task order that would better be suited for other than IT funding. A summary of each task order reviewed is contained in Appendix A.

### **Recommendations**

Based on the comprehensive recommendations contained in Audit Report Number A020144/T/5/Z04002, dated January 8, 2004, no further recommendations are deemed necessary at this time.

### **Management's Response**

In her response, the Regional Administrator, Mid-Atlantic Region, concurred with the issues raised in the draft report with the exception of the assertion that the Regional CSC processed a task order that would have been better suited for other than IT funding. After a detailed review of this task order, it is the Region's opinion that the IT Fund was appropriately utilized for this procurement.

### **Internal Control Testing**

We assessed the internal controls relevant to the CSC's procurements to assure that the procurements were made in accordance with the FAR and the terms and conditions of the contracts utilized. We identified issues in the following areas as they pertain to the 21 task orders reviewed: inadequate competition, file documentation (especially as it relates to the preparation of Determination & Findings and Acquisition Plans), lack of documentation supporting the proper handling and evaluation of ODCs, questionable contracting actions, contract oversight, inadequate monitoring of task order activities, and a task order that would better be suited for other than IT funding. We believe that an effective internal control structure, which has the on-going endorsement of management, would have identified and prohibited many of the issues identified during our audit.

Our limited review of the more recent sample of fiscal year 2004 contracting actions found the CSC has implemented the management control improvements. Further, our limited review of this sample of contracting actions did not identify any issues which would indicate they were not made in accordance with the FAR and the terms and conditions of the contracts utilized. The Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC Program during fiscal year 2005.





AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
MID-ATLANTIC REGION  
REPORT NUMBER A040126/T/3/Z05005

**SCHEDULE OF ORDERS REVIEWED IN MID-ATLANTIC REGION**

**1. R320031798**

This time-and-materials task order, valued at \$12,593,833 at the time of our review, was issued on behalf of the Aerospace Expeditionary Force Center for its legacy systems support and migration. The following issues were noted with this order:

- No Determinations & Findings document justifying the use of a time-and-materials task order.
- No Acquisition Plan.
- As discussed in the body of the report, mis-information was provided the contractor regarding the application of the Other Direct Cost (ODC) multiplier rate under the Millenia Lite task order.
- As discussed in the body of the report, the lack of FTS oversight of contractor billings resulted in overcharges passed on to the Government. The vendor is currently charging a higher ODC multiplier rate than permitted under the terms of the Millenia Lite contract.

**2. R320021148**

This time-and-materials task order, valued at \$2,483,287 at the time of our review, was issued on behalf of the Defense Security Service for data administration/records management services in support of its case management and fingerprint processing functions. The following issues were noted with this order:

- No Determinations & Findings document justifying the use of a time-and-materials task order.
- No Acquisition Plan.
- “Not To Exceed” amount not listed on Form 300.
- No indication of FTS oversight with regard to contractor billings.

**3. R320021391**

This time-and-materials task order, valued at \$491,456 at the time of our review, was issued on behalf of the Department of the Army, Alternate Joint Communications Center, as part of its Operation and Maintenance Information Technology Program, to permit “control” of the entire, secured site from one central location with satellite monitoring available in specific locations. The following issues were noted with this order:

- No Acquisition Plan.
- As noted in the body of the report, we believe the Statement of Work does not foster competition by indicating the name of the vendor currently working in the facility. A potential bidder could construe that the current contractor has a distinct advantage when being considered for the task order award. This may explain the reason only one bid was received.
- No indication of FTS oversight with regard to contractor billings.

## **SCHEDULE OF ORDERS REVIEWED IN MID-ATLANTIC REGION**

(Continued)

### **4. R320020147**

This time-and-materials task order, valued at \$2,319,395 at the time of our review, was issued on behalf of the Defense Commissary Agency for implementation and maintenance support of its Enterprise Network Management System. The following issues were noted with this order:

- No Determinations & Findings document justifying the use of a time-and-materials task order.
- No Acquisition Plan.
- FTS did not comply with the Special Ordering Procedures when competing this procurement. FTS forwarded the Request for Task Order Proposal to three vendors. However, under the Special Ordering Procedures for Services Requiring a Statement of Work, for proposed orders exceeding the maximum order threshold, the requests for proposals should be provided to additional schedule contractors offering services that will meet the agency's needs.
- Documentation required by FAR 17 could not be found relative to the award of Option Year 1 of the task order. Other than identifying that funds were available, the documentation required by FAR 17 could not be found in either the ITSS or the task order file and, thus, there is no assurance that the actions required of the contracting officer per the FAR were appropriately conducted. Thus, aside from the funding, there is no documentation evidencing the contracting officer considered the following information when exercising this option year: the requirement covered by the option fulfills an existing Government need, and the exercise of the option is the most advantageous method of fulfilling the Government's need, price and other factors considered.
- No indication of FTS oversight with regard to contractor billings.

### **5. R320020399**

This time-and-materials task order, valued at \$1,597,425 at the time of our review, was issued on behalf of the GSA, FTS, IT Solutions Financial Services Center (Philadelphia, PA) and the Greater Southwest Finance Center, FTS Accounts Receivable and Financial Analysis Division (Ft. Worth, TX). The objective of this procurement is to provide follow-on financial management and accounts payable support to the Financial Services Center and to provide follow-on accounts receivable support to the Greater Southwest Finance Center. While we recognize these functions do not appear to be IT-related, the organizations being supported under this task order are funded from the GSA IT Fund. Therefore, we do not consider this an inappropriate use of the IT Fund. Issues identified with this procurement are as follows:

- A Determinations & Findings document, as well as an Acquisition Plan, were prepared for this procurement. However, both documents are unsigned by the contracting officer.

## **SCHEDULE OF ORDERS REVIEWED IN MID-ATLANTIC REGION**

(Continued)

- FTS did not comply with the Special Ordering Procedures when competing this procurement. FTS forwarded the Request for Task Order Proposal to three vendors. (In this instance, all three vendors submitted a bid.) However, under the Special Ordering Procedures, for proposed orders exceeding the maximum order threshold, the requests for proposals should be provided to additional schedule contractors offering services that will meet the agency's needs.
- As indicated in the body of the report, we identified a billing rate under the task order in excess of the revised schedule contract rate that was the result of the reduction in the Industrial Funding Fee from one percent to .75 percent. This evidences the need for some level of oversight by FTS over contractor billings under its task orders.
- No indication of FTS oversight with regard to contractor billings.

### **6. R320031656**

This time-and-materials task order, valued at \$12,071,496 at the time of our review, was issued on behalf of the Headquarters Air Combat Command, Directorate of Operations, Command, Control, Intelligence, Surveillance, and Reconnaissance (C2ISR) Operations Division. The purpose of this procurement is to provide support to the Air Combat Command in its mission to identify and manage requirements for technology systems in support of airborne C2ISR platforms, sensors, data links, avionics subsystems, ground support systems, spares and equipment. It also includes developing and executing high altitude reconnaissance and intelligence data collection process for the Combat Air Force, including identifying and managing intelligence collections system requirements for high altitude ISR platforms. Issues identified with this task order are as follows:

- As noted in the body of this report, this procurement involves national security work, the nature of which is highly classified. As a result, GSA-FTS does not have access to approximately 30 percent of the documentation generated under this task order. Neither the FTS contracting officer, nor Information Technology Manager, possess the clearance(s) needed to see all documentation under this task order.
- As this order involves intelligence operations and national security, there is the open issue as to whether task orders of this nature are permitted to be funded via the IT Fund.
- As noted in the body of the report, a review of the Monthly Status Report for the month of March 2004 identified activities that are outside of the scope of the base Millennia Lite contract. This illustrates a lack of effective monitoring of task order deliverables on the part of both GSA-FTS and the client agency representative, thus providing evidence to support the need for increased attention to contract deliverables, especially on the part of GSA-FTS.
- No indication of FTS oversight with regard to contractor billings.

## **SCHEDULE OF ORDERS REVIEWED IN MID-ATLANTIC REGION**

(Continued)

### **7. R320030689**

This time-and-materials task order, valued at \$14,218,562 at the time of our review, was issued on behalf of the U.S. Army, MC4 Program Office, for the in-theater maintenance of MC4 hardware and software, help desk support operations, warranty support, and in-theater fielding and training in support of contingency operations. This program provides fully integrated medical products and information/communications solutions to effectively and seamlessly link all echelons of deployable medical care. The issues identified with this task order are as follows:

- No Determinations and Findings document justifying the use of a time-and-materials task order.
- It appears as if FTS defers to the client agency for review and approval of ODC costs. Task order language states: “Prior approval of the client representative or the In-Theater representative is required to execute ODC’s. Actual ODC documentation will be included with invoice submission.” There is no indication of a review of ODC information by FTS.
- No indication of FTS oversight with regard to contractor billings.

### **8. R320030168**

This time-and-materials task order, valued at \$16,273,292 at the time of our review, was issued on behalf of the Defense Security Service (DSS) to provide system improvement, sustainment, and integration support to the DSS’ Case Control Management Information System. The issues identified with this task order are as follows:

- No Determinations and Findings document justifying the use of a time-and-materials task order.
- No indication of FTS oversight with regard to contractor billings.

### **9. R320020391**

This time-and-materials task order, valued at \$13,009,924 at the time of our review, was issued on behalf of the Air Combat Command Directorate of Aerospace Operations to (i) design, develop and implement models and simulations for Command and Control systems, (ii) extract and analyze data on the performance of the Command and Control systems, and (iii) develop and maintain computerized models and training simulations, and for defining the requirements to be used to provide realistic scenarios for battlestaff and aircrews. The contractor is also responsible for the architecture of the IT system and providing the Government with recommendations for hardware and system development/enhancements. The issues identified with this task order are as follows:

- No Determinations and Findings document justifying the use of a time-and-materials task order.
- No Acquisition Plan.
- No indication of FTS oversight with regard to contractor billings.

## **SCHEDULE OF ORDERS REVIEWED IN MID-ATLANTIC REGION**

(Continued)

### **10. R320021505**

This firm, fixed-price task order, valued at \$16,428,404 at the time of our review, was issued on behalf of the Defense Security Service to provide all needed functions for operations support for the Case Control Management System Information System application software and hardware servers. The issues identified with this task order is as follows:

- No Acquisition Plan.
- No indication of FTS oversight with regard to contractor billings.
- This task order contains an increase in ODCs for new computer hardware and software maintenance of approximately \$525,000. However, there is no evidence that FTS determined these costs to be fair and reasonable.

### **11. R320032061**

This time-and-materials task order, valued at \$2,218,808 at the time of our review, was issued on behalf of the Medical Communications for Combat Casualty Care (MC4) Product Management Office in Ft. Detrick, MD, to provide IT support services as they relate to legacy systems, systems under development, operational systems along with any associated migration efforts to include training and fielding of hardware. The issues identified with this task order are as follows:

- No Determinations and Findings document justifying the use of a time-and-materials task order.
- No Acquisition Plan.
- There was no “Not To Exceed” Amount listed on the Form 300.
- No indication of FTS oversight with regard to contractor billings.

### **12. R320020897**

This time-and-materials task order, valued at \$3,283,066 at the time of our review, was issued on behalf of the Defense Finance and Accounting Service to provide continuation of end-user support for the Uniform Microcomputer Disbursing System, the Evaluation and Analysis Reports System, and JUMPS Temporary Lodging Allowance application and other designated system interfaces. The issues identified with this task order are as follows:

- No Determinations and Findings document justifying the use of a time-and-materials task order.
- No Acquisition Plan.
- As discussed in the body of the report, the lack of FTS oversight of contractor billings resulted in overcharges passed on to the Government. The vendor is currently charging a higher ODC Multiplier rate than permitted under the terms of the Millenia Lite contract.

## **SCHEDULE OF ORDERS REVIEWED IN MID-ATLANTIC REGION**

(Continued)

### **13. R320030605**

This time-and-materials task order, valued at \$820,366 at the time of our review, was awarded by the Mid-Atlantic Region CSC for the purpose of assuming administrative responsibility for the original task order awarded by Region 10. It was given to Region 3 subsequent to Region 10 awarding Option Year 1. The Statement of Work describes engineering and technical support services required to support the H-60 Modifications Integrated Program Team to enhance H-60 Helicopter mission capabilities. With the execution of Option Year 2, this task order was assigned a new number and moved from the IT Fund to the General Supply Fund, as this was considered a Professional Engineering Services order. The issues identified with this task order are as follows:

- No Determinations and Findings document justifying the use of a time-and-materials task order.
- No Acquisition Plan.
- The file does not contain documentation attesting to the price reasonableness of the ODCs. One of the ODCs represented the leasing of space, as directed by the Statement of Work. Other materials included in this task order are ballistic floor armor kits, engine upgrade brackets, and probe lighting fixtures.
- No indication of FTS oversight with regard to contractor billings.

### **14. R320000232**

This time-and-materials task order, valued at \$60,444,450 at the time of our review, was issued on behalf of the Defense Security Cooperation Agency to provide personnel to support various aspects of the Defense Security Assistance Management System (DSAMS) project. The work under this order includes software deployment of the first DSAMS module, and analysis, development and support of three remaining modules. The issues identified with this task order are as follows:

- No Determinations and Findings document justifying the use of a time-and-materials task order.
- No Acquisition Plan.
- Only one bid was received for this procurement. FTS did not comply with the Special Ordering Procedures when competing this procurement. FTS forwarded the Request for Task Order Proposal to three vendors. However, under the Special Ordering Procedures, for proposed orders exceeding the maximum order threshold, the requests for proposals should be provided to additional schedule contractors offering services that will meet the agency's needs.
- The file did not contain documentation attesting to the price reasonableness of the ODCs. One of the ODCs represented the leasing of office space in Virginia. FTS officials stated the lease pricing was determined fair and reasonable in coordination with PBS and a commercial realty rate examination. However, documentation evidencing this could not be located.

**SCHEDULE OF ORDERS REVIEWED IN MID-ATLANTIC REGION**

(Continued)

- It was reported that this lease was necessary due to the contractor's inability to recruit qualified personnel in the Mechanicsburg, PA area (the client's location). However, because of this situation, the ODCs for the task order were further increased by way of travel costs for trips back and forth between Mechanicsburg and Virginia. These trips carried an estimated amount, on average, in excess of \$110,000 per year.
- No indication of FTS oversight with regard to contractor billings.

**15. R320011038**

This time-and-materials task order, valued at \$5,377,180 at the time of our review, was issued on behalf of the Defense Supply Center Philadelphia (DSCP). The objective of the statement of work is to provide operations support for the DSCP Data Center and corporate mid-tier applications running on UNIX and NT servers. The issues identified with this task order are as follows:

- No Determinations and Findings document justifying the use of a time-and-materials task order.
- No Acquisition Plan.
- Only one bid was received for this procurement. FTS did not comply with the Special Ordering Procedures when competing this procurement. FTS forwarded the Request for Task Order Proposal to three vendors. However, under the Special Ordering Procedures, for proposed orders exceeding the maximum order threshold, the requests for proposals should be provided to additional schedule contractors offering services that will meet the agency's needs.
- The Independent Government Estimate (IGE) found in the ITSS did not provide any detailed breakdown. FTS responded that the IGE was "generated using hi [sic] level historical and summary information. Detailed information was not input into ITSS or sent to the Contracting Officer. This was a GSA schedule acquisition and detailed skill levels were not appropriate for comparison purposes as they differ among different schedules."
- No indication of FTS oversight with regard to contractor billings.

**16. R320010223**

This time-and-materials task order, valued at \$3,776,000 at the time of our review, was issued on behalf of the Headquarters Air Combat Command Directorate of Aerospace Operations to assist the Air Force in determining the operational warfighting command and control utility of candidate technologies, which conforms to its mission to modernize force level command and control through "incubating" new technologies and associated processes at the operational level of warfare. The issues identified with this task order are as follows:

- No Determinations and Findings document justifying the use of a time-and-materials task order.
- No Acquisition Plan.



## **SCHEDULE OF ORDERS REVIEWED IN MID-ATLANTIC REGION**

(Continued)

- Only one bid was received for this procurement. FTS did not comply with the Special Ordering Procedures when competing this procurement. FTS forwarded the Request for Task Order Proposal to three vendors. However, under the Special Ordering Procedures, for proposed orders exceeding the maximum order threshold, the requests for proposals should be provided to additional schedule contractors offering services that will meet the agency's needs.
- No indication of FTS oversight with regard to contractor billings.

### **17. R320030863**

This time-and-materials task order, valued at \$2,891,350 at the time of our review, was issued on behalf of the Office of Naval Research (ONR) Middle Pacific (MIDPAC) located in Arlington, VA. It was to provide information technology support for research and development programs, including Advanced Integrated Radar Electronics and Photonics (AIREP) for the ONR MIDPAC locations in Virginia as well as Kauai, HI. The issues identified with this task order are as follows:

- No Determinations and Findings document justifying the use of a time-and-materials task order.
- No Acquisition Plan.
- The file did not contain documentation attesting to the price reasonableness of the ODCs. One of the ODCs represented the leasing of approximately 2,400 square feet of office space in Hawaii, as directed by the Statement of Work. Other than confirming with Defense Contract Audit Agency that the contractor had an approved purchasing system, there does not seem to be any indication of FTS' efforts in determining whether the lease price was fair and reasonable. Also, the ODCs included the purchase of five Dell computers for use by contract employees. Per the client representative, these computers were turned over to ONR MIDPAC at the conclusion of the task order. However, the file does not demonstrate how the costs for these computers were determined to be fair and reasonable. Lastly, we determined this order contained an ODC that was handled improperly. The ODC represented the cost for moving a subcontractor employee and two family members to Hawaii at an estimated cost of \$25,000. The file indicates the FTS representatives informed the client that they were not required to pay the relocation costs and that if they did, under FAR 31.205-35, the costs would be allowable "so long as the task is not less than 12 months." Despite FTS' comments, the client agency insisted that the contractor include these relocation costs in its proposal, and FTS agreed. However, we found at the time of the actual move of the contractor employee, the task order had less than one year of performance left, a violation of FAR 31.205-35.
- No indication of FTS oversight with regard to contractor billings.

## **SCHEDULE OF ORDERS REVIEWED IN MID-ATLANTIC REGION**

(Continued)

### **18. EPG179772**

This task order is listed in the database as being awarded on a labor hour basis and having a value of \$9,146,178. However, FTS was unable to locate this task order file, stating that it could not be found in the office and it is possible that it was closed out and sent to the Federal records center. The task order number, when compared to other Mid-Atlantic Region numbers, appears to confirm it is an older task order, giving credence to the possibility that it was sent to storage. As a result of FTS being unable to locate this file, we could not review the details behind this procurement.

### **19. R320030817**

This time-and-materials task order, valued at \$12,417,957 at the time of our review, was issued on behalf of the Air Combat Command, 480<sup>th</sup> Intelligence Group. Duties include network monitoring, configuration management, systems administration, communications security management, and hardware/software network configuration, etc. The issues identified with this task order are as follows:

- No Determinations and Findings document justifying the use of a time-and-materials task order.
- No Acquisition Plan.
- The contractor included as an ODC under this task order a facilities charge for use of office space in its Chesapeake, VA location. The contractor allocates the cost of this facility to each of its Programs/Organizations occupying the space. However, we could not find any documentation evidencing FTS verified these costs are not already included in the contractor's already loaded labor rates as part of its indirect expense pool. While this facilities charge does not represent major dollars under the task order, this should have been verified by FTS. Of particular concern is the fact that two of the contractor's other Programs/Organizations within this same facility are its Human Resources Staff and its Business Development unit (indicated on the contractor's facilities costs allocation sheet as G&A). Costs associated with these types of organizations are typically included as a component of a company's loaded labor rates representing overhead costs. Thus, this may be a situation where the Government is paying for the facilities costs both directly as an ODC and also via the contractor's billable labor rates.
- No indication of FTS oversight with regard to contractor billings.

## **SCHEDULE OF ORDERS REVIEWED IN MID-ATLANTIC REGION**

(Continued)

### **20. R320030411**

This time-and-materials task order, valued at \$3,269,061 at the time of our review, was issued on behalf of the Commander in Chief, U.S. Atlantic Fleet, Comptroller, to provide operations and maintenance support of its financial management system, to include enhancing/maintaining legacy modules, configuration management of software and hardware, implementation of software upgrades, etc. The issues identified with this task order are as follows:

- No Acquisition Plan.
- No Determinations and Findings document justifying the use of a time-and-materials task order was prepared at the time of the award. This order was awarded on December 26, 2002. The Determinations and Findings document was not submitted until April 2004.
- Modification Number 2, dated September 18, 2003, exercised Option Year 1 under the task order. However, the contracting officer's determination to exercise this option was not submitted until April 2004.
- No indication of FTS oversight with regard to contractor billings.

### **21. R320010841**

This time-and-materials task order, valued at \$982,349 at the time of our review, was issued on behalf of the Commander in Chief, U.S. Atlantic Fleet, N7 and N8 Directorates, to provide research, special studies, analyses and assessments. Per the Statement of Work, this order includes IT-related tasking such as: requirements support of new training support systems and programs, development of interfaces with established readiness systems, rapid application development support, installation and operations support of software based methodologies, and software development support to develop, field and test prototype software systems based on commercial off-the-shelf products. The issues identified with this task order are as follows:

- No Determinations and Findings document justifying the use of a time-and-materials task order.
- No Acquisition Plan.
- Only one bid was received for this procurement. FTS did not comply with the Special Ordering Procedures when competing this procurement. FTS forwarded the Request for Task Order Proposal to three vendors. However, under the Special Ordering Procedures for Services Requiring a Statement of Work, for proposed orders exceeding the maximum order threshold, the requests for proposals should be provided to additional schedule contractors offering services that will meet the agency's needs.
- No indication of FTS oversight with regard to contractor billings.

**SCHEDULE OF ORDERS REVIEWED IN MID-ATLANTIC REGION**

(Continued)

**22. R320020295**

This fixed-price task order, valued at \$2,558,822 at the time of our review, was issued on behalf of Air Force Base Conversion Agency for the identification, compilation, and presentation of Base Realignment and Closure (BRAC) un-liquidated outstanding obligations environmental funds. The issues identified with this task order are as follows:

- While this task order requires the use of various information systems, to include word processing, scheduling, spreadsheet, database, graphics, etc., we believe the overall procurement is for financial-related services. Included in the “Requirements” portion of the Statement of Work are the following: 1) Expedite documents through the Defense Finance Accounting System (DFAS); 2) Reconcile funding discrepancies; 3) Identify excess funds; 4) Realign funds; 5) Technical Interchange, Status, Review and Other Meetings; and 6) Liquidate all un-liquidated outstanding obligations. Based on this, we believe this task order is for consulting/financial management activities rather than for IT services. As such, this task order would have been better administered/funded using the General Supply Fund rather than the IT Fund.
- No Acquisition Plan.
- No indication of FTS oversight with regard to contractor billings.





NOVEMBER 23, 2004

MEMORANDUM FOR GLENN D. MERSKI  
REGIONAL INSPECTOR GENERAL FOR AUDITING  
MID-ATLANTIC REGIONAL FIELD AUDIT OFFICE (JA-3)

FROM: BARBARA L. SHELTON  
REGIONAL ADMINISTRATOR (3A)

A handwritten signature in black ink that reads "Barbara L. Shelton". The signature is written in a cursive style and is positioned over the typed name and title of the sender.

SUBJECT: Revised Draft Report dated November 12, 2004  
Audit of Federal Technology Service's Client Support Center  
Mid-Atlantic Region  
Report Number A040126

The Mid-Atlantic Region appreciates the efforts of the Inspector General in reviewing our operation for improper practices and procedures.

We concur with the issues raised in the subject revised audit with the exception of the assertion that we processed "a task order that would have been better suited for other than Information Technology Funding." After a detailed review of task order R320020295, our IT experts have determined that order appropriately used the Information Technology Fund.

Thank you again for your assistance and if you have any questions, please contact Mr. Paul McDermott at (215) 446-5831.

cc: Sandra N. Bates, FTS Commissioner  
Linda Chero, Acting Deputy Regional Administrator  
Paul McDermott, ARA/FTS  
Eugene L. Waszily, Assistant IG for Auditing

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AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CONTROLS AND TESTING OF THOSE CONTROLS  
FOR THE SOUTHEAST SUNBELT REGION  
CLIENT SUPPORT CENTER  
REPORT NUMBER A040191/T/5/Z05003  
DECEMBER 9, 2004





AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CONTROLS AND TESTING OF THOSE CONTROLS  
FOR THE SOUTHEAST SUNBELT REGION  
CLIENT SUPPORT CENTER  
REPORT NUMBER A040191/T/5/Z05003  
DECEMBER 9, 2004

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AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CONTROLS AND TESTING OF THOSE CONTROLS  
FOR THE SOUTHEAST SUNBELT REGION  
CLIENT SUPPORT CENTER  
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DECEMBER 9, 2004

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U.S. GENERAL SERVICES ADMINISTRATION  
Office of Inspector General

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Date : December 9, 2004

Reply to

Attn of : Great Lakes Region Field Audit Office (JA-5)

Subject : Audit of Federal Technology Service's Controls and Testing of those Controls  
for the Southeast Sunbelt Region Client Support Center  
Report Number A040191/T/5/Z05003

To : Edwin E. Fielder  
Regional Administrator (4A)

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

This report presents the results of the Office of Inspector General's (OIG) audit of Federal Technology Service's (FTS) controls for the Client Support Center (CSC) in the Southeast Sunbelt Region (Region 4).

### **Background**

In 2003, the OIG performed an audit of the FTS CSCs located in Regions 4, 6 and 10. Report Number A020144/T/5/Z04002, dated January 8, 2004, identified significant contracting deficiencies, including improper sole source awards, misuse of the Information Technology (IT) Fund, misuse of small business contracts, ordering work outside the contract scope, improper order modifications, frequent use of time and materials (T&M) contracts, and not enforcing contract provisions. The audit of Regions 4, 6, and 10 focused on procurement actions in FY 2002.

The Administrator and Central Office FTS subsequently requested that the OIG review conditions at the remaining CSCs. This follow-on audit focused on procurement actions made in FY 2003 in Regions 1, 2, 3, 5, 7, 8, 9 and NCR. Based on the preliminary audit results of the follow-on review that many of the same improper practices still existed, as well as recent developments with the Senate Armed Services Committee and the proposed language in the Defense authorization bill affecting FTS, the Administrator asked the OIG to further review procurements and controls in all the CSCs to determine the extent of improvements FTS has implemented in 2004. This report presents the results of our review of the Southeast Sunbelt CSC's procurement actions during the three-month period March 1, 2004 through May 31, 2004.

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The Region 4 CSC reported the following revenue:

| <u>Fiscal Year</u> | <u>Revenue</u> |
|--------------------|----------------|
| 2003               | \$896,196,400  |
| 2004               | \$962,904,700  |

### **Objectives, Scope and Methodology**

The audit objectives were to determine whether the CSC (1) has conducted procurements in accordance with the Federal Acquisition Regulation (FAR) and the terms and conditions of the contracts utilized, (2) has implemented controls mandated by Central Office FTS in FY 2004, and (3) has implemented additional controls to improve the procurement process.

To accomplish these objectives, we:

- Reviewed procurement documentation related to a judgmental sample of 10 task orders<sup>16</sup> valued at \$328,777,067;
- Reviewed laws, regulations, and applicable guidance; and
- Interviewed CSC personnel.

The audit was conducted during July and August 2004 in accordance with generally accepted Government auditing standards.

### **Results of Audit**

Our review showed that the CSC has implemented various controls to improve the procurement process. In addition, our limited testing of procurements during March through May 2004 indicated that the CSC has made substantial progress in improving appropriate documentation for new awards.

However, our limited review also identified certain weaknesses, primarily in the remediation of some issues relating to existing task orders. For example, we did not always find sufficient documentation to show that the Government received fair and reasonable pricing, and we noted frequent use of T&M task orders. We also identified task orders that may not be in compliance with the Service Contract Act.

---

<sup>16</sup> There were 10 task orders included in our sample from the period March through May 2004. The sample was comprised of: (i) three new task orders; (ii) two new task orders which actually represented sub-tasks to existing master task orders; and (iii) five task orders which were originally awarded prior to March 1, 2004, but were modified during the period March through May 2004.

## **Central Office FTS Controls**

Since the OIG's review of FY 2003 CSC procurements in Regions 4, 6 and 10, Central Office FTS has initiated new policies and procedural controls to improve the CSC control environment. We reviewed the following new controls:

Implementation of Section 803 of the National Defense Authorization Act. On March 11, 2003, in support of Section 803, FTS issued Acquisition Policy Letter No. 2003-01. The policy affects all orders for services greater than \$100,000 placed after October 25, 2002, and requires "fair notice of the intent to make the purchase" and "affords all contractors responding to the notice a fair opportunity to submit an offer." Posting of a request for quotations on the GSA electronic quote system "e-Buy" ([www.gsaAdvantage.gov](http://www.gsaAdvantage.gov)), is one medium for providing fair notice to all contractors as required.

All orders in our sample were in compliance with the FTS Commissioner's memo implementing Section 803.

Legal Review Policy. In a memo dated October 1, 2003, FTS issued policy guidance implementing additional legal review requirements to assure compliance with all applicable laws, regulations, and other requirements. For example, legal concurrence is required for new contract awards over \$5 million; actions resulting in awards of Blanket Purchase Agreements; actions resulting in the issuance of a task/delivery order that contains leasing provisions, regardless of dollar value; and actions that result in the issuance of a task/delivery order under existing vehicles in excess of \$5 million.

The CSC awarded one new task order in our sample that exceeded \$5 million and this task order was in compliance with the legal review policy.

Acquisition Checklists. In a memo dated October 6, 2003, FTS Central Office developed standard checklists to provide FTS associates with guidance and tools prior to awarding contracts and task orders and to ensure consistency in the acquisition process. Examples of required documentation include: requirement description, market research data, acquisition plans, etc.

Our review indicated that for the three new awards, the acquisition checklists were properly completed and acquisition plans were available.

Other Controls. FTS issued guidance establishing Procurement Management Reviews, in a memo dated November 14, 2003, and Project Closeout Guidance, in a memo dated May 28, 2004. The CSC was in the process of implementing these controls.

## **Review of Procurement Actions**

Our review of regional CSC procurement actions executed during March through May 2004 showed that the CSC has made progress in improving appropriate documentation for new awards; however, we identified some weaknesses, primarily in the remediation

of some issues relating to existing task orders awarded prior to implementation of management controls.

### Other Direct Costs

We reviewed a modification to task order 4TPB21033700 (Mod 15) which exercised an additional option year for the contractor (Anteon) to provide labor, maintenance, materials, supply support, and software for U.S. Army simulation centers maintained by the FTS client, U.S. Army Program Executive Office Simulation, Training, and Instrumentation (PEO-STRI).

The original value of the task order was \$73.1 million and included other direct costs (ODCs) of \$18.6 million. The ODCs included about \$17 million in computer equipment and about \$1.6 million in travel, training, program management, and repair parts. By March 1, 2004, when modification 15 was signed, the total value of the option year had increased to \$93.3 million, which included revised ODCs of \$26 million. The CSC was unable to provide an itemization of the computer equipment, the vendor or vendors used, or a price reasonableness determination. CSC personnel explained that their contractual responsibilities for ordering and determining the price reasonableness of the ODCs were delegated to Anteon and that the supporting procurement documentation was maintained by Anteon. We reviewed the letter of delegation dated March 18, 2003, which provided for the procurement of services, not commodities or computer equipment.

As part of our audit of this task order, we reviewed Anteon invoices dated May 14, 2003, and July 10, 2003, for ODC costs of \$964,377 and \$4,550,037, respectively. We then reviewed the monthly financial summaries provided by Anteon in order to analyze the supporting documentation for the ODC billings. The summaries did not provide any listings or itemizations of the ODC equipment that was billed and shipped to PEO-STRI. The ODCs were invoiced as single line items without detailed supporting information. We were unsuccessful in our attempts to get either Anteon or PEO-STRI to provide us with a breakdown of the ODCs.

Subsequent to our issuance of the discussion draft audit report, the CSC requested Anteon to provide the requested information for the two Anteon invoices discussed above.

Our review of this information disclosed that the FTS client, PEO-STRI directed Anteon to request formal proposals from four firms, Dell, IBM, Hewlett Packard, and Gateway. All the firms submitted bids except IBM. Anteon awarded the \$6.7 million contract to Dell, the high bidder, which was about \$700,000 more than the low bid from Gateway. Anteon's written award summary classified the procurement as sole source and Government directed. The Anteon files that were provided to the auditor did not contain a sole source justification. The award summary also stated that the determination of price reasonableness was based on a complete program study requested by PEO-STRI.

The CSC based its delegation of authority on FAR 51.102, which allows a contractor to use Government supply sources such as FSS schedules. We were unable to determine if the models purchased from Dell were schedule items because of a lack of detail in the supporting documentation. The CSC in essence relinquished its procurement responsibilities to the contractor.

Anteon made sole source and open market purchases for PEO-STRI. Some of the open market purchases exceeded \$100,000 and were subject to the provisions of Section 803 of the National Defense Authorization Act, yet the summary of bids provided by Anteon showed a response by only two bidders rather than three respondents as required by Section 803.

In our opinion, the CSC delegated contracting functions to Anteon that are inherently Governmental. FAR. 7.503 specifies procurement functions which are considered to be inherently Governmental. These functions include the following:

- Determining what supplies or services are to be acquired by the Government (although an agency may give contractors authority to acquire supplies at prices within specified ranges and subject to other reasonable conditions deemed appropriate by the agency);
- Awarding contracts;
- Determining whether contract costs are reasonable, allocable, and allowable.

We also noted that the ODC costs shown on these invoices were marked up by a 4.1% general and administration (G&A) rate. Although the G&A rate may be approved by Defense Contract Audit Agency (DCAA), we question whether the G&A rate was appropriately applied to the ODC costs. The FTS contract with Anteon is an Answer contract and Section G.2.2 states that the hourly rates used under this contract are “fully loaded” rates that include G&A. In our opinion, the fully loaded hourly rates already provide for the recovery of G&A expenses. Since Anteon procures the ODCs from other vendors, Anteon may be eligible to apply a material-handling rate to the ODCs. A DCAA report dated June 28, 2004 shows that Anteon has the following approved material handling rates for the year 2004: Federal Technical Services Group - 0.4%, Technology Group - 1.3%, Systems Engineering Group - 0.59%, and the Integration Group - 3.69%. These rates are all less than the G&A rate charged on the ODCs under this task order and vary with the division performing the work.

#### Work Awarded to 8(a) Contractor

Task order 4TNC17031045 procured computer storage equipment from an 8(a) contractor, TKC Communications (TKC). The task order was for the delivery of equipment to the Navy Personnel Command. The equipment was actually furnished by EMC Corporation (EMC). TKC functioned as a middleman between EMC and Navy Personnel Command. The technical proposal was prepared by EMC, not TKC. A statement of work was not prepared by the Government. Although TKC submitted a cost proposal, it did not itemize the costs of the various types of equipment and software being proposed. The costs were bundled into various categories such as “total



services”, “training”, “total hardware and software” etc. The cost proposal also did not detail the fees or services provided by TKC. The independent Government estimate and the cost proposal were both dated March 13, 2003.

We contacted TKC representatives and determined that TKC did not manufacture any of the equipment or provide any of the labor for this task order. TKC charged a handling fee which was not itemized in their cost proposal. We determined through our review of the TKC contract that TKC was allowed to charge a handling fee up to a seven percent ceiling. TKC, as an 8(a) contractor, was required to perform at least 50 percent of the service requirements under this contract with its own personnel in accordance with FAR 52.219-14(b)(1) which states “Services (except construction). At least 50 percent of the cost of contract performance incurred for personnel shall be expended for employees of the concern.” The value of services required by this task order was approximately \$687,206. They were not provided by TKC personnel.

Since the 50 percent requirement was by “contract performance,” not by individual task order, we had to determine whether TKC provided their services under the overall FSS contract. Therefore, we contacted GSA Federal Supply Service (FSS) contracting personnel and found that this was the only order placed under TKC contract GS06T02BND0587. Furthermore, we were told that the contract expired on July 21, 2004. GSA did not exercise the option year because of the lack of orders placed under the contract. Consequently, TKC did not provide any of the personnel services required under contract GS06T02BND0587 and made no attempt to meet the contract’s 50 percent service requirement. The purpose of this limitation is to limit subcontracting by 8(a) firms and provide small disadvantaged businesses with real work experience and, thereby, avoid the use of 8(a) contracts as a conduit to other contractors, like EMC, to benefit from sole source procurement.

FAR 19.805-1(a) allows sole source procurements from 8(a) contractors for non-manufacturing orders with a value under \$3 million. TKC is an Alaskan Native 8(a) firm and is not subject to the \$3 million limitation. Consequently, although the order exceeded the 8(a) threshold, FTS was able to procure services/commodities on a sole source basis from a large business using the preferred status of TKC.

EMC contract GS-35F-0088K has a maximum order threshold of \$500,000. In our opinion, FTS should have requested competitive bids on this task order.

Although contract GS06T02BND0587 expired, TKC is using several other Government contracts to obtain FTS orders. The other TKC Government contracts are as follows: GS04T03BFD0016, NBC-HD-03-0029, GS04T04DBP0303, GS06T02BND0471, GS07T04BGM151, and a new 8(a) Stars award (GS-06F-0103Z).

During our exit conference, Regional management contended that they should not be held responsible for an 8(a) contractor’s non-compliance with the 50 percent contract performance requirement. However, in our opinion, there were certain “red flags” (e.g., the proposal was prepared by EMC, not TKC, and there was no statement of work) that should have alerted the CSC to the potential problem.

## Frequent Use of T&M Tasks

In 1991, the Office of Federal Procurement Policy issued Policy Letter 91-2, Service Contracting, which established that “It is the policy of the Federal Government that (1) agencies use performance-based contracting methods to the maximum extent practicable when acquiring services, and (2) agencies carefully select acquisition and contract administration strategies, methods, and techniques that best accommodate the requirements.” FAR Section 37.102 states that performance-based service contracting is the preferred method for acquiring services and requires agencies to use performance based contracting to the maximum extent practicable. The FAR cites the following order of precedence:

1. A firm-fixed price performance-based contract or task order
2. A performance-based contract or task order that is not firm-fixed price
3. A contract or task order that is not performance-based.

The CSC frequently used T&M tasks rather than firm fixed-price tasks. Of the ten orders for services that we reviewed, seven were T&M tasks, however only one was a new task order. A T&M contract provides for acquiring services on the basis of direct labor hours at fixed hourly rates and materials at cost. The FAR requires the contracting office to prepare a written justification for use of a T&M contract. T&M contracts are the least preferred method of acquiring services because under the FAR this type of contract provides no incentive to the contractor for cost control or labor efficiency. FAR 16.601 states, “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.”

Our audit sample included four task orders awarded on a T&M basis for labor intensive service contracts that included repetitive work over a period of years. For example, task order 4TNL17021014 provided computer personnel to support the technical operations of the Navy Personnel Command. The task order awarded to Computer Systems Technology Inc. had a base year of \$6.6 million and eight option years at a cost of \$6.8 million per option year. Labor hours were consistently projected at 189,571 man hours per year and the labor classifications used to perform the work remained the same from year to year. The FTS justification for the T&M contract cited “breakdowns”, “repairs”, and “program revisions.”

FAR 37.602-5 titled “Follow-on and repetitive requirements” states that “When acquiring services that previously have been provided by contract, agencies shall rely on the experience gained from the prior contract to incorporate performance-based contracting methods to the maximum extent practicable. This will facilitate the use of fixed-price contracts for such requirements for services.” In our opinion, the Government’s needs involved repetitive labor requirements that would have been better served by a firm fixed price, performance-based contract for this task order.

The sample included three other labor-intensive T&M task orders that involved similar follow-on and repetitive work, which would have been conducive to a firm fixed price performance, based contract. These task orders are shown below:

- 4TNL17021006, Computer Systems Technology
- 4TWP21048340, Morgan Research
- 4TWG21044420, Cobro Corp.

#### Independent Government Cost Estimates

GSA Order APD P 2800.14, dated April 22, 1988, establishes procedures and guidelines for the use of all GSA employees in preparing the information required for an effective and timely procurement request. The order further states that a “detailed cost estimate must be received by the contracting officer prior to issuance of the solicitation.”

Our review disclosed that the CSC usually relies on the estimates provided by the client agencies. In the case of four task orders, we found that the estimates were not signed or dated by the client agency, and in the case of another task order the estimate had the same date as was shown on the cost proposal. We also found that three of the task orders did not have estimates.

Based on the criteria cited above, we believe that independent Government estimates are an important part of the procurement process. The name of the estimator as well as the date of the estimate is necessary to establish the source of the information and to determine the estimate’s independence. This is in accordance with GSA Order APD P 2800.14 and good business practice.

#### Service Contract Act

Task orders issued by the CSC under the Millennium Lite contract may not be in compliance with the Service Contract Act of 1965. The Service Contract Act provides for minimum wages and fringe benefits for employees working under service type contracts. Most Millennium Lite job categories cover highly technical positions that are exempt from the Service Contract Act; however, lower level computer operators and data entry personnel fall under the provisions of the Service Contract Act and require a DOL wage determination. Most of the labor hours ordered for task orders 4TNL17021014 and 4TNL17021006 were for labor categories that are subject to the Service Contract Act.

Task orders 4TNL17021014 and 4TNL17021006 were awarded to Computer Systems Technology, and were the only two Millennium Lite orders that were included in our audit sample for this region. The task orders included base year labor costs for computer operators and data entry personnel (covered labor categories) that were a significant percentage of total base year labor costs. For task order 4TNL17021014, covered personnel accounted for \$1.5 million out of \$6 million in total base year labor costs. For task order 4TNL17021006, covered personnel accounted for \$3.1 million out of \$4.7 million in total base year labor costs. The CSC did not obtain a wage determination for

these job classifications, as generally required by the Act, because a provision of the Millennium Lite contract states that the entire contract is exempt from the Service Contract Act's provisions.

We note that other GSA-managed Government Wide Acquisition Contracts, including ANSWER, incorporate provisions of the Service Contract Act. The clause in the Millennium Lite contract that exempts all its labor categories from the provisions of the Service Contract Act should be reexamined. The better practice may be to incorporate the Service Contract Act and its related wage determinations. We have referred this issue to the Commissioner, FSS, for appropriate action.

### **Conclusion**

The CSC has made substantial progress in implementing controls to improve its procurements. Specifically, the CSC has implemented various new policies and procedural controls to improve the internal control environment. However, our testing of procurement actions for the period March through May 2004, showed that the CSC needs to focus not only on the integrity of new awards but existing orders that are at risk due to actions that have occurred during the life of the task orders awarded prior to implementation of management controls. Our review showed that while there is evidence that the CSC has begun remediation efforts, additional work is needed to correct weaknesses that remain.

As indicated in our January 2004 report on the FTS CSC, we believe that steps to remedy these 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 additional overall recommendations are deemed necessary at this time.

### **Management Comments**

The Regional Administrator generally concurred with the results as presented in this report. His written response is included as Appendix B.


### **Internal Controls**

We assessed the internal controls relevant to the CSC's procurements to assure that the procurements were made in accordance with the FAR and the terms and condition of the contracts utilized. Our review showed that the CSC has implemented various controls to improve the procurement process. However, our limited testing of recent procurement actions identified weaknesses, primarily in the remediation of some issues relating to existing task orders awarded prior to implementation of management controls. For example, we did not always find sufficient documentation to show that the Government received fair and reasonable pricing, and we noted frequent use of T&M

task orders. We also identified task orders that may not be in compliance with the Service Contract Act. Given the exceptions noted in our audit sample, there is a need for management's continued attention to improving controls.

2005 Review. The Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC program during fiscal year 2005.

If you have any questions regarding the report, please contact Joseph Hurley or me at (312) 353-7781.

  
for John Langeland  
Audit Manager  
Great Lakes Region

## **APPENDIX**



AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CONTROLS AND TESTING OF THOSE CONTROLS  
FOR THE SOUTHEAST SUNBELT REGION  
CLIENT SUPPORT CENTER  
REPORT NUMBER A040191/T/5/Z05003

APPENDIX A

SCHEDULE OF FY04 ORDERS REVIEWED IN THE SOUTHEAST SUNBELT REGION

| Order Number    | Order Date | Contractor          | Contract Type  | Client                     | Task Order Value | Notes |
|-----------------|------------|---------------------|----------------|----------------------------|------------------|-------|
| 4TFG57045003    | 05/28/04   | Dell Marketing LP   | Schedules      | Air Force                  | \$5,444,293      | 1     |
| 4TWP97043932    | 03/09/04   | Northrop Grumman    | PES            | DOD (SIAP)                 | 4,417,475        | 2     |
| 4THP21046034    | 03/29/04   | AAI Engineering     | Mobis          | Army                       | 3,846,153        | 3     |
| 4TNC17031045    | 04/06/04   | TKC                 | Fast 8(a)      | Navy                       | 5,518,059        | 4     |
| 4TWG21044420    | 03/12/04   | Cobro               | PES            | Army                       | 3,475,961        | 5     |
| 4TPB21033700/15 | 03/01/04   | Anteon              | Answer         | Army                       | 230.712,081      | 6     |
| 4TNL17021014/51 | 04/06/04   | Computer Sys. Tech. | Millennia Lite | Navy                       | 50,202,667       | 7     |
| 4TNL17021006/40 | 03/16/04   | Computer Sys. Tech. | Millennia Lite | Navy                       | 13,341,835       | 8     |
| 4TAB75017003/16 | 04/19/04   | Anteon              | Answer         | Center for Disease Control | 11,721,037       | 9     |
| 4TWP21048340    | 04/02/04   | Morgan Research     | PES            | Army                       | 2,264,950        | 10    |



## Notes for Schedule of Task Orders Reviewed

### ***New Awards***

1. The CSC requested bids on this task order through GSA e-Buy. Dell Marketing LP was the only bidder and was awarded the task order on May 28, 2004, on a T&M basis. An estimate for this procurement was available but it did not show the name of the estimator or the date of the estimate.
2. The CSC requested bids on this task order through GSA e-Buy. Northrop Grumman was the only bidder and was awarded the firm fixed price task order on March 9, 2004. An estimate for this procurement was available but it did not show the name of the estimator or the date of the estimate.
3. The CSC procured this firm fixed price task order with a sole source justification. AAI Engineering was awarded the firm fixed price task order on March 29, 2004. An estimate was available and it was signed and dated.

### ***Existing Task Orders With Contracting Actions Between March and May 2004***

4. Task order 4TNC17031045 is discussed in the body of this report.
5. This task order, 4TWG21044420, is a sub task to master task 4TWG21034377. Both task orders were awarded to Cobro Corporation on a T&M basis. The bill of materials stated this order is a subtask to support the same requirements in the master task. The master task provided technical support requirements for the Army Special Operations Command in order to increase aircraft availability and improve operational efficiency. The master task was for a base year cost of \$1.4 million and four option years at a cost of approximately \$3.5 million per year. The task order procured nine technical labor classifications. The labor classifications and the labor hours remained the same in each option year. The hours for the base year differed from the option years since it was only five months in duration. The labor costs for each year were consistent and approximately the same. The Determination and Findings justifies the use of T&M by stating it is impossible "to estimate accurately the extent of work required." This is a very general justification and we believe that a firm fixed price performance based contract would have better served the Government. An estimate for the procurement of the master task was available but it was not signed or dated.
6. Task Order 4TPB21033700 is discussed in the body of this report.
7. Task Order 4TNL17021014 is discussed in the body of the report.
8. Modification 40 to Task Order 4TNL17021006 is discussed in the body of the report.
9. Modification 16 to Task Order 4TAB75017003 provides additional funding. This T&M task order awarded to Anteon Corporation provided computer personnel support for a disease

control information system. A Government estimate was not available for this procurement.

10. Task Order 4TWP21048340 is a subtask to master task 4TWP21048000. Both task orders were awarded to Morgan Research Corporation on a T&M basis. The subtask provided for eight personnel. Seven of the positions were estimated at 2080 hours per year and the eighth position was estimated at 1040 hours per year. The labor classifications and labor hours remained the same in the base year as well as each of the option years. The costs for each year were likewise consistent. The Determination and Findings justifies the T&M contract based on the fact that the quantity and type of materials were unknown as of the beginning date of this task order. We reviewed the proposal and found the line item for materials did not show a description of the materials to be purchased or an estimate. In our opinion, a firm fixed price performance based contract for the labor costs would have better served the Government's interests. A Government estimate for the procurement of the master task was available but it was not signed or dated.



**APPENDIX B**  
**MANAGEMENT RESPONSE**

Nov-21-2004 17:25 From-

T-867 P.002/003 F-104



**GSA**

**GSA Southeast Sunbelt Region**

NOV 22 2004

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

FROM:   
EDWIN E. FIELDER, JR.  
REGIONAL ADMINISTRATOR (JA)

SUBJECT: Audit of Federal Technology Service's Controls  
and Testing of those Controls for the Southeast  
Sunbelt Region Client Support Center  
Report Number A040191

Thank you for the opportunity to review the subject audit report. The findings presented in this and earlier reports continue to be helpful in ensuring that management controls and tests of controls are adequate to provide assurances that our Client Support Centers (CSC) are conducting procurements in accordance with Federal Acquisition Regulations (FAR) and contract terms and conditions.

Generally, we concur with the findings of the audit and while we remain fully committed to strengthening existing controls and implementing new controls when needed, we are pleased that the audit team acknowledged that recently implemented controls are effective in improving our procurement process and compliance with the FAR.

We are concerned about the audit finding that the CSC improperly delegated inherently governmental functions to our contractor. And, while we believe this is an isolated instance and has special circumstances that may have made this appropriate; it is a serious matter which warrants our attention. We are taking steps to assure that inherently governmental functions are performed by authorized GSA associates and are properly documented in official contract files.

-2-

**U.S. General Services Administration**  
77 Forsyth Street, SW  
Atlanta, GA 30303-3458  
www.gsa.gov

-2-

The Audit raises questions regarding 8(a) contract awards, independent Government estimates vis-à-vis price reasonableness, use of time and materials tasks, and application of the Service Contract Act which reflect practices and approaches GSA uses nationwide. Since the questions you raised may well be National in scope we are formally sharing your findings with our Central Office, both Federal Technology Service (FTS) and Federal Supply Service (FSS), and other regions with the thought that we can reach consensus on a consistent approach to resolve these issues.

Again, we appreciate the opportunity to review this important audit. Your findings affirm that our team has had some success in implementing and adhering to management controls to assure that CSC acquisition processes are appropriate and compliant with the FAR and contract terms and conditions. Prompt implementation of additional controls to address the audit findings is vital to assure that we continue to move forward with best practices that may be useful to other regions which will assure compliance with the FAR and other requirements of our contracts without adverse impact on service delivery to our clients.

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER, GREAT LAKES REGION  
REPORT NUMBER A040117/T/5/Z05002  
DECEMBER 9, 2004





U.S. GENERAL SERVICES ADMINISTRATION  
Office of Inspector General

---

Date: December 9, 2004

Reply to  
Attn of: Regional Inspector General for Auditing  
Great Lakes Region Field Audit Office (JA-5)

Subject: Audit of Federal Technology Service's Client Support Center  
Great Lakes Region  
Report Number A040117/T/5/Z05002

To: James C. Handley, Regional Administrator  
Great Lakes Region (5A)

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

This report presents the results of the Office of Inspector General's (OIG) audit of Federal Technology Service's (FTS) Client Support Center (CSC) in the Great Lakes Region (Region 5).

This audit was conducted in response to requests from Mr. Stephen A. Perry, General Services Administration Administrator. The objective of our review was to answer the following question: Did the CSC award and administer procurements in accordance with Federal Acquisition Regulations (FAR) and the terms and conditions of the contracts utilized?

### **Fiscal Year 2003 Review**

The audit identified numerous improper task orders and contract awards involving millions of dollars that failed to comply with procurement laws and regulations and on a number of occasions were well outside the delegated authority of FTS. Our findings identified numerous instances of misuse of contracting vehicles, inadequate competition, non-existent or ineffective contract administration, poor or non-existent support for pricing, misleading descriptions of work, persistent and unsupported use of time and materials (T&M) task orders, and work that was paid for but never delivered to the Government.

The factors contributing to these problems were ineffective management controls and an environment that emphasized client agency satisfaction and FTS revenue over compliance with proper and prudent procurement procedures.

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### **Fiscal Year 2004 Review**

We identified many of the same improper award issues identified in the FY 2003 review.

Our findings identified misuse of contracting vehicles, inadequate competition, improper evaluation of contractor proposals in determining fair and reasonable pricing, lack of, or ineffective implementation of various controls put in place by Central Office FTS and task order awards that included work outside the authority of FTS.

In FY 2003, the CSC began implementing national and regional controls. Although they were not fully complied with in all of the task orders we reviewed, we noted improvements when compared to the FY 2003 procurement results disclosed in this report.

We have included the Regional Administrator's written response to the draft report in Appendix C of the report.

Sincerely

  
for John Langeland  
Audit Manager  
Great Lakes Field Audit Office (JA-5)

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER, GREAT LAKES REGION  
REPORT NUMBER A040117/T/5/Z05002

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AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER, GREAT LAKES REGION  
REPORT NUMBER A040117/T/5/Z05002

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## **RESULTS OF AUDIT**

### **Brief**

#### **Fiscal Year 2003 Review**

The audit identified numerous improper task orders and contract awards involving millions of dollars that failed to comply with procurement laws and regulations and on a number of occasions were well outside the delegated authority of the FTS. Our findings identified numerous instances of misuse of contracting vehicles, inadequate competition, non-existent or ineffective contract administration, poor or non-existent support for pricing, misleading descriptions of work, persistent and unsupported use of T&M task orders, and work that was paid for but never delivered to the Government.

The factors contributing to these problems were ineffective management controls and an environment that emphasized client agency satisfaction and FTS revenue over compliance with proper and prudent procurement procedures.

#### **Fiscal Year 2004 Review**

We identified many of the same improper award issues identified in the FY 2003 review.

Our findings identified misuse of contracting vehicles, inadequate competition, improper evaluation of contractor proposals in determining fair and reasonable pricing, lack of, or ineffective implementation of various controls put in place by Central Office FTS and task order awards that included work outside the authority of the FTS.

### **Results of Fiscal Year 2003 Review**

#### **Inadequate Competition**

Of 19 FSS Schedule orders for services in our sample, the CSC awarded 16 orders without the benefit of competition. Eighty-four percent (16 of 19) of these sole source awards were awarded without proper justification.

**FSS Schedules – FSS and DOD Ordering Procedures Require Competition.** Our sample of 30 orders included 19 FSS Schedule services orders. In 16 of the 19 cases (84 percent), Region 5 made the awards without the benefit of competitive bids. Recent legislation and FSS ordering procedures specify the need to obtain a minimum of three offers for most orders to ensure fair and reasonable pricing. FSS Special Ordering Procedures for Services (that include a statement of work) expected to exceed \$2500 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 addition, Section 803 of the National Defense Authorization Act of 2002, Public Law 107-107 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 multiple award contracts. 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.

**Remote Video Surveillance Program.** Thirteen (see Appendix A) of the 30 task orders included in the 2003 audit sample provided services and installation work for the Border Patrol's RVS program.<sup>17</sup> All of the orders were placed, without benefit of competition, with a Schedule 58 and 70 FSS contractor, International Microwave Corporation (IMC).<sup>18</sup>

Nine of the 13 task orders provided for installation of daytime and night vision cameras to be mounted on poles and other structures, construction of towers for microwave transmission equipment and provision and installation of monitoring equipment in Border Patrol facilities located along the U.S.-Canada and U.S.-Mexico borders. Two orders provided for a maintenance shop and repair services at an Albuquerque, New Mexico maintenance facility. The two other orders provided for management, administration and engineering (MAE) services associated with the provision of the RVS equipment at various locations along the borders. The total value of



the 13 orders included in the audit sample was \$43,390,797.

Our review disclosed that the award of the initial project to IMC was not supported by evidence that competition for the award had occurred. From records we obtained from FTS, the award of the earliest task orders to IMC in 2000 was a result of the ratification of an award decision made by the former parent agency of the Border Patrol, the Immigration and Naturalization Service (INS).

INS issued a Request for Quotes (RFQ) around November or December 1998. Several firms responded to the proposal and made oral presentations at INS Headquarters in Washington, D.C. FTS officials stated that there was a lack of documentation regarding the INS solicitation, evaluation, and selection of IMC for the RVS program. A review of the RFP showed that it did not accurately represent either the full scope of the project or the nature of the work that was to be provided. The initial award was for \$2 million on November 24, 1999. In November 2000, a BPA valued at \$200 million was negotiated and awarded to IMC. The BPA employed "bundled pricing" which featured a fixed price for each of 22 different contract line items (CLIN). Each CLIN represented a different size or configuration of pole, tower, or installation. Senior Central Office FTS officials approved the BPA on December 11, 2000.

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<sup>17</sup> The RVS program provides the ability to remotely control a camera station and communicate data and video back to a control room for monitoring. RVS provides for the dispatch, support, and safety of Border Patrol agents. RVS also provides a deterrent to illegal border crossings and evidence for convictions in cases where video is acceptable evidence in a court of law.

<sup>18</sup> IMC was acquired by L3 Communications on or about February 2003.

The BPA was presented as a teaming arrangement between IMC and five other FSS Schedule contractors who would provide the equipment and services necessary to furnish and install the poles, towers, cameras and related items. None of the team members held contracts that included the construction and engineering work needed to design and install an RVS system. For example, IMC’s contract, at the time, only covered the furnishing of radios, microwave transmission equipment, repairs and IT professional services.

The BPA was portrayed as offering substantial savings to the Government that would result from additional discounts off the FSS Schedule pricelists for the equipment and installation. No such savings occurred, however.

We obtained and reviewed the component parts list for each BPA CLIN and determined that 96 percent of the parts could not be traced to the BPA’s FSS Schedule holders’ pricelists. When we successfully matched parts, for example, the Hitachi day camera included in the bundled price, against the Schedule price, we found that the price had not been discounted off the FSS Schedule price. Instead, we found the following price relationships:

|  |         |
|--|---------|
| Hitachi model number KPD581,<br>per detail provided to support BPA CLIN              | \$4,465 |
| Hitachi model number KPD581,<br>per FSS Schedule GS-03F-4096B                        | \$1,723 |
| Hitachi model number KPD591, <sup>19</sup><br>In-house to IMC, per invoices obtained | \$1,280 |

Likewise, the FLIR long-range infrared camera was included in the bundled price at \$48,500. During calendar year 2000, the FLIR camera was priced in-house to IMC at \$34,000.<sup>20</sup> The FLIR cameras used for the border station were not on FLIR’s FSS Schedule, although FLIR was a “team” member. See the report section entitled Equipment Substitution for further information on FLIR cameras. FTS did not verify the pricing of the components of the bundled prices and did not prepare Government estimates to support the reasonableness of the installation cost.

Prior to expiration of the BPA, L3 Communications requested a modification to its existing Schedule 84 Contract (GS-07F-5377P). This modification incorporated all of the contract line items (CLINS) for monopoles and other structures from the BPA. The CLINS increased in price on average of 20 percent with increases ranging from a \$38,000 to \$55,000.

On July 14, 2004, the FSS contracting officer requested L-3 Communications to specify whether the cost for any services (ancillary or construction) were included within the

<sup>19</sup> Hitachi invoices to IMC consistently stated that the model KPD591 camera was the replacement camera for KPD581. Hitachi officials stated that the KPD591 was never on Hitachi’s FSS Schedule. Hitachi officials also stated that additional lenses and other accessories would have to be ordered separately, which was consistent with bills of materials, invoices, and schedules reviewed.

<sup>20</sup> Our review noted evidence of the \$34,000 price through June 2000. The BPA which included the bundled pricing was effective November 8, 2000.

price of each item. The contractor's response showed that most of the line items included a cost for construction. As mentioned earlier, FSS has no authority to contract for construction work. Schedule 84 contracts are not construction contracts.

The contracting officer also questioned the commerciality of the CLINS and requested proof of non-Federal Government sales. That information was not furnished. Resolution of this matter is still underway.

**BRACO.** Task order 5TS2103049 for BRACO (Army's Base Realignment and Closure Office) required a contractor (Strategic Management, Inc.) to assist with resource optimization and environmental restoration. The contract was awarded sole source for \$1.488 million with no documentation as to the reason no other bids were sought. FTS stated that the client submitted the request as a directed buy (sole source) and as a result, no other companies were afforded the opportunity to bid on the project.

### **Misuse of Contract Vehicle**

Of the 30 task orders included in the FY2003 audit sample, 18 included work that was outside the scope of the contract against which the order had been placed. Thirteen orders included work that was outside the delegated authority of FTS to acquire. This included construction work and the acquisition of real property. (e.g., leasing of space in Albuquerque, New Mexico) ADM 5450.39C delegates construction and real property acquisition authority to the Public Buildings Service (PBS). No such authority is granted to either FTS or FSS. Neither the IT Fund or the General Supply Fund authorizes the acquisition of construction work or real property.

- Nine of the task orders (FCI1500015, 5TI1503009, 5TI1503062, 5TI1503036, 5TI1502024, 5TI1503013, 5TI1502131, 5TI1502115, 5TI1501038) issued for the installation of camera monopoles and transmission towers for the Border Patrol involved heavy construction work. Backhoes, cranes, bulldozers and boring equipment were required to install foundations, erect poles and towers and connect to utilities. Skilled craftsman such as heavy equipment operators, electricians, carpenters and steplejacks were employed to operate the construction equipment and install the components of the system. Engineering firms were needed to design the installation and define the specific requirements for each location.



The FSS Schedule contract with IMC was a commodities contract for furnishing radios and microwave transmission equipment, not construction work, and contained none of the requisite references to construction laws and regulations

that protect employee wages, workplace safety, the environment, integrity of procurement, or ensure timely delivery or quality of the workmanship.

Davis-Bacon Act wage determinations were not incorporated into the task orders, resulting in a potential unfunded liability to the Government. For example, if in the future, employees file claims seeking further reimbursement for the higher wages that they may have been due, the Government may need to reimburse the contractor to settle the claims.<sup>21</sup>

Neither the IMC task orders nor the BPA incorporated detailed specifications, thereby leaving interpretation of the Government's needs up to the contractor. An on-site inspection of the RVS system at the border station in Blaine, Washington revealed serious problems with the quality of the workmanship. Cameras and other pieces of equipment were not functioning and had numerous reliability problems resulting in significant down time and the need for frequent repairs. Border Patrol officials performed a technical inspection of the workmanship and identified numerous problems with the installation work. Remediation efforts were underway by the contractor at the time we made our visit.

Border Patrol officials in Arizona, where we also made an on-site inspection, raised concerns about workmanship and adherence to national electrical codes and, in particular, protection against lightning strikes. The Border Patrol's local electronic technicians were left largely in the dark as to the equipment to be furnished or the design of the system to be provided since no one provided them with design drawings or specifications for the equipment.

- Task order 5TS5703D139 was awarded for \$7.856 million under the ANSWER GWAC based on the best value solution rather than the lowest price. This work was to enhance the overall effectiveness and performance of the security system at Offutt Air Force Base while at the same time reducing manpower requirements. Items that were to be addressed by the integrated system were area intrusion detection, access control, and alarm assessment and reporting. The security system was designed as a combination of electronic security equipment and physical barriers that would ultimately defeat a hostile force.

Infrastructure improvements were to be made in order to accomplish this task order. These included erection of security fencing, drainage and erosion control, grading, trenching, above and below ground power and signal cabling, pedestal installation, physical barriers and facility modifications, none of which is IT related work. Labor rates were submitted for items that were clearly not IT work. Construction work is not included within the scope of the ANSWER contract. As mentioned earlier, authority to perform construction work is delegated to PBS through ADM 5450.39C, Chapter 17.

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<sup>21</sup> Region 10 FTS paid over \$161,000 to settle a request for equitable adjustment related to a Davis-Bacon wage violation. The Marine Corps client refused to pay. See Audit Report No. A020144/T/5/Z04002



- Task order 5TS5703C015 was another task order in which the ANSWER contract was used to obtain materials and services outside the contract's scope. This task order was established for IT support and software for Consolidated Air Mobility Planning System (CAMPS) Development Operations and Maintenance Support at Scott Air Force Base. We reviewed option year three of the contract, valued at \$10,399,218, awarded to Northrop Grumman Information Technology.

The contracting officer approved a modification to the Northrop Grumman task order to lease space to house employees of another contractor which was also providing services to the Air Force. This amount was billed as an other direct cost (ODC) to the contract. The modification authorized the contractor to provide office space for six contract personnel supporting CAMPS. The original contract did not authorize any leasing options and contracting officers in FTS are not warranted to lease or purchase real property.

- FTS acquired space in a building in Albuquerque, NM to house the Border Patrol's Operations and Maintenance Support Center (O&M Center). The building was leased by IMC, funded by the Border Patrol's RVS program and paid for via T&M task orders issued by FTS to IMC. There was no justification in the files to account for the decision to locate the building in Albuquerque and there was no evidence to show that FTS made any attempt to identify space under Government control that would be suitable for such a facility in Albuquerque or anywhere else.

In addition to the rent, FTS paid the contractor for utilities, cleaning, and telephone service. The facility consisted of approximately 25,000 square feet of space. The rent and utility costs totaled approximately \$185,000 annually. The files showed no evidence of a market survey, appraisal, or other comparative analysis that the rent paid was fair and reasonable. The contracting officers of PBS are responsible for leasing and purchase of real property.

Recently, the Department of Homeland Security's Office of Inspector General informed us that little, or no work, was performed by the 19 contractor and two Government employees at this facility during the past year. FTS issued orders to IMC valued at \$6,726,014 to operate and man the facility during the period July 19, 2000 through November 30, 2003.

Our review also found that IMC added unwarranted fees in their invoicing related to the operation of the O&M Center and incurred unsupported camera repair costs. For additional details of our review of O&M Center operations, see Appendix A, Notes 7 and 8.

**Construction Work.** Congress recognized, in the passage of numerous laws that protect construction workers' wages, safety, and the environment and integrity of the process, that there are inherent risks to the Government associated with construction work. Personnel who procure construction services require specified training, experience and access to knowledgeable professionals to perform their work.

FTS associates lack that training and expertise and have placed taxpayers' dollars and, in the case of the RVS program, national security interests at risk when FTS undertook projects it had neither the authority nor skills to procure and manage.

ADM 5450.39C, Chapters 13, 17, and 18 list the authorities delegated to FSS, PBS, and FTS, respectively. Only PBS has been granted authority to perform construction work and acquire real property by any means, not FSS or FTS.

We were unable to identify any authority that has been granted to FTS to acquire other than the most minimal construction work.

### **Improper Contracting Actions**

Our review noted additional examples of questionable or improper contracting actions, including the following:

- FTS officials extended the period of performance of task orders with no justification. The extensions were done through a modification to a task order but there was no explanation as to why the period of performance was extended. Of the 13 task orders sampled related to the Border Patrol's RVS project, there were 18 total modifications (47%) to extend the period of performance. On none of the 18 modifications was there an adequate justification or reason given for the extension. As a result, many of the RVS sites were not delivered and operational in a timely manner.
- Task order options were awarded without a determination that prices offered were fair and reasonable. Task order 5TS5702D240, which provided training to the Air Force on an industrial material management system called for option years two and three to be exercised without a determination of price reasonableness. FTS requested the quotes from the contractor, however the file does not address the adequacy of the prices offered. Additionally, FTS requested changes to the task's scope, including adding training classes. FAR 17.207 requires that contracting officers determine whether the Government is continuing to get a fair and reasonable price for a task order's option years.

### **Inappropriate Use of the IT Fund**

The CSC 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. Region 5 officials misused contracts and the IT Fund to obtain other than IT services.

40 USC Section 322 (the statute creating the IT Fund) states that 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)). The audit sample contained several examples of inappropriate uses of the IT Fund, including the following:

- Anteon Corporation was awarded three task orders (5TS5701D218, 5TS5701D370, 5TS5703D434) representing three phases of a project. The combined value of all phases was \$1,076,963 and the period of performance was over two years. This contract was awarded under the Millennia Lite contract, which is a professional IT services contract. The purpose of this work was to conduct and document testing of three separate, portable, hand-directed laser systems to determine their effectiveness at performing small area coating removal on test panels representing DOD aircraft and ground vehicle coating systems.

The predominant work of this task order was not related to IT. The work effort was testing and validating the use of handheld lasers to remove paint from aircraft. Although a computer was used to document and test results, it played a minor role in the total work effort.

- Task Order 5TS5702D240, valued at \$643,945, provided for development, updating and instruction of three industrial material management system and Automated Bill of Materials (ABOM) courses for the Air Force. According to the Statement of Work (SOW) and the contractor’s proposal, the work primarily involves training that covers the procurement, receiving, issuing, inventory, and accounting of materials.
- Strategic Management, Inc. was awarded a \$1,488,484 task for the Army. This task order (5TS2103049) was awarded sole source under the MOBIS<sup>22</sup> contracting vehicle for BRACO. The work described in the scope of work was not IT related and the contract vehicle used (MOBIS) was not appropriate for this award. The order provided environmental clean-up at military bases. The ITM stated that he decided to use the MOBIS contract, in accordance with Government policy at the time of the award. He told us that under the “Government Reinvention” initiative, all contract types were open for use by anyone. He said he decided to use the MOBIS contract even though he knew the work was not IT related.

### **Frequent Use of Time and Material Task Orders**

We found that the Region 5 CSC frequently used T&M tasks instead of fixed-price task orders. Of the 30 orders for services that we reviewed, 50 percent (15 out of 30) were time-and-materials type tasks (see Appendix A for more details). A T&M task order provides for the acquisition of services on the basis of direct labor hours at fixed hourly labor rates and materials at cost. The FAR discourages the use of T&M contracting. The FAR warns that a T&M contract provides no incentive for a contractor to control costs and operate efficiently and places all the risk on the Government.

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<sup>22</sup> Management Organizational and Business Improvement Services (MOBIS) is an FSS contract schedule offering consulting, facilitation, survey and training services.

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”.

Of the 15 T&M orders in the 2003 sample, only two of the files documented a determination and findings for T&M contracting authority. In addition, task orders for T&M orders often did not clearly state the maximum amount of funds to be expended on the project.

**Inappropriate handling of cost overrun on a T&M project.** Task order FCI1500015, which provided and installed camera monopoles and related equipment for the Blaine, Washington Border Patrol station, was issued as a T&M task order and modified three times for a cumulative value of \$5 million. Work continued on this task order beyond the \$5 million limit. When interviewed, the ITM told us that he was unaware that work had exceeded the task order limit until the contractor demanded payment for the additional monies.

Instead of submitting a claim for the additional monies, the contractor was encouraged by FTS to create an invoice that supported the cost overrun using fixed price CLINs from the BPA. The BPA (awarded subsequent to the Blaine task order) CLINs, however, did not correspond to the type and size of monopoles or other equipment used at Blaine. It was therefore, mutually agreed to create a task order that would utilize existing CLINs that would approximate the value of the work that was provided.

Task order 5TI1503009 provided for four additional 60-foot tall single camera monopoles at a cost of \$265,500 each. When we visited Blaine, Border Patrol officials told us that there were no such monopoles and that all of the poles had been furnished and installed at the same time. The task order that was created, billed and paid misrepresented the work that was actually furnished. We later confirmed this when we obtained and reviewed the invoices from suppliers which showed that all of the monopoles and their installation were billed and paid for at the onset of the installation.

The ITM told us, and e-mail records confirmed, that the task order was created to expedite payment to the contractor and avoid the additional work associated with reviewing and reconciling numerous invoices to determine and verify the amount of the cost overrun. This would have been time consuming, but necessary to confirm the correct amount of the cost overrun.

**Inappropriate billing rates on a T&M task.** Task order 5TS1502076 dated April 19, 2002 was funded for \$1.2 million and increased to \$3.1 million by September 5, 2002. The order was predominantly labor costs for MAE support of the Border Patrol RVS project. The work performed under this task included program management, project management, financial management, site selection, power and real estate support, report preparation etc. Contract GS-35F-0425J was in effect at the time of this order and our review of the negotiation memo dated June 29, 2001 disclosed that the BPA wage rates were the basis of negotiation. However, when the task order was prepared, the CSC incorporated the higher wage rates included in another IMC contract, GS-07F-0098M, into the task order with a sole source justification.

When we asked CSC personnel about the use of the higher rates, we were told that contract GS-07F-0098M was used in lieu of contract GS-35F-0425J to provide the contractor (IMC) with higher billing rates. We have estimated that the use of the higher billing rates cost the Government an additional \$600,000.

On April 24, 2003 task order 5TS1503061 provided \$1.8 million of additional funding for the MAE task. Although the task order cited the BPA contract, GS-35F-0425J, the actual billing rates used were again derived from contract GS-07F-0098M. The use of the higher labor rates again resulted in an estimated additional cost to the Government of \$219,000. The MAE task order was performed on a T&M basis, yet the invoices submitted to the CSC did not have the required support for hours worked and hourly billing rates, nevertheless the CSC paid the invoices. We did not attempt to reconcile the hours billed with the actual work performed.

### **Lack of Support for Fair and Reasonable Pricing**

The majority of the orders for IT services that we reviewed (73%) contained insufficient documentation supporting a fair and reasonable price.

- There was often no documentation supporting the evaluation of level of effort and labor mix. Task orders were issued to contractors with no review of the labor hours to ascertain the level of effort necessary to accomplish the work. There was no evaluation of the proposed mix of labor skills to determine if a contractor's proposal met the needs of the Government. The contract files contained no independent determination (estimate) of how many hours were necessary to complete the task order. In task order 5TS2103049, the CSC used the contractor's previous MOBIS contract to determine the price and never considered the number of hours required for this task.
- ODCs were not always evaluated in accordance with the FAR; see the example contained in Appendix A, Note 7, which discusses unsupported and unwarranted costs.
- FTS awarded task order options without a determination of price reasonableness. Task order 5TS5702D240, which provided training to the Air Force on the ABOM systems valued at over \$1.6 million, called for option years two and three to be exercised without any indication of determination of

price. FTS requested the quotes from the contractor; however, there was no determination supporting fair and reasonable pricing. In addition to adding the option years, FTS requested changes to the scope, including adding training classes. FAR 17.207 requires that contracting officers determine whether the Government is continuing to get a fair and reasonable price for option years.

### **Inadequate Contract Administration and Project Management**

FTS' lack of oversight over its task orders resulted in several questionable practices involving customers and contractors, including payment made for shoddy work and payments made for work that was incomplete or never delivered to the Government.

The following table illustrates the problems we encountered with payments made for work at eight of the Border Patrol Stations included in the audit sample:

| Location                | Value                      | Date Issued | Date Installed                | Amount Paid  |
|-------------------------|----------------------------|-------------|-------------------------------|--------------|
| Carrizo Springs, Texas  | \$ 4,742,500               | 12/09/02    | Not Installed <sup>23</sup>   | \$ 2,190,169 |
| Nogales, Arizona        | \$ 3,048,500               | 11/15/01    | Partial Install <sup>24</sup> | 1,758,980    |
| Laredo, Texas           | \$ 4,156,175               | 10/25/02    | Partial Install <sup>25</sup> | 4,114,933    |
| Naco, Arizona           | \$ 3,536,550               | 06/29/01    | Partial Install <sup>26</sup> | 2,850,649    |
| Tucson Station, Arizona | \$ 2,345,000               | 05/21/02    | Not Installed                 | 623,974      |
| Detroit, Michigan       | \$ 3,343,500               | 05/13/03    | Not Installed <sup>27</sup>   | 362,880      |
| Buffalo, New York       | \$ 5,287,500               | 01/31/03    | Partial Install <sup>28</sup> | 1,347,713    |
| Blaine, Washington      | \$ 6,695,182 <sup>29</sup> | 11/24/99    | Operational Problems          | 6,624,367    |
| Totals:                 | \$33,154,907               |             |                               | \$19,873,665 |



Despite the almost \$20 million in payments to IMC, none of the RVS systems for the listed Border Patrol stations were fully operational. At three of the locations (Carrizo Springs, Detroit, and Tucson) no work was evident and no equipment was delivered at the time we made our on-site visits or contacts with

<sup>23</sup> Not Installed also indicates that materials were not present at the site.

<sup>24</sup> The Nogales project was significantly delayed. Refer to Appendix A, Note 9, for the results of our site visit.

<sup>25</sup> Border Patrol personnel estimated that the work was 60 percent complete. Refer to Appendix A, Note 10.

<sup>26</sup> The Naco project was significantly delayed (see photo above). Refer to Appendix A, Note 13, for the results of our site visit.

<sup>27</sup> IMC purchased eight cameras, billed the Government on a percentage of completion basis, and did not deliver the cameras to the Detroit border station. The cameras resided in IMC and vendor inventory as of August 4, 2004. See Appendix A, Note 3.

<sup>28</sup> IMC billed the Government for 59 cameras during 2003, but only four had been installed as of June 8, 2004. See Appendix A, Note 4.

<sup>29</sup> This amount represents amounts from task orders FC11500015 and 5TI1503009

Border Patrol officials, in June 2004. At Buffalo, only four of 59 cameras had been installed, and only on existing structures. At Nogales, parts had been delivered and installation work was in progress.

At Naco, we observed that some equipment had been delivered, however, there was no evidence of installation. We found parts in storage and laying on the desert adjacent to Border Patrol property (see photo). According to Border Patrol officials, no IMC personnel had been on-site since the equipment was delivered about September 2003.

About 60 percent of the work had been completed at Laredo North but the system was not operational since a microwave transmission tower had not been installed.

As discussed earlier, the installation at the Blaine, Washington Border Patrol station was not fully operational when we made our on-site visit in March 2004 and was undergoing remediation work.

The contractor billed the Government for cameras and other equipment as soon as it was invoiced. We found cameras and other parts in warehouses in Virginia and Connecticut when we made visits to those locations. Invoices and shipping records showed other cameras held in bonded storage at the manufacturer or at a subcontractor's warehouse in Ohio.

From conversations with Border Patrol officials, we learned that delays were often attributable to the acquisition of the land where the camera monopoles or transmission towers were to be installed. The task orders required the contractor to provide assistance to the Government in acquiring the sites. It was not apparent from the task orders' scopes of work what the term "assistance" meant. Border Patrol officials told us that little assistance in acquiring the property had been provided by IMC. Instead, Border Patrol officers were charged with identifying property owners and negotiating leases or access rights. The MAE task orders provided for two man years of project coordinator labor to assist in the site acquisitions at a cost of \$67.48 per hour.

It made little sense for FTS to issue task orders when sites had not been acquired. Yet that is what occurred. The contractor subsequently ordered equipment and billed the Government for equipment that languished in warehouses. There was no provision in the BPA for construction progress payments. Yet invoices for "percentage of completion" were submitted to FTS by IMC and paid as a matter of routine.

### **Equipment Replacement Without Contracting Officer Approval**

IMC did not provide thermal imaging camera equipment called for in CLINs' (contract line item number) bills of material. IMC often provided less expensive cameras as replacements for cameras priced in bills of material. IMC did not always provide FSS schedule cameras, but provided different camera part numbers under volume buying arrangements. There was no corresponding reduction in the bundled price of the monopoles to the Government. Approval for the change(s) was not obtained from the FTS Contracting Officer.

This created a potential for overpayments of almost \$13 million for thermal imaging cameras when medium-range cameras were provided instead of the long-range surveillance equipment listed as a component of the CLIN.

**FLIR 2x Lens Extender.** IMC did not always provide a 2x lens expander/extender (doubler lens) with FLIR (the supplier) thermal imaging MILCAM cameras. The doubler lens, valued at \$10,000, expanded the camera’s field of vision. Bills of materials used to price the Border Patrol project provided for thermal imaging cameras with doubler lenses.

We reviewed ten technical directives (task orders by location) in which a total of 99 FLIR MILCAM cameras were purchased. Purchase orders and vendor invoicing related to these orders showed that the cameras were not supplied with the doubler lens.<sup>30</sup> Master inventory data supplied by the Border Patrol indicated that, while 396 FLIR MILCAM cameras<sup>31</sup> were purchased for the project, only 78 doubler lenses (approximately 20 percent of camera total) were purchased.

We noted the absence of doubler lenses during our fieldwork in Arizona. Our inventory of cameras (part number 17310-200) to be delivered to Naco, Arizona found that only eight of 16 FLIR MILCAMs were to be supplied with the doubler lens.

The pricing for the thermal imaging cameras noted was as follows:

|   |                      |
|---|----------------------|
| Per bills of material supplied <sup>32</sup> , FLIR part number 15595-200, with doubler lens:   | \$48,500             |
| Per IMC purchase order number G0057, part number 15595-200, invoiced during calendar year 2000: | 34,000 <sup>33</sup> |
| Difference:   | \$14,500             |

FLIR officials stated that the FLIR MILCAM cameras sold for the project were not FSS schedule items and that special pricing arrangements existed for IMC based on quantity. Therefore, although FTS’ orders were placed against FSS schedule contracts, we can not be sure of the reasonableness of individual camera prices. However, based on the fact that up to 318 FLIR MILCAM cameras were supplied without the doubler lens (valued at \$10,000), the Government could be potentially overcharged approximately \$3,180,000 (318 x \$10,000).

**BAE Systems LTC 550 Cameras.** IMC provided less expensive cameras for cameras found on bills of materials used to price out the Border Patrol project. IMC used BAE

<sup>30</sup> The doubler lens had part number 15070-000.

<sup>31</sup> Our review found that FLIR MILCAMs purchased for the Border Patrol project were part numbers 15595-200 and 17310-200. Part number 17310-200 was the replacement part number for FLIR MILCAM part number 15595-200.

<sup>32</sup> The bills of material reviewed were used by IMC to develop GSA’s firm-fixed prices under BPA no. GS05KR01BMC0001, dated November 8, 2000.

<sup>33</sup> This was a 150 camera order valued at \$5.1 million. IMC’s order to FLIR was dated January 7, 2000. We were able to locate invoicing at the \$34,000 price through June 2000. Replacement part number 17310-200 was subsequently priced to IMC at \$38,900 and \$42,790.



Systems (the supplier) model LTC 550 thermal imaging camera as a replacement for the FLIR MILCAM with doubler lens. IMC essentially replaced a cooled long-range camera with an uncooled medium-range unit.

The pricing for the cameras noted is as follows:

|  |          |
|--|----------|
| Per bills of material supplied, FLIR part number 15595-200, with doubler lens: | \$48,500 |
| Per technical directives (orders) reviewed, BAE Systems LTC 550:               | 23,080   |
| Difference:  | \$25,420 |

We analyzed 11 separate technical directives (task orders by location) where this substitution occurred. The Border Patrol's master inventory indicated that 70 BAE Systems LTC 550 cameras were purchased. Therefore, the Government was exposed to a potential overcharge of up to \$1,779,400 for thermal imaging cameras (70 x \$25,420 = \$1,779,400).

**ISAP POD Cameras.** IMC substituted less expensive cameras for cameras found on bills of materials used to price out the Border Patrol project. IMC used Industrial Security Alliance Partners (ISAP, the supplier)<sup>34</sup> POD thermal imaging camera (part number 22737) as a replacement for the FLIR MILCAM with 2x extender lens noted above. IMC essentially replaced a cooled long-range camera with an uncooled medium range unit.

The pricing for the cameras noted is as follows:

|  |                      |
|--|----------------------|
| Per bills of material supplied, FLIR part number 15595-200, with doubler lens: | \$48,500             |
| Per ISAP master agreement with DiOP, POD part number 22737:                    | 24,000 <sup>35</sup> |
| Difference:  | \$24,500             |

We analyzed four separate technical directives (task orders by location) where this substitution occurred. The Border Patrol's master inventory indicated that 328 ISAP POD cameras were purchased. Therefore, the Government was exposed to potential overcharges of \$8,036,000 for thermal imaging cameras (328 x \$24,500 = \$8,036,000).<sup>36</sup>

**Additional information on substitutions.** We reviewed 16 Border Patrol technical directives for the express purpose of identifying camera replacements and potential

<sup>34</sup> ISAP was substantially owned by IMC until IMC was purchased by L3 Communications. Therefore, the pricing noted in this section for POD cameras represents pricing contained in a master agreement between Diversified Optical Products, Inc. (DiOP) and ISAP for the period January 1, 2000 through December 31, 2002.

<sup>35</sup> The ISAP POD camera, part number 22737, was on IMC's FSS Schedule contract no. GS-35F-0425J for \$38,500.

<sup>36</sup> The Border Patrol's master inventory also indicated that 307 ISAP HH-750 thermal imaging cameras (hand-held, part numbers 22718 and 22809) were purchased for the program. The master agreement between DiOP and ISAP priced this model at \$16,447 through 2001 and \$15,000 thereafter. The camera was on IMC's FSS Schedule contract no. GS-35F-0425J for \$31,500.

overbillings. Our review of these 16 technical directives indicated potential overbillings of over \$5,800,000, with markups as high as 72 percent (camera price in the door compared to bills of material price). Negotiations are underway and further information to clarify this matter has been requested from the contractor by FTS.

### **Lack of Acquisition Plans**

FAR Part 7.1 and the GSA Acquisition Manual establishes the need for developing a written acquisition plan. A limited written acquisition plan must be prepared for all task orders exceeding the Simplified Acquisition Threshold (\$100,000). A written acquisition plan should promote and provide for full and open competition, encourage offers of commercial items, refine requirements, increase use of performance-based contracting and fixed price contracts, facilitate competition by and among small businesses and avoid unnecessary contract bundling.

Of the task orders included in our 2003 audit sample, none had acquisition plans.

### **Causes of Improper Procurement Practices**

Our audit work indicated that several factors contributed to the improper contracting practices that we identified: an ineffective system of internal management controls, CSC personnel sacrificing adherence to proper procedures in order to accommodate customer preferences, and an excessive focus on customer satisfaction.

**Ineffective Management Controls.** We determined that Region 5 did not have adequate internal controls to protect the integrity of procurements. Our sample of task orders showed that management did not have effective controls to ensure that procurements were made in accordance with applicable regulations. Contracting officers appeared to not get involved in the development of requirements or decisions on procurement methodology until others had made those decisions. Consequently, orders were signed that were flawed from the beginning.

- In many instances, FTS approved payment for services never inspected. In the 13 task orders related to the Border Patrol's RVS program, invoices were based on a percentage of completion as if the contract were a construction contract rather than billing the contract as a whole. FTS failed to verify the invoice submitted to determine whether or not services charged were actually services rendered.

Management controls were inadequate for many task orders because the contractor billed for work and no one from FTS visited the sites to verify that work actually had been completed.

FTS' management controls were ineffective in cases where FTS' contractor would bill FTS for products while the products sat in the contractor's warehouses or the product was never shipped and sat in manufacturer's warehouses. However, the contractor would bill FTS for the products even though the Government did not have possession.

- CSC officials were not familiar with FAR 8.4 ordering procedures and as a result failed to obtain a fair and reasonable price mix for the Government. Task orders were issued to contractors with no review of the labor hours to ascertain the level of effort necessary to accomplish the work. There was no evaluation of the proposed mix of labor skills to determine if a contractor's proposal met the needs of the Government. While on many task orders the contractors were already on schedule (therefore labor rates were adjudged to be reasonable), there was no determination (estimate) regarding the hours needed to complete the task order.

### **Results of Fiscal Year 2004 Review**

Despite a very limited review, we identified many of the same improper task order award and modification issues as identified in the FY 2003 review in the seven task orders included in the 2004 sample. In addition, we noted that some of the controls implemented by Central Office FTS were not being employed on some task orders. However, the Great Lakes Region has implemented some additional controls.

#### **Improper and Questionable Contracting Practices**

We noted that the Great Lakes Region improperly awarded task orders for construction and other work that required the inclusion of wage determinations, did not incorporate a liquidated damages clause and did not meet the requirements of Section 803 of the National Defense Authorization Act (2002).

The Great Lakes Region awarded task orders for services that required wage determinations in accordance with the Service Contract Act. Region 5 FTS did not evaluate the level of effort or mix of labor categories for T&M task orders.

#### **Central Office FTS Controls**

Since the OIG's review in FY 2003 of CSC procurements in Regions 4, 6 and 10, Central Office FTS has initiated new policies and procedural controls to improve the CSC control environment. We reviewed the following new controls.

*Implementation of Section 803 of the National Defense Authorization Act.* Section 803 requires that all orders for services greater than \$100,000 placed after October 25, 2002 give "fair notice of the intent to make [the] purchase" and "afford all contractors responding to the notice a fair opportunity to make an offer." The contracting officer must receive offers from at least three contractors or determine in writing that no additional contractors can fulfill the requirements.

- Under task order 5TP5704D005, valued at \$34 million to provide vehicle barriers at 150 Air Force bases, the CSC received three bids. However, one bid was considered non-responsive. No further effort was made to obtain further competition or justify the award.

*Legal Review Policy.* In a memo dated October 1, 2003, FTS issued policy guidance implementing additional legal review requirements to assure compliance with all applicable laws, regulations, and other requirements. For example, legal concurrence is required for: new contract awards over \$5 million; actions resulting in awards of BPAs; actions resulting in the issuance of a task/deliver order that contains leasing provisions, regardless of dollar value; and actions that result in the issuance of a task/delivery order under existing vehicles in excess of \$ 5 million.

- All the 2004 orders we examined that required legal review were reviewed.

*Acquisition Checklists.* In a memo dated October 6, 2003, FTS developed standard checklists to provide FTS associates with guidance and tools prior to awarding contracts and task orders and to ensure consistency in the acquisition process. Examples of required documentation include: requirement description, market research data, and acquisition plans.

- In orders reviewed for 2004, six of the seven files lacked the appropriate checklists as required by the FTS memo.

*Other Controls.* FTS issued guidance establishing Procurement Management Reviews, in a memo dated November 14, 2003, and Project Closeout Guidance, in a memo dated May 28, 2004. The CSC was in the process of implementing these controls.

Our review noted other instances of acquisitions that could benefit from management scrutiny:

- Task order 5TS1704A053 was awarded to L3 Communications for the US-VISIT programs for the Department of Homeland Security in the amount of \$107,928,509. This was a Millennia Lite task order citing the IT Fund. The Millennia Lite contract procures highly skilled professional IT services, i.e., systems analysts, application programmers, software systems engineers, LAN support technicians, and graphics specialists.

Most of the task order's labor categories, did not fit the scope of the Millennia Lite contract. Seventy-one percent of the work (3,201,277 hours costing \$68,175,074) related to this contract was for customer service support. The customer service support specialists were identified as Work Station (WS) Technicians. The WS Technicians labor category was not a highly skilled professional service. The duties of the WS Technicians include providing preventative maintenance at the kiosks within the airport, ensure the workstations are operational, help the customers with technical support when data entry problems occur, and assisting the customers with the biomechanical data using the embedded document reader and fingerprint scanner. The labor category WS Technician was not listed in the Millennia Lite contract; therefore the labor category PC Systems Support Assistant was substituted - a classification possessing a much higher labor rate than that proposed for a WS Technician.

- Order 5TP5704D005 was awarded to EER Systems, Inc. (now known as L3 Communications) on April 30, 2004 by the CSC in Fairborn, OH. The task order original amount was for \$34,102,539. The award used the vendor's FSS Schedule 84 contract<sup>37</sup> for delivering vehicle barriers to increase effectiveness of security at 150 Air Force bases. The vehicle barriers are shallow mount wedge barriers that can be deployed when activated from the entry control point (by the controller) or from an alternate monitoring position.

We found that the task involves a considerable amount of construction and construction-related work. While FSS Schedule 84 was used as the contracting vehicle for the order (for the equipment), we believe that FTS should not have awarded the vehicle barriers order. Information we received and input we obtained from the DOD-OIG also revealed that FY 2003 operation and maintenance money was misused to fund the project.

- Order number 5TS5704D173 was awarded to SMARTNET, Inc., on March 8, 2004 for the Department of the Treasury as an 8(a) set aside and provided cabling services for new office space (using installation technicians). The CSC did not include clauses pertaining to the Davis Bacon Act, required to establish wage determinations for the installation technicians.

## **Conclusion**

In the FY 2003 review, we identified improper task order and contract awards involving millions of dollars that failed to comply with all procurement laws and regulations and on a number of occasions were well outside the Information Technology Fund's legislatively authorized purposes, the scope of the contracts used and the authority of the Federal Technology Service. Our findings involve instances of misuse of the IT Fund, inappropriate and questionable contracting actions, and inadequate competition and documentation supporting fair and reasonable pricing.

As a result, the Great Lakes Region 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 ineffective management controls and an environment that emphasized client agency satisfaction and revenue over compliance with proper and prudent procurement procedures.

Our work showed that there is a need to focus on effectively implementing the prescribed controls, not merely creating documents that comply with a checklist. FTS management officials should determine whether contracting officers exercise common sense and prudence and meet their most fundamental responsibility to safeguard the contractual relationships of the United States regardless of client agency or revenue considerations.

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<sup>37</sup> FSS schedule 84 provides materials and services in the areas of law enforcement, security, facilities management, fire, rescue, clothing, marine craft, and emergency/disaster response.

In the FY 2004 review, we identified continuing problems with procurement practices despite efforts by FTS Central and Regional office management to put in place controls that were developed as a result of our January 2004 report (Audit Report Number A020144/T/5/Z04002) on the FTS CSCs.

As stated in that report, 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 Response**

The Regional Administrator generally concurred with the audit findings.

The Regional Administrator concurred that there were certain instances of inappropriate contracting practices; however, he commented that the practices identified do not appear to be specific to Region 5 but rather, consistent with FTS practices nationwide, most notably, in practices involving the use of the IT Fund as defined in Title 40 U.S. Code Section 322.

Regional management believes that Section 322 permits the use of the IT Fund to acquire such items as “software systems, operating facilities, supplies, and related services including maintenance and repair, and that IT funds may be used to make a system or facility operable, which could include construction.” We recognize that at times there may be a need for accompanying construction of a minor nature. However, we believe the IT Fund statute did not anticipate that major construction projects, which are easily segregated from the IT components of a required task, would be reimbursable through the Fund. There are inherent risks to the Government associated with construction work. Personnel who procure construction services require specified training, experience, and access to knowledgeable professionals to perform their work, and to ensure that all proper contract clauses are included. To interpret the statute as expansively as FTS has done would, in our opinion, be at odds not only with the general rules of statutory construction, but also with FTS’ own recognition in its internal guidance that there are clear limits to the IT Funds permissible uses.

The Regional response also commented that customer agencies that had working partnerships with the CSC contributed to the contract administration problems cited in the report, and that some of the contract requirements exceeded the CSC's capabilities. We agree with their comment; however, this does not, in our opinion, excuse contracting officers from ensuring compliance with the terms of a contract, and safeguarding the interests of the United States in its contractual relationships. What it does is acknowledge that the CSC needs to reassess, in every case, its ability to execute and manage a project before it is undertaken. Common sense and the interest of the taxpayer should take precedence over customer satisfaction and growing the business.

The Regional Administrator recognized the gravity of the issues discussed; however, he disagreed with some of the issues presented in the draft report. The following paraphrases those disagreements and provides additional information and audit comments that support our audit position.

## **Results of FY2003 Review**

### **Inadequate Competition**

The Regional response acknowledged our findings regarding sole source procurements and identified management controls that have been put in place to ensure adequate review and documentation is provided.

### **Misuse of Contract Vehicle**

It is the Region's opinion that several task orders identified in the draft report under this section are within the scope of the subject contracts.

We disagree with the Region's opinion because the contracts utilized covered IT related services and/or commodities, not the substantial construction and/or products that were identified in the report that were outside the scope of the contract vehicle utilized.

- Border Patrol BPA. The BPA established a teaming arrangement with several FSS commodities schedule holders. None of the team members had contracts that included construction work and, in many cases, even the commodities furnished were not covered by team members' contracts. As a result, there was no assurance that the Government paid a reasonable price, there was a lack of quality control and oversight, work was done improperly, delays were experienced and procedures, established by law and regulation pertaining to construction work, were not adhered to.

We had no difficulty accessing the sites where cameras were installed either along the Canadian or Mexican Borders. The climate is harsh; however, with proper installation and maintenance, the downtime for the cameras should be kept to a

minimum. This was not the case as we observed it and as Border Patrol records showed.

- Task Order 5TS5703D139. This \$7.8 million task provided flight line security upgrades at Offutt AFB, Nebraska. It was awarded using the ANSWER GWAC. This contract vehicle is an IT services contract and does not include a provision for construction work or include commodities. In our opinion, the extent to which ODCs were applied to commodities and the construction work purchased through this task order far exceeded any reasonable interpretation of allowable ODCs or incidental work.

There were large amounts of surveillance equipment installed and the construction work included substantial infrastructure improvements such as fencing, trenching, outdoor lighting, building alterations and physical barriers. As in the case of the Border Patrol Project, the contract vehicle employed did not incorporate construction clauses required by law and regulation and there was no evidence that FTS had any knowledge of the reasonableness of pricing for either the construction costs or the cost of the commodities. The FAR requires preparation of a Government estimate for all construction work in excess of \$100,000.

- Task order 5TS5703C015. The Regional response stated that the acquisition of leased space was discussed with the ANSWER contracting officer and that it was determined to be within the scope of that contract. The ANSWER contract incorporates none of the requisite clauses for acquiring real property by lease or any other means. No one in the CSC possessed a Contracting Officer's warrant for acquiring real property or met the training requirements for such a warrant. There was no support for the prices paid for the space and no indication that vacant Government space was unavailable in the local area.
- O&M Center Lease. The Regional response stated that once the Contracting Officer became aware that lease costs were being billed to the Border Patrol BPA, the contractor and the customer were notified in writing that the practice was unauthorized.

### **Inappropriate Use of the IT Fund**

Anteon Task Orders (5TS5701D218, 5TS5701D370 and 5TS5703D434). The Regional response cited the justification for sole source awards of these task orders to Anteon because this firm was under contract to the Air Force to operate the laboratory where the testing was performed. In our opinion, selecting Anteon for a sole source award in this case offered no benefit to the Government since the contract was primarily a labor hours contract. Any qualified firm could have provided the personnel necessary to perform the testing at this facility. There was no evidence that the firm responsible for operating the laboratory had any unique knowledge or skill that would have precluded the furnishing of testing personnel by another firm.

The primary purpose of the task order was to test laser powered paint strippers on various coatings that had been applied to test panels. As in virtually all testing and recording of results in this day and age, ADP hardware and software was used in the testing and the recording of the results. In this case, the IT was incidental to the overall



purpose of the task orders. Millenia Lite, which is an IT service contract, was not an appropriate contract vehicle to use to provide the testing.

The provision of a 10-ton air conditioning unit is a capital improvement to the building where the testing was conducted. The Millenia Lite contract did not incorporate the requisite construction clauses that would cover the provision and installation of this equipment. There was no evidence that the price paid for this work was fair and reasonable or that laws covering the furnishing of construction work were complied with.

Task Order 5S2103049. The Regional response stated that this task order was issued for a requirement to prepare a study for proposed environmental clean up not the clean up it self. This sole source award was issued to Strategic Management Initiatives, Inc. to, according to the statement of work, prepare estimates for the Government, write specifications and requirements statements, provide technical and programmatic oversight of clean up efforts, provide on the ground technical, analytical and program management and develop studies and position papers. The work involved much more than preparing a study. The work was not IT related, yet was processed through the IT Fund.

### **Frequent Use of T&M Task Orders**

Inappropriate handling of cost overrun on a time-and-materials project. The Regional Administrator concurred with this finding.

Inappropriate billing rates on a T&M order. The Regional response provided further information on the reason(s) for using higher labor rates from a Schedule 84 contract for a task order placed against a Schedule 70 contract. It was, by FTS' admission a way to circumvent the Schedule 70 contracting officer who would not allow the higher rates, and was done, apparently, at the Border Patrol's urging.

### **Lack of Support for Fair and Reasonable Pricing**

The Regional Administrator concurred with this finding.

### **Inadequate Contract Administration and Project Management**

The Regional Administrator concurred with this finding.

### **Equipment Substitution**

The Regional response stated there were repeated requests from the customer to modify the BPA and substitute equipment. The requests were denied because the items were not covered by BPA contractors' schedules. The BPA modification dated September 3, 2003 was improper because it added items that were not covered by an FSS schedule.

## **Lack of Acquisition Plans**

The Regional response stated that FTS has complied with GSA policy guidance issued subsequent to the task orders included in the FY2003 audit sample.

## **Cause of Improper Procurement Practice**

The Regional response concurred with this finding and identified a number of new processes and controls to enhance management controls.

*Results of FY2004 Review*

## **Improper and Questionable Contracting Practices**

The Regional response did not concur with our assessment of construction work and the legality of FTS authorizing this work when it is incidental but critical to an IT requirement. See our comments regarding this matter at the onset of the Management Response section of the report.

## **Central Office FTS Controls**

Implementation of Section 803 of the National Defense Authorization Act. The Regional Administrator concurred with this finding. However, he added there were extra steps taken to try to enhance competition and opined that the spirit and intent of section 803 was met.

Legal Review Policy. The Regional Administrator stated that legal reviews are not limited to \$5 million and are being conducted for all procurements in excess of \$100,000.

Acquisition checklists. The Regional Administrator stated that the checklist requirements were being complied with, but were not always filled in and included in the contract files.

Task Order 5TS1704A053. The Regional Administrator concurred with our findings on this task order.

The Regional Administrator's comments on the draft report are included in their entirety in Appendix D.

## **Internal Controls**

Our substantive audit tests necessarily resulted in an assessment of the internal control structure. It is evident from our work that the internal control structure was not effective. We identified improper procurement practices, including improper sole source awards, 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 involvement 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.

**2005 Review:** The Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC program during fiscal year 2005.

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER, GREAT LAKES REGION  
REPORT NUMBER A040117/T/5/Z05002

APPENDIX A  
SCHEDULE OF 2003 ORDERS REVIEWED FOR THE GREAT LAKES REGION

| Order Number             | Client              | Contract Type  | Contractor                       | Contract/BPA Number | Order Value | Notes |
|--------------------------|---------------------|----------------|----------------------------------|---------------------|-------------|-------|
| FCI1500015 <sup>38</sup> | U. S. Border Patrol | BPA            | IMC/L3                           | GS-35F-1103D        | 4,999,999   | 1     |
| 5TI1503009               | U. S. Border Patrol | BPA            | IMC/L3                           | GS-35F-0425J        | 1,695,182   | 2     |
| 5TI1503062               | U. S. Border Patrol | BPA            | IMC/L3                           | GS-35F-0425J        | 3,343,500   | 3     |
| 5TI1503036               | U. S. Border Patrol | BPA            | IMC/L3                           | GS-35F-0425J        | 5,287,500   | 4     |
| 5TS1503061               | U. S. Border Patrol | BPA            | IMC/L3                           | GS-35F-0425J        | 1,783,020   | 5     |
| 5TS1502076               | U. S. Border Patrol | BPA            | IMC/L3                           | GS-35F-0425J        | 3,250,110   | 6     |
| 5TI1501037               | U. S. Border Patrol | BPA            | IMC/L3                           | GS-35F-0425J        | 3,470,168   | 7     |
| 5TS1503023               | U. S. Border Patrol | BPA            | IMC/L3                           | GS-35F-0425J        | 1,732,593   | 8     |
| 5TI1502024               | U. S. Border Patrol | BPA            | IMC/L3                           | GS-35F-0425J        | 3,048,500   | 9     |
| 5TI1503013               | U. S. Border Patrol | BPA            | IMC/L3                           | GS-35F-0425J        | 4,156,175   | 10    |
| 5TI1502131               | U. S. Border Patrol | BPA            | IMC/L3                           | GS-35F-0425J        | 4,742,500   | 11    |
| 5TI1502115               | U. S. Border Patrol | BPA            | IMC/L3                           | GS-35F-0425J        | 2,345,000   | 12    |
| 5TI1501038               | U. S. Border Patrol | BPA            | IMC/L3                           | GS-35F-0425J        | 3,536,550   | 13    |
| 5TS5703C001              | Air Force           | Millennia Lite | ACS                              | GS07T00BGD0019      | 6,346,143   | 14    |
| 5TS2103049               | Army                | MOBIS          | STRATEGIC MANAGEMENT INITIATIVES | GS-10F-0231J        | 1,488,484   | 15    |
| 5TS17037031A             | Navy                | 8a Set Aside   | MILLENNIUM DATA SYSTEMS (MDS)    | GS05T03BMM0221      | 1,300,769   | 16    |
| 5TS5701D218              | Air Force           | Millennia Lite | ANTEON                           | GS07T00BGD0029      | 340,937     | 17    |
| 5TS5701D370              | Air Force           | Millennia Lite | ANTEON                           | GS07T00BGD0029      | 1,056,025   | 18    |
| 5TS5703D434              | Air Force           | Millennia Lite | ANTEON                           | GS07T00BGD0029      | 349,911     | 19    |
| 5TC5703C291A             | Air Force           | SCHEDULE 70    | NEXTIRAONE                       | GS-35F-4295D        | 1,191,228   | 20    |
| 5TS5703D139              | Air Force           | ANSWER         | EER/L3                           | GS09K99BHD0005      | 7,856,331   | 21    |
| 5TS5703D154              | Air Force           | SCHEDULE 70    | DYNCORP                          | GS-35F-4639H        | 6,918,552   | 22    |
| 5TS5701D201              | Air Force           | SCHEDULE 70    | COMPUTER SCIENCES CORP.          | GS-35F-4381G        | 35,492,551  | 23    |
| 5TS5704C027              | Air Force           | ANSWER         | COMPUTER SCIENCES CORP.          | GS09K99BHD0003      | 9,479,716   | 24    |
| 5TS1703D002              | Navy                | ANSWER         | DYNCORP                          | GS09K99BHD0004      | 3,394,186   | 25    |
| 5TS5703D150              | Air Force           | Millennia      | COMPUTER SCIENCES CORP.          | GS00T99ALD0203      | 15,764,443  | 26    |
| 5TS5702D431              | Air Force           | MOBIS          | KPMG (BEARING POINT)             | GS-35F-4338D        | 4,608,850   | 27    |
| 5TC5703D310              | Air Force           | 8a Set Aside   | CDO TECHNOLOGIES, INC.           | GS05TO3BMM3243      | 2,299,089   | 28    |
| 5TS5702D240              | Air Force           | MOBIS          | KPMG (BEARINGPOINT)              | GS-23F-9796H        | 1,620,737   | 29    |
| 5TS5703C015              | Air Force           | ANSWER         | NORTHROP                         | GS09K99BHD0009      | 12,914,170  | 30    |

<sup>38</sup> We determined that the initial award to IMC (FCI1500015) was based on a ratification of earlier award decisions made by the Border Patrol and INS. The available documentation did not convince us that the decision to use IMC was based on full and open competition.

Notes:

1. Task order FCI1500015 was issued November 24, 1999 for \$2,000,000 and subsequently increased to \$4,999,999 on December 15, 2000. This was a T&M task for the construction of camera monopoles in Blaine, Washington. There have been numerous problems in the construction of the RVS system in Blaine. Some of the problems are as follows: the ISAP cameras do not operate properly in warmer weather, the direction of the cameras cannot be controlled thereby rendering them useless for border surveillance, and there have been an extraordinary number of bad splices in the optic cable - since the splices have not been protected from moisture, there has been unnecessary deterioration in the cable splices themselves. Most of the ISAP cameras have been replaced. The cameras cost about \$40,000 per unit. Network management software provided under the contract at a cost of \$200,000 does not work. This software is a critical tool for the RVS system because it is used to locate problems in the fiber optic cable. This task order is discussed in the body of the report and the overrun on this order resulted in Task Order 5TI1503009, which is also discussed in the body of the report.
2. Task order 5TI1503009 is discussed in the body of this report and represents work at Blaine, Washington, which was represented on the task order as additional work but actually was a payment to the contractor for an overrun on task order FCI1500015 discussed above.
3. Order 5TI1503062 was awarded to IMC for the installation of a 12-structure RVS system for the Detroit, Michigan border station. Border Patrol representatives stated that, as of June 8, 2004, no construction had begun and ground had not even been broken. IMC had been paid \$362,880 for eight FLIR cameras purchased specifically for the Detroit task. However, no cameras had been delivered to the site as of June 8, 2004. The cameras resided in IMC and vendor inventory as of August 4, 2004

Our review also determined that GSA overpaid up to \$300,000 for thermal imaging cameras purchased by IMC for the Detroit border station. Please refer to the section of the report entitled Equipment Substitution.

4. Order 5TI1503036 was awarded to IMC for the installation of monopoles, repeater sites and camera systems at 16 locations for the Buffalo, New York Border Patrol station. Based on conversations with Border Patrol Representatives on June 3, 2004, work had been halted as of October 2003. There are 64 cameras planned for the Buffalo border station. Of the 64 total cameras planned, 59 were invoiced at a price of about \$1.1 million, but only four cameras were delivered and installed. These cameras were installed on existing structures.

Our review found that GSA overpaid up to \$600,000 for the cameras IMC purchased for the Buffalo border station. Please refer to the section of the report entitled Equipment Substitution.

5. Task order 5TS1503061 provided incremental funding for task order 5TS1503076, which is discussed below and in the body of this report.
6. Task order 5TS1502076, dated April 19, 2002, was for \$1.2 million and was then increased to \$3.1 million on September 5, 2002. The task order provided for management, administration, and support of the RVS projects during the period May 1, 2002 to December 31, 2002. This order is discussed in the body of this report.
7. FTS negotiated, through a third party contractor, a lease for approximately 24,340 square feet of office and warehouse space. The lease represented a portion of a 42,420 square foot building located at 7400 Meridian Place, N.W., Albuquerque, New Mexico. The lease was signed on September 19, 2000.<sup>39</sup>

The purpose of the leased facility was to house the Border Patrol's O&M Center. The O&M Center was to serve as a repair depot servicing the Border Patrol's RVS systems and other projects.

**Lease was outside FTS' authority.** FTS issued task order number T0500BM1220 for \$1,123,750 on July 19, 2000.<sup>40</sup> The description of supplies or services to be obtained stated that "This will be the operations and training center for the RVS project – Task 23." Task 23 called for operations and maintenance support. The task was modified to \$1,523,277.

FTS had no legal authority to buy or lease real property. A review of the GSA Delegations of Authority Manual (ADM P 5450.39C CHGE 83) showed that only PBS had the authority to acquire space by lease. This authority has not been delegated to FTS.

**Lease was outside scope of contracts.** IMC representatives negotiated the cost for the rent and build-out of the leased building. The selection of the facility was approved by the Border Patrol and IMC moved into the facility on December 6, 2000.

FTS task order T0500BM1220 was placed against IMC's FSS schedule contract GS-35F-1103D. This contract was for the provision of microwave radio equipment, antennas and waveguides. Therefore, the task order was completely outside the scope of IMC's contract with the Government. FTS, subsequently, leased the O&M

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<sup>39</sup> IMC, according to statements provided, leased a facility at 7601 Bluewater in Albuquerque, NM under task order number T0500BM1220, dated July 19, 2000. IMC moved from the Bluewater location to the Meridian Place location in December 2000. L3 Communications officials were unable to provide a copy of the Bluewater lease, but stated that the lease became void after the facility was purchased by the Postal Service.

<sup>40</sup> Task order T0500BM1220 funded operation of the O&M Center until May 16, 2001. GSA order no. 5T11501037, dated May 17, 2001 and valued at \$3,470,167, funded operation of the O&M Center until December 19, 2002. GSA order no. 5TS1503023, dated December 20, 2002 and valued at \$1,732,593, funded the O&M Center until at least November 30, 2003. Our review concentrated on task order T0500BM1220, unknown at the time of sample selection, since this task commenced the lease and provided for build-out. We noted that the Border Patrol assumed the lease and attendant service costs during or after November 2003.

Center (see footnote 26) under tasks citing IMC's FSS schedule contract GS-35F-0425J. FTS actions were inappropriate since this contract was for the purchase of information technology professional services.

**Unsupported and unwarranted costs.** IMC proposed costs (including the lease) for the O&M Center as ODCs under its FSS schedule contracts. The ODC items were not specifically contained under IMC's schedule contract, but could be obtained as open market items if the purchase was made in accordance with current FAR 8.402(f).<sup>41</sup> FTS did not follow this guidance in obtaining the ODCs.

We analyzed \$1,523,254 in expenses associated with task order T0500BM1220. Although monthly rental costs negotiated by the contractor (around \$11,200) were supported by invoices, there was no evidence that the costs were fair and reasonable. Similarly, build-out costs (negotiated by the contractor) were supported by invoices and receiving reports, with no evidence that fair and reasonable prices were obtained.

IMC assessed and invoiced the Government fees on over \$1,000,000 of the costs associated with the rent, services, and space build-out associated with the task order. The fees amounted to \$98,297.

IMC assessed \$68,862 in ODC handling fees. The fees represented a separate ten percent charge applied to amounts contained on subcontractor invoices for the space build-out. GSA's task order was issued against IMC's FSS schedule contract GS-35F-1103D. As such, subcontractor costs are to be invoiced at the prime contractor's rates and prices. IMC was not in the real property leasing business. The ten percent fee represented an unwarranted charge.

IMC assessed an eight percent material/equipment transfer cost that amounted to \$29,435. The fee was applied to monthly rent, services, cameras purchased, and supplies. The fees also represent an unwarranted charge.

**Unsupported repair charges.** We determined that (mainly for warranty reasons) up to 49 percent of the cameras purchased for the Border Patrol project could not be serviced by the O&M Center. Therefore the O&M Center, although employing up to 19 people, sent many cameras to the original manufacturer for repair.

We analyzed over \$160,000 in repair costs to FLIR (the manufacturer) under GSA task orders related to the O&M Center. The costs were unsupported and contained an unspecified mark-up. The prices could not be found in the IMC FSS schedule contract. The contractor claimed the repairs were open market items, but we found

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<sup>41</sup> Currently, FAR 8.402(f) states that a contracting officer may add items not found on a Federal Supply Service Schedule (sometimes called open market items) as long as: all applicable acquisition regulations for items not on the FSS schedule are followed; the contracting officer determines that the prices are fair and reasonable; the items not found on FSS schedule are clearly labeled as such on the order; and all clauses applicable to items not on the FSS schedule are included with the order. The other direct costs identified by IMC (including lease costs) were not on their FSS schedule.

no evidence that the repairs were procured in accordance with current FAR 8.402(f) (see footnote 27).

Subsequent to the conclusion of our field work, The Department of Homeland Security's Office of Inspector General provided to us an interview record in which Border Patrol personnel stated that "The so-called 'OM Center' has 2 USBP personnel and 19 L3 contractor employees" [however] "the OM Center hasn't repaired anything in over a year, but has billed half a million."

8. Order 5TS1503023 represents an additional task order for the continued support and operation of the O&M Center for the period beginning December 20, 2002. Our review of the O&M Center is explained in Note 7 of this appendix.
9. Order 5TI502024 was for the installation of one tower/repeater site and the retrofitting of cameras and other equipment on nine existing structures. The work was to be performed at the Nogales, Arizona border station.

GSA awarded the order to IMC on **November 15, 2001** (phases I, II, and III). We visited the Nogales border station on **June 22 and 23, 2004** and met with both Border Patrol and IMC (L3 Communications) personnel. The installation was not complete; the 120 foot tower was being erected during our visit and camera and microwave equipment were being assembled on platforms on the ground for eventual installation on existing towers. The platforms had been cannibalized from other stations so the retrofit could proceed. A 35 kilowatt generator had not arrived and a new microwave shelter (present) needed to be installed.

Border Patrol personnel complained that a completed installation had been promised by **July 2003**. We believe that part of the reason it was taking over 2.5 years to complete this project was delays associated with the phase I activities (real estate actions). The city permit necessary for the Crawford Hill (tower) installation had not been obtained as of **June 16, 2003** and the Crawford Hill lease had not been signed until **July 28, 2003**. The task order did not clearly delineate responsibility for accomplishing these types of tasks.

Our review noted a negative consequence of the delay in completing the Nogales installation. Due to worn equipment, the existing camera transmission (video) quality was so poor as to completely negate the video surveillance effort at the Nogales border station.

10. Order 5TI1503013, valued at \$4.2 million, represented the installation of eight monopoles, a repeater site and site upgrades at the Laredo North A border station. IMC (L3 Communications), as of July 1, 2004, had been paid nearly the full amount (\$4,114,933), but the cameras and the repeater site were not working. This site was estimated at 60% complete.
11. Order 5TI1502131 was for the installation of 13 dual camera monopoles and other items at the Carrizo Springs, Texas border station. FTS' order was dated December 9, 2002.



Our review indicated that IMC (or L3 Communications) had purchased the required cameras and that the cameras resided in either IMC or vendor inventory as of August 4, 2004. Our review noted that GSA had been invoiced about \$2.19 million for the Carrizo Springs project through April 13, 2004.

Border Patrol officials representing the Del Rio, Texas sector stated that no installation work had been performed and no equipment was present on-site. Therefore, the Government was charged for product that had not been delivered or installed. The monopoles were ordered from a fixed price FSS schedule BPA and the Government should not be charged until product is delivered. IMC billed on a percentage of completion basis.

12. Order 5TI1502115 was awarded to IMC for the installation of five monopoles. Our visit to Tucson found that there was nothing completed as of **June 2004**. IMC had been paid \$623,974 for work related to this order although no installation work or product delivery had been performed.

13. Order 5TI1501038 was for the installation of eight monopoles and towers at the Naco, Arizona border station. The task was awarded to IMC on **June 29, 2001**.

Our site visit to Naco on **June 24, 2004** revealed that no installation work had been performed. IMC had been paid over \$2.8 million against this task order. Our review determined that a considerable amount of product had been delivered to Naco. Equipment was found lying on the desert floor (see picture in report) and some equipment had been stored in a secured storage facility since **Fall 2003**. We noted that platforms had been cannibalized from the Naco border station in order to complete the work at the Nogales, Arizona border station.

14. Task order 5TS5703C001 was awarded as a follow-on task order to 5TS5702C003. This contract was awarded using the Millennium Lite contract vehicle. It was awarded to ACS Government Services, Inc. The scope of the work involved support through a concept called Logistics Network (LOGNET). LOGNET is a centralized programming effort to provide information technology infrastructure and sustainment for logistics. The total contract value with option years is \$41,950,847.20 including the seven option years.

The parent task order RFQ was sent to all 11 Millennium Lite contractors, Two bids were received. FTS did not prepare an independent government estimate (IGE) for this award. This contract was awarded as a T&M contract, and a not to exceed amount was designated on the task order. The CO did not issue a letter of designation establishing the ITM's authorities and responsibilities for the task order. Additionally, the contract lacked an acquisition plan, which is required for all orders over \$100,000.

15. Task order 5TS2103049 was awarded as a sole source (directed buy) for the U.S. Army and was a follow-on order to Strategic Management Initiatives under MOBIS contract GS-10F-023J1. This contract was awarded with a base year of

March 26, 2003 through March 25, 2004 with two option years. The value of the base year was \$1,488,484. The order was to provide expertise associated with resource optimization and environmental restoration for the United States Army's BRACO.

The contract was issued without competition, as it was a directed buy from the client agency. The directed buy did not allow other schedule contractors to be considered for the task order work. Additionally, the ITM did not evaluate the level of effort or labor mix to determine whether the price was fair and reasonable. The file did not contain an acquisition plan, which is required for orders over \$100,000.

The task represented an inappropriate use of the IT Fund. The work described in the statement of work was not IT related.

16. Task order 5TS17037031A was a time-and-materials task order awarded to Millennium Data Systems, Inc. under contract number GS05T03BMM0221 (an 8(a) contract). The T&M contract did have an NTE amount. The statement of the work was outside the scope of the IT fund and called for general office work such as answering phones, filing documents, sending and receiving faxes, helping customers fill out forms and helping with personnel actions for the Department of the Navy. This task order also lacked an acquisition plan.
17. Task order 5TS5701D218 was awarded as a sole source directed buy to Anteon Corporation under the Millennia Lite contracting vehicle for the Air Force. This order is discussed in the body of the report.
18. Task order 5TS5701D370 was awarded as a sole source directed buy to Anteon Corporation under the Millennia Lite contracting vehicle for the Air Force. The order was a follow-on to task order 5TS5701D218 (see note 17 above). This order is discussed in the body of the report.
19. Task order 5TS5703D434 was awarded as a sole source directed buy to Anteon Corporation under the Millennia Lite contracting vehicle for the Air Force. The order was a follow-on to task orders 5TS5701D218 and 5TS5701D370 (see notes 17 and 18 above). These tasks are discussed in the body of the report.
20. Task order 5TC5703C291A was awarded under an FSS Schedule 70 contract to NextiraOne Federal, LLC. The contract was awarded to provide McGuire Air Force Base in New Jersey with an optically based backbone infrastructure capable of supporting current and future telecommunications and network interconnectivity (voice, data, and video).

The task order lacked an acquisition plan. This contract was written as a mix of firm fixed price as well as T&M, however the contracting officer did not prepare a Determination and Findings required by FAR 16.601. Additionally, the contractor sent out quotes to eight companies with only two companies submitting qualified

proposals, when DOD contracts over \$100,000 require a minimum of three proposals.<sup>42</sup>

21. Task order 5TS5703D139 was awarded under the ANSWER contract to L3 Communications (formerly EER Systems). The client, the Air Force, requested an order to provide an integrated solution that significantly enhanced the overall effectiveness and performance of the security system at Offutt Air Force Base while at the same time reducing manpower requirements.

The task order did not have an acquisition plan. The work provided for in the order includes substantial non-IT related work and the ANSWER contract was not the appropriate vehicle to use for this order. The order calls for major construction work, including the installation of security fences, drainage and erosion control, grading and trenching, above and below ground power signal and cabling, pedestal installation, and other physical barriers as well as intrusion detection equipment.

22. Task order 5TS5703D154 was awarded to DynCorp for work related to the Air Force under contract GS-35F-4639H. The project objectives included such items as development of web-based user enhancement tools. The task order did not include an acquisition plan.

Current guidance for all DOD tasks placed against multiple award contracts requires that three bids shall be submitted for all services work over \$100,000 (see footnote 27). FTS did receive three proposals, however, two of the proposals were “no bids”, while the only bid with dollar amounts was by Dyncorp. The contract file does not include a Determination of Findings as to why a T&M task was in the best interest of the government, as required by FAR 16.6. The purchase order also lacked a ceiling or a not to exceed amount for this T&M contract.

23. Task order 5TS5701D201 was awarded to Computer Sciences Corporation for the Air Force under contract GS-35F-4381G. The scope of work was for all tasks necessary to provide system maintenance and modification to the Stock Control and Distribution System, which provides key functionality to the Air Force and other government agencies for asset management.
24. Task order 5TS5704C027 was awarded under the ANSWER contract to Computer Sciences Corporation. The contract, valued at \$9,479,716, did not have an acquisition plan, as required for all contracts over \$100,000.
25. Task order 5TS1703D002 was awarded to DynCorp Systems and Solutions, LLC under the ANSWER contract. This contract was ordered for the U.S. Navy’s Naval Surface Warfare Center.

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<sup>42</sup> The reference here is to guidance contained in the National Defense Authorization Act of 2002.

The proposed work was questionable as to whether or not it was IT related. The task file did not substantiate that the CSC evaluated the level of effort and labor mix in making the determination as to whether not the price was fair and reasonable.

26. Task order 5TS5703D150 was awarded using the Millennia contract vehicle for the Air Force to Computer Sciences Corporation. The task provides for technical operations (site preparation, equipment installation and integration, acquisition and administration of hardware and software, and facilities engineering among other things).

The file lacked a justification for the contract vehicle used. The file did not contain an acquisition plan. The statement of work for the order did not specify a period of performance. FTS also failed to document in the contract file the determination of fair and reasonable price.

27. Task order 5TS5702D431 was placed against the MOBIS contract and was awarded to KPMG Consulting for the Air Force. The purpose of this contract was to provide support for accounting related improvements to the Air Force HQ Materiel Command Financial Management and Comptroller inventory valuation business environment. There was no acquisition plan for this project.

The contract file did not include a rationale for why this particular contract vehicle was used, and we believe the work was not IT related. The contract also does not have the start dates for Parts 1 and 2. The contract was sole source. The client agency requested KMPG. Price reasonableness was determined by comparing the proposal to similar services rates published in FSS schedules.

28. Task order 5TC5703D310 was awarded under the 8a-contracting vehicle to CDO Technologies, Inc. under contract number GS05T03BMM3243. The amount of the contract was \$2,299,088.83 and was a firm fixed price contract. The contract file lacked a letter of designation for the contracting officers representative and also did not include an acquisition plan. This contract was written for the Air Force for procurement of Aircrew Life Support Equipment and Record Tracking System. The contractor was to engineer, furnish, install, and test copper cables and fiber optic cables and associated termination equipment within facilities located at McChord Air Force Base to support network connectivity and data transport capabilities.

The award did not include a determination of fair and reasonable price.

29. Task order 5TS5702D240 was awarded under the MOBIS contract vehicle and was a firm fixed price award to KPMG. The contract was for the department of the Air Force related to the Depot Maintenance Accounting and Production System to provide development, updating, and delivery of functionally and technically sound ABOM training to the Air Force. The task was awarded sole source to KPMG, the incumbent contractor.

The work associated with this job is not IT related. The task primarily involves training support to the Air Force in the form of development, maintenance, and

instructions for three courses that cover the procurement, receiving, issuing, inventory, and accounting of materials.

30. Task order 5TS5703C015 was awarded under the ANSWER contract to Northrop Grumman Information Technology, Inc. The contract was awarded for IT services and was a follow-on task order. The program was to modernize the Air Force Mobility Command and provides seamless airlift and tanker planning, scheduling and analysis during peacetime, crisis, contingency, and wartime operations. Much of this task was to be done through integration of software applications and utilities. The contract file did not include an acquisition plan and also lacked a letter of designation from the contracting officer.

See the body of the report for additional information.

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
 CLIENT SUPPORT CENTER, GREAT LAKES REGION  
 REPORT NUMBER A040117/T/5/Z05002

APPENDIX B

SCHEDULE OF 2004 ORDERS REVIEWED FOR THE GREAT LAKES REGION

| Order Number | Client            | Contract Type  | Contractor                    | Contract/BPA Number | Order Value   | Notes |
|--------------|-------------------|----------------|-------------------------------|---------------------|---------------|-------|
| 5TS5704C201  | Air Force         | ANSWER         | Computer Sciences Corporation | GS09K99BHD0003      | \$4,584,766   | 1     |
| 5TS5702D309H | Air Force         | Schedule 70    | Veridian Engineering, Inc     | GS-35F-0731J        | \$450,433     | 2     |
| 5TS5704D148  | Air Force         | 8a Set Aside   | CDO Technologies, Inc.        | GS05T04BMM3263      | \$290,692     | 3     |
| 5TS5704D149  | Air Force         | Schedule 70    | LOGTEC, Inc.                  | GS-35F-4528G        | \$7,636,678   | 4     |
| 5TS5704D173  | Treasury          | 8a Set Aside   | SMARTNET, Inc.                | GS05T04BMM3244      | \$197,525     | 5     |
| 5TS1704A053  | Homeland Security | Millennia Lite | L3                            | GS07T00BGD0023      | \$107,928,509 | 6     |
| 5TP5704D005  | Air Force         | Schedule 84    | L3                            | GS-07F-5377P        | \$34,102,539  | 7     |

Notes:

1. Task order 5TS5704C201 was awarded under the GSA ANSWER contracting vehicle to Computer Sciences Corporation as contract number GS09K99BHD0003. The task order was awarded to assist and support mobility forces in the Air Force for selection, evaluation, and integration of new technology into MAF aircraft and support systems. The contract file did not document any negotiations for this T&M task order, however the ITM said negotiations did take place.

There was only one bid on this particular task order even though all the ANSWER contractors were solicited. However, the solicitation included a statement of incumbency related to the current contractor, which happened to be Computer Sciences Corporation. The notice of incumbency may have discouraged contractors from responding to the solicitation. Computer Sciences Corporation was the only contractor to submit a bid.

2. Task order 5TS5702D309H was awarded as a sub-task to 5TS5702D309 as a time and material task order to Veridian Engineering, Inc. under contract GS-35F-0731J for the Air Force. The task was to provide the Air Force ASC/HP supporting Simulation Analysis Facility simulations for a one-year period. The task order exceeded the \$100,000 requiring an acquisition plan. No acquisition plan was prepared.

There was no rationale in the file for the reason the Schedule 70 contract vehicle was used, and this task order was a sub-task to an order awarded June 28, 2002. According to the ITM, the current task will be phased out and the remaining work will be recompeted under ANSWER as cost reimbursable. The proposed rates for this task are at the schedule contract rates for this vendor, however, the SOW titles are not consistent with the proposed labor classifications. The task is a time and material task order, but the contract file lacked a determination and findings report.

The CSC only solicited one bid for the initial task work because the task was a follow-on to work Veridian was already performing. The client provided the CSC justification for sole source stating that Veridian had the expertise and in the client's view awarding a contract to a new company would be at least an 18 month setback for the learning curve and security level, as employees on this task order require at least a Secret clearance in order to work, which Veridian employees already possessed.

3. Task order 5TS5704D148 was awarded as an open market 8(a) set-aside time and material order to CDO Technologies, Inc and was for the Air Force. The contractor held an FSS Schedule 70 contract. The work provided support for the overall Point-of-Maintenance initiative encompassing Automatic Identification Technology insertion into technicians' scheduled and unscheduled activities to produce better information flow to and from the system of record and the mechanics on the job site for the Air Force. There was no acquisition plan in the contract file as required by General Services Acquisition Manual.

For 2004, the proposed labor rates for the order were at the FSS Schedule contract rates for the contractor however except for one labor category. The contractor's proposed rates for 2005 were higher than their schedule 2005 rates. The ITM told us that since this was an open market award, the contractor did not have to comply with FSS schedule pricing. The contract file does not substantiate that the CSC evaluated the level of effort and labor mix to make a determination as to price reasonableness.

4. Task order 5TS5704D149 was awarded to LOGTEC, Inc. for the Air Force under contract GS-35F-4528G. The scope of the work involved providing contractor support in researching business processes to be supported by the Enterprise Information Technical Service (EITS). The task was to facilitate workshops of functional experts for the purpose of discovering functional requirements pertaining to EITS. The task also develops process models, data models, and "ability to" statements for the business processes supported by EITS.

The contract file contained an acquisition plan as well as documented a rationale for the contract vehicle used. The price proposal clearly states the period of performance and the proposed labor rates are below the contractor's FSS schedule rates. The CSC solicited proposals from eight vendors and received three responses, meeting the DOD 803 requirements. The contract file did not have a FSS Schedule checklist for the task order.

5. Task order 5TS5704D173 was awarded as an 8(a) set-aside contract to SMARTNET, Inc for the Department of the Treasury.

The file did not show why an open market 8(a) set-aside was used when SMARTNET already held a Schedule 70 contract (GS-35F-4785G). The contract file lacked an 8(a) set-aside checklist. The contract file did not show that the CSC evaluated the level of effort to make a determination as to whether the total price was fair and reasonable.

6. Task order 5TS1704A053 is discussed in the body of the report.

7. Order 5TP5704D005 was awarded to EER Systems, Inc. (now L3 Communications) on April 30, 2004 from the CSC in Fairborn, OH. The task order amount was \$34,102,539. The award was placed against the vendor's Schedule 84 contract to the Air Force for delivering vehicle barriers to increase effectiveness of security at 150 Air Force bases. The vehicle barriers are shallow mount wedge barriers that can be deployed when activated from the entry control point (by the controller) or from an alternate over watch position.

See the body of the report for further discussion of this task order.





**APPENDIX C**  
**MANAGEMENT RESPONSE**



NOV 30 2004

GSA Great Lakes Region

MEMORANDUM FOR DAVID STONE

REGIONAL INSPECTOR GENERAL FOR AUDITS  
GREAT LAKES REGION (JA-5)

FROM:

JAMES C. HANDLEY  
REGIONAL ADMINISTRATOR (5A)

A handwritten signature in black ink, appearing to read "James C. Handley", written over the typed name.

SUBJECT:

Comments to Draft IG Audit Report Number A040117

Forwarded are Regional comments to the Draft Audit Report, subject above. We request that our comments be attached to the final report.

We concur with your draft report that there were certain instances of inappropriate contracting practices. However, the practices identified do not appear to be specific to Region 5 but rather, consistent with FTS practices nationwide. Most notably, practices involving the use of the IT Fund as defined in Title 40 U. S. Code Section 322. Substantial differences exist in the interpretation of Section 322. In our opinion, Section 322 permits the use of the IT Fund to acquire such items as "software systems, operating facilities, supplies, and related services including maintenance and repair." IT funds, by necessity, must be used in order to make a system or facility operable. Our CSC associates were performing their duties in reliance upon interpretation of laws and FTS-wide operating guidance. It is apparent from your audit report that some questionable practices, such as the use of IT Funds for construction purposes, may serve to highlight a systemic concern with existing statutory guidance and should be resolved by the appropriate parties as soon as practical. The draft report also highlighted weaknesses in contract administration of which we agree are problematic in some instances. However, the draft report fails to address that individual task orders for equipment and services were awarded by the CSC as a result of working partnerships with customer agencies. In addition, Statements of Work (SOW), technical specifications, justifications, and performance monitoring, at a minimum, were all developed in joint effort with customer agencies. The CSC does not have the capability of making operational decisions as to the location and use of such equipment or service. In hindsight, we recognize that some of the contract requirements exceeded the CSC's capabilities and in the future we need to provide more attention to well developed acquisition strategies

In addition, the draft report is critical of CSC making various payments to contractors for equipment and services not received or being defective. The invoices for the equipment and services, as a matter of routine, were often forwarded by contractors to the customer program offices. These offices approved the invoice submissions and notified the CSC electronically to make payment. The above practice highlights a problem in that the CSC did not have an adequately trained staff to independently review invoices and thus relied on customer agencies

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for support. We are currently examining alternative actions to correct the process and to provide better contract oversight to avoid these types of discrepancies.

Lastly, it is important to note, that our region has been proactive in performing ongoing technical reviews on each segment in the draft report and a summary is attached. The Region has already taken corrective measures and will take additional steps to institute constructive changes to its contracting activities. The draft report assists in serving as a guidepost in the above effort. Past and current regional efforts include:

1. A review of every contractual action is being performed to ensure we get it right. An internal Work Process Team is working to assess the FTS work process and to define Regional standards which apply to all offices. This review will include specific identification of tasks to be performed and responsibilities to be assigned. The Contracting Officers will become actively involved in task planning soon after receipt of a customer's requirement and will actively participate in the acquisition strategy planning. Ongoing tasks with problems are being identified and are being addressed using a priority system. Mandatory training requirements are being identified for FTS Regional associates including Federal Supply Schedule Contracting and Contracting Officer's Technical Representative (COTR) courses;
2. A mandatory review by the Regional, Director of Contracts, FTS for all sole source justifications;
3. We are redefining the entire work processes from initial receipt of requirement through contract closeout to ensure compliance with regulatory requirements and effective and efficient processing for the customer;
4. Contracting Officer authority previously delegated to field offices has been withdrawn to the Chicago Regional office until we can assure our remote locations have the skills and tools to get it right;
5. Formats have been created in support of the certifications required by Section 802 for both the financial certification, and contractual and regulatory compliance certifications;
6. Acquisition checklists are now being used for every contractual action and are being included in the contract files;
7. Formal and informal training is being conducted for all associates involved in the acquisition process;
8. FTS contracting activities has previously worked primarily with customer program offices to develop task order requirements or to resolve relevant issues. We have now encouraged customers to invite their contracting and financial management offices into discussions when issues develop;

9. Legal counsel has and will continue to be invited to participate in on and off-site discussions and training with customer agencies; and
10. Contracting activities will develop and maintain hard copy acquisition files, in addition to the automated ITSS system thus providing a more immediate access to documents when needed.

We have every expectation that future audits will confirm our continued commitment in taking corrective measures and improving contract oversight.

Enclosure



# **IG Draft Summary Report FTS Region 5 November 30, 2004**

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## **Results of FY 2003 Review**

### **Inadequate Competition**

To avoid future infractions, Region 5 FTS implemented in October 2004 a requirement for all proposed sole source requests to be reviewed by the Director of Contracts before an acquisition strategy is finalized. All sole source requirements exceeding \$500,000 are forwarded to the Competition Advocate for approval to ensure adequate documentation is provided.

BRACO. Task order 5TS2103049 was awarded in March 2003 as a sole source for \$1.488 million with no documentation as to the reason no other bids were sought. The Contracting Officer who awarded this task had her warrant suspended and subsequently resigned from FTS. Requests from the customer to continue this task were denied.

### **Misuse of Contract Vehicle**

Border Patrol BPA. Upon award of the initial BPA it was anticipated that 5% or less of construction related installation work would be required. The construction was believed to be within the scope of FTS authority and was consistent with FTS nationwide policy. When it became known to the Contracting Officer that much larger construction efforts were occurring the contractor was notified to cease.

Davis-Bacon Act wage determinations were not incorporated because it was not anticipated the work would require such wages. In instances when the contractor, International Microwave Corp., (IMC) subcontracted work involving construction related activities, IMC included the Davis-Bacon Act in their subcontracts as they believed it was appropriate for the type of work being performed by their subcontractors.

In discussions with electronic technicians from the Border Patrol they acknowledged that much of the problems with the cameras reliability are inherent with the technology itself. These cameras are installed in harsh remote areas which can be difficult to access. The Border Patrol's decision to make local Border Agents responsible for diagnosing camera problems and sending them to the central maintenance facility in

Albuquerque, New Mexico contributed to some of the extended camera downtime. This decision is being revisited by the Border Patrol for future support.

Decisions relating to the overall RVS program were managed by the Border Patrol Headquarters in Washington DC. Any communication regarding concerns from local Border Patrol electronic technicians would have been the responsibility of the Border Patrol Program Office and not FTS.

Task Order 5TS5703D139. This task for Offut AFB Flight Line Security Upgrade task was awarded under the GSA FTS Government Wide Acquisition Contract (GWAC) ANSWER. The requirement was determined to be Information Technology (IT) because the requirement was integral to the security system of command control and alarm display elements that collect, transport, process, integrate, display and disseminate response information. The system design includes personal computers, servers, system software, cameras, video surveillance and perimeter surveillance and detection's equipment, all of which would be networked together for a complete system interface. Because ANSWER is a solutions vehicle to provide service and equipment as other direct cost (ODCs) it was determined to be the correct solution for the customer's need. This assessment is supported by "Finance Guidance Examples" provided by FTS Central Office describing what services are acceptable under the IT Fund.

Task Order 5TS5703C015. The decision to allow leased space was discussed with the ANSWER Program Office and determined to be within the scope of that contract. As a result of the IG concerns we are again coordinating this matter with the ANSWER Program Office and have not funded the lease effective with the new task in FY05 until additional clarification can be obtained.

O&M Center Lease. Both the customer and the contractor were told by the Contracting Officer they were not allowed to provide leased facilities under the scope of their BPA or the Federal Supply Schedule 70 on which the BPA was based. FTS provided to the customers' Acquisition Management Office points of contact in GSA's Public Building Service who could assist them with lease options. When it later became known to the Contracting Officer that lease costs associated with the O&M Center were being billed against the BPA, the contractor and the customer were notified in writing that this practice was unauthorized.

## **Inappropriate Use of the IT Fund**

Anteon Tasks (5TS5701D218, 5TS5701D370, 5TS5703D434)

Issue 1: FTS had 3 orders to Anteon which started out as \$340K and ended up at \$1.6M final costs. The Orders were sole sourced via Millennia Lite for testing handheld paint strippers using the IT Fund.



Program Phases: Referenced task orders represent the first (5TS5701D218), second (5TS5702D370) and third (5TS5703D340) phases in the independent validation and verification of the Portable Handheld Laser Small Area Supplemental Costing/Removal Systems (PLCRS) for the Air Force. These systems are the latest in technology for coating removal of state of the art materials used on DOD weapon systems. This technology uses laser beams to remove material coatings. The location of the testing is the Laser Hardened Material Evaluation Laboratory (LHMEL), Wright Patterson AFB, OH. This facility is the only one of its kind, specifically built for testing of this type.

Sole Source: The Contractor (Anteon) operating the LHMEL facility was competitively selected to manage and operate this facility for the Air Force under a separate Air Force contract for testing. This acquisition strategy for the subject task included leveraging the contractors already developed and mature experience with the LHMEL instead of introducing a new contractor, resulting in increased learning curve and duplication of cost. For this reason this requirement was directed to Anteon based on specialized need.

Qualification: In qualifying the work outlined in the SOW it was determined that the deliverables required were in the form of analysis resulting from Independent Validation and Verification (IV&V) of the subject hardware. This analysis would be completed after gathering and manipulating data using ADP hardware and software. The contractor's role in subject tasks was to "provide test bays, utilities, labor, instrumentation, safety, and programmatic coordination required in the support of the testing over 3000 test panels. The contractor uses high speed digital video systems or other appropriate techniques to capture the mechanism performance at the coating surface. The contractor will develop a tracking system to test data and provide comprehensive reports to the Air Force to assist in meeting their operational needs.

After review of the requirement it was clear that a solution based contract task order would be needed because of the anticipated materials or ODCs which would be required. It was also known that the contractors holding Milennia Lite Functional Area 2 contracts maintained Government approved purchasing systems, which requires them to competitively acquire materials in support of the tasks and to make available those documents for Government review to determine fair and reasonable price for those items.

It was the interpretation at that time that data gathering using ADP in connection with the subject state of the art technology testing was consistent with Milennia Lite Functional Area 2 and was the appropriate acquisition solution for this effort.

Issue 2: On one of the above awards, a 10-ton air conditioner unit was included on the vendor's proposal and purchased.

In phase II of the project, the Air Force required simultaneous testing of four laser systems. Because of this requirement it was determined that the heat generated by the additional laser system would degrade the system operation testing and border on the

OSHA standards for heat and air exchange requirements for the testers. Therefore to meet this requirement the contractor proposed an air conditioner unit that would meet the air exchanging requirements.

The acquisition team used the following paragraph from the Millennia Lite contract as justification to allow for the purchase of materials and related supplies determined to be critical and related to the services being acquired under the task. All equipment and materials acquired by the contractor in support of the testing was critical and related to the testing.

H.13.2 Tools: Millennia Lite is considered to be a “solutions based contract”. This term refers to contracts that encompass everything from the analysis of hardware/software tools used for implementation to ongoing operational support of an IT solution.

The Government may require the Contractor to purchase hardware, software, and related supplies critical and related to the services being acquired under the TO. Such requirements will be identified at the time a TOR is issued or may be identified during the course of a TO by the Government or the Contractor and tools purchased shall become the property of the Government. If the Contractor proposes the purchase of tools within the scope of a TO tasking, the Contractor shall submit to the Government COTR a request to initiate purchase of such tools. The request shall include the purpose, specific items, estimated cost, cost comparison, and rationale. If approved and the task order is modified, the contractor may proceed with the purchase. All purchases under this paragraph shall be made in accordance with the Federal Acquisition Regulation.”

Task Order 5S2103049. This Task Order was issued using the MOBIS contract for a requirement to prepare a study for proposed environmental clean-up actions—not the clean up itself.

## **Frequent Use of Time and Material Task Order**

Inappropriate handling of cost overrun on a time-and-materials project. We concur there are many issues surrounding this BPA that require further review. We intend to work with the Office of Audits to rectify this matter and determine if further action is necessary.

Inappropriate billing rates on a time and materials task. The contractor providing the services for the MAE task provided “on-site” rates for their labor on the Federal Supply Schedule 70 on which the BPA was based, but “off-site” rates were not priced. Many Federal Supply Schedule contracts offer both “on-site” and “off-site” labor rates which allows the contractor to offer the rate appropriate for a specific task. The “on-site”



rates were initially suitable as the Government was providing all necessary space, with the exception of the contractor's manufacturing facilities, to support the RVS operation. As the program grew, the customer decided to expand their operation, necessitating a need for additional space. The contractor, International Microwave Corp. (IMC), attempted to have its Federal Supply Schedule 70 modified to add "off-site" rates, but their Contracting Officer would not allow the addition. IMC then had its "off-site" rates added to the Federal Supply Schedule 84 allowing for increased overhead expenses such as office space. The customer felt it was very important to the success of the program that IMC be allowed to bill at the higher "off-site" rates because without additional space the customer would not be able to accomplish its program goals. The customer did not believe it was a viable option for the Government to provide this space. Even after FTS provided the customer points of contact in GSA's Public Building Service (PBS) the customer did not want to pursue providing Government furnished space. FTS and the customer made the decision to issue a sole source award to IMC citing the Federal Supply Schedule 84 to allow the higher off-site rates. While the labor rates were higher, the end cost to the Government should have been less as the Government would not be furnishing leased facilities. The labor rates for the MAE task were transferred back to the BPA rates upon learning the IT Funds could not be used for Federal Supply Schedule 84 orders.

Detailed billing information with invoice back-up was provided directly from IMC to the customer for review and validation prior to payment authorizations. This was, in most cases, accomplished by a contractor hired by the customer to provide project management assistance. After the customer validated the back-up, the authorization for payment was provided to FTS. FTS was not actively involved in this process.

We will address this further during the RVS project invoice review.

### **Lack of Support for Fair and Reasonable Pricing**

We concur that FTS could have done a better job of documenting the files as to the fair and reasonableness of the labor mixes as they relate to the technical solution.

### **Inadequate Contract Administration and Project Management**

We concur that FTS could have done a better job of monitoring contracts after award and this needs to be corrected going forward. FTS is in the process of redefining the structure of the entire work process to address these concerns. Work will be realigned to involve the Contracting Officer in the process at the beginning and the program personnel will be more active in contract management after award. Contracting Officers will oversee all communications with contractors.

## **Equipment Substitution**

Repeated requests from the customer to modify the BPA to substitute equipment were denied by the Contracting Officer. These requests were denied because they were not Schedule items for approved teaming partners and documentation was not available to support the basis for pricing on existing contract line items. Only one BPA modification dated September 3, 2003, was issued authorizing the inclusion of additional cameras, controllers and cable and twenty-three (23) additional CLINs were added.

## **Lack of Acquisition Plans**

FTS has complied with the requirements for acquisition plans since the GSA policy guidance in OGP 2800.1 was issued January 1, 2004.

## **Cause of Improper Procurement Practice**

Ineffective Management Controls. FTS has made establishment of internal controls a priority and is in the process of evaluating all operations in the organization. The Contracting Officers' authorities previously delegated to field offices has been pulled back to the Chicago Regional office. A review of every contractual action is being performed to ensure we get it right. An internal Work Process Team is working to assess the FTS work processes and define Regional standards which apply to all offices. This will include specific identification of tasks to be performed and responsibilities will be assigned. The Contracting Officers will become actively involved in task planning soon after receipt of a customer's requirement and will actively participate in the acquisition strategy planning. Ongoing tasks with problems are being identified and are being addressed using a priority system. Mandatory training requirements are being identified for FTS Regional associates including Federal Supply Schedule Contracting and Contracting Officer's Technical Representative (COTR) courses.

## **Results of FY2004 Review**

### **Improper and Questionable Contracting Practices**

We do not concur with your assessment of construction work and the legality of FTS authorizing this work when it is incidental but critical to an IT requirement.

## Central Office FTS Controls

Implementation of Section 803 of the National Defense Authorization Act. We agree that the contract file did not include adequate documentation to support that every reasonable effort had been made to achieve maximum competition. However, there were extra efforts taken on this acquisition to ensure maximum competition was achieved. Prior to issuance of the solicitation a Request for Information was issued to industry discussing the Air Force's requirements. Because the solicitation would require equipment which had been certified for compliance with the system specification, notice was provided in advance to allow all interested parties the maximum opportunity to participate. Notices were also published in GSA's e-Buy seeking interested sources prior to issuance of the solicitation in ITSS. The requirements of Section 803 are that you ensure every effort was made to obtain competition. Eventually three offers were received and evaluated. One offer was subsequently found to be non-responsive. We submit that notwithstanding the exclusion of the one offer, the spirit and letter of Section 803 were met.

Legal Review Policy. Legal reviews are not limited to awards made in excess of \$5 million. Legal reviews are being conducted of all FTS acquisition plans where award is expected to be in excess of \$100,000.00. There are no Regional waivers or delegations to the Order. CSC associates are always encouraged to seek legal advice on issues throughout the acquisition process.

Acquisition Checklists. The requirements included in the Acquisition Checklists were being complied with but were not always filled in and included in the contract file. The checklists are now actively being used for every contractual transaction and are being included in the contract files.

Task Order 5TS1704A053. Based upon a recent on-site review of the actual work accomplished under this task order, we concur with the IG findings.

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CONTROLS AND TESTING OF THOSE CONTROLS  
FOR THE HEARTLAND REGION  
REPORT NUMBER A040191/T/6/Z05007  
DECEMBER 9, 2004



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DECEMBER 9, 2004

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**U.S. GENERAL SERVICES ADMINISTRATION**  
**Office of Inspector General**

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Date December 9, 2004

Reply to

Attn of Heartland Region Field Audit Office (JA-6)

Subject :Audit of Federal Technology Service's Controls  
and Testing of those Controls for the Heartland Region  
Report Number A040191/T/6/Z05007

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

Sandra N. Bates  
Federal Technology Service Commissioner (T)

This report presents the results of the Office of Inspector General's audit of Federal Technology Service's (FTS) controls for the Client Support Center (CSC) in the Heartland Region (R6).

**Background**

In 2003, the OIG performed an audit of the FTS CSCs located in Regions 4, 6 and 10. Report Number A020144/T/5/Z04002, dated January 8, 2004, identified significant contracting deficiencies, including improper sole source awards, misuse of the Information Technology (IT) Fund, misuse of small business contracts, ordering work outside the contract scope, improper order modifications, frequent use of time and materials contracts, and not enforcing contract provisions. The audit of Regions 4, 6, and 10 focused primarily on procurement actions in FY 2002.

The Administrator and Central Office FTS subsequently requested that the OIG review conditions at the remaining CSCs. This follow-on audit focused on procurement actions made in FY 2003 in Regions 1, 2, 3, 5, 7, 8 and NCR. Based on the preliminary audit results of the follow-on review, the Administrator asked the OIG to further review procurements and controls in the CSCs to determine the extent of improvements FTS has implemented in 2004. This report presents the results of our review of the R6 CSC's procurement actions during the three-month period March 1, 2004 through May 31, 2004. The CSC obligated a total of approximately \$137 million during this time period toward projects having a cumulative value of approximately \$741 million.

In FY 2003, the R6 CSC generated revenues of approximately \$980 million. In FY 2004, revenues were approximately \$687 million.

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## **Objectives, Scope and Methodology**

The audit objectives were to determine whether the CSC (1) has conducted procurements in accordance with the Federal Acquisition Regulation (FAR) and the terms and conditions of the contracts utilized, (2) has implemented controls mandated by Central Office FTS in FY 2003 and 2004, and (3) has implemented additional controls to improve the procurement process.

To accomplish these objectives, we:

- Reviewed procurement documentation related to a judgmental sample of 10 task orders<sup>43</sup> valued at \$118,273,506;
- Reviewed laws, regulations, and applicable guidance; and
- Interviewed CSC personnel.

The audit was conducted from June through August 2004 in accordance with generally accepted Government auditing standards.

## **Results of Audit**

Our review indicated that the R6 CSC has made substantial progress in implementing controls to improve its procurements. The CSC has begun to implement Central Office FTS controls, as well as regional controls. In addition, our limited review of procurements during March through May 2004 indicated that the CSC has made progress in improving appropriate documentation for new awards and remediating some issues related to existing tasks.

However, our review of procurements also indicated that some weaknesses similar to those noted in the January 2004 audit still exist, including limited competition, insufficient documentation to support that the Government received fair and reasonable pricing, continued frequent use of time-and-materials tasks, and misuse of the IT Fund. We noted that while the CSC has initiated action to remedy deficiencies found in existing task orders, much work remains in order to remediate all major procurement deficiencies associated with existing task orders.

### ***Central Office FTS Controls***

Since the OIG's review of FY 2003 CSC procurements in Regions 4, 6 and 10, Central Office FTS has initiated new policies and procedures controls to improve the CSC control environment. These controls include the following:

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<sup>43</sup> There were ten task orders included in our sample, which were comprised of five orders the CSC awarded during March through May 2004, and five orders that the CSC awarded before the March through May 2004 time period and subsequently modified during this time frame. Nine of the ten task orders were placed against Federal Supply Schedule contracts.

**Implementation of Section 803 of the National Defense Authorization Act.** In support of Section 803, FTS issued Acquisition Policy Letter No. 2003-01 on March 11, 2003. The policy affects all orders for services greater than \$100,000 placed on or after October 25, 2002, and requires “fair notice of the intent to make the purchase ... ” and “affords all contractors responding to the notice a fair opportunity to submit an offer ....” Posting of a request for quotations on the GSA electronic quote system “e-Buy” ([www.gsa.Advantage.gov](http://www.gsa.Advantage.gov)), is one medium for providing fair notice to all contractors as required. In addition, the contracting officer must receive offers from at least three contractors or determine in writing that no additional contractors can fulfill the requirements.

Four of the five new orders we reviewed were in compliance with the FTS Commissioner’s memo implementing Section 803.

**Legal Review Policy.** On October 1, 2003, FTS issued policy guidance implementing additional legal review requirements to assure compliance with all applicable laws, regulations, and other requirements. For example, legal concurrence is required for new contract awards over \$5 million (excluding task orders); actions resulting in awards of Blanket Purchase Agreements; actions resulting in the issuance of a task/delivery order that contains leasing provisions, regardless of dollar value; and actions that result in the issuance of a task/delivery order under existing vehicles in excess of \$5 million.

The CSC awarded one new task order in our sample that exceeded \$5 million; however, there was no documentation in the file showing that the CSC submitted the order for legal review. R6 management affirmed that the file was reviewed by legal; however, it was not properly documented. Since this time, R6 management has implemented controls to ensure that all legal reviews are fully documented in the task order files.

**Acquisition Checklists.** In a memo dated October 6, 2003, FTS Central Office developed standard checklists to provide FTS associates with guidance and tools prior to awarding contracts and task orders and to ensure consistency in the acquisition process. Examples of required documentation include: requirement description, market research data, acquisition plans, etc.

Our review indicated that for one of the five new awards, the CSC did not properly complete the appropriate checklists established by FTS Central Office. We did not evaluate the effectiveness of the checklists in preventing procurement deficiencies.

**CSC Management Plan.** FTS issued guidance on November 25, 2003 establishing national standards governing internal controls for task order acquisition activities including pre-award and post-award oversight, training requirements, and management controls. As required by the plan, each CSC is responsible for conducting self-assessments of its operation on a recurring basis, and Assistant Regional Administrators (ARAs) and Assistant Commissioners (ACs) are required to review task orders on a sample basis to ensure that proper controls are in place. Results are

included in the annual assurance statements of the Regional Administrators, ARAs, ACs, and the FTS Commissioner.

Regional FTS management provided us with the region's management plan in detail. We determined that this plan was adequate; however, we provided management with specific informal feedback on ways to improve the effectiveness of the plan.

**Contract/Project Closeout Guidance.** FTS issued guidance establishing contract and project closeout procedures on May 28, 2004. Each regional ARA and IT Solutions National Program Director is responsible for developing and submitting written closeout procedures for his/her region or business unit(s). The procedures are to encompass contract, task order, project, and financial closeouts; must require regular reporting of closeout results to the AC, IT Solutions; and must assign specific responsibilities to specific FTS associates for ensuring closeouts are conducted in a thorough and timely manner.

Regional FTS management provided us with closeout procedures for the region and advised that Central Office FTS approved these procedures in October 2004.

**Tri-annual Reviews.** In a memo dated November 14, 2003, The FTS Office of Acquisition announced plans to conduct tri-annual reviews to ensure that regulatory guidance is being followed and that the integrity of the acquisition process is preserved.

Regional FTS management advised that Central Office FTS has not yet performed its initial review of the R6 CSC.

### ***Regional FTS Controls***

R6 FTS management has implemented additional controls at the regional level in the past several months in an effort to improve the procurement process. For example, regional FTS management provided us with a flowchart that outlines all of the control steps present and implemented in the procurement process. These controls are to be included in every step of the procurement, and each individual involved in the procurement has detailed responsibilities for ensuring the integrity of the acquisition. In addition, the CSC has utilized a knowledge assessment tool for its associates to provide more focused training plans and internal reviews.

### ***Review of Procurement Actions***

Our review of regional CSC procurement actions executed during March through May 2004 indicated that while the CSC has made some progress in improving appropriate documentation for new awards and remediating some issues related to existing tasks, significant deficiencies with the existing tasks remain.

**Limited Competition.** Promoting competition is an important part of the foundation of the Federal procurement process. FSS special ordering procedures and recent legislation (Section 803) reinforce the importance of obtaining competition, which

affords the maximum opportunity for the Government to obtain goods and services at fair and reasonable prices. Of the ten task orders in our sample, R6 awarded seven without the benefit of competitive bids. Five of these orders were existing tasks. For two of these tasks, R6 has either re-competed the task or have made plans to re-compete it after task expiration. Another one of the existing tasks has been transitioned to another regional CSC. Two of the seven task orders with limited competition were new awards and were governed by Section 803 of the National Defense Authorization Act. One of these tasks was not in compliance with the Commissioner's memo regarding this Act.

**Insufficient Support for Fair and Reasonable Pricing.** For eight of the ten orders in our sample (four new awards, four existing tasks), we did not find sufficient documentation to support that the Government received a fair and reasonable price. This is of particular concern because, as noted above, the CSC awarded seven of the ten task orders in our sample without the benefit of competitive bids.

Evaluation of Labor Rates. We identified five task orders (three new awards, two existing tasks) that did not include evidence that the CSC determined price reasonableness for the proposed labor. After R6 informed a client of the need to re-compete one of these orders, the client made the decision to transition the effort to another regional CSC. In addition, we noted two orders (both existing tasks) in which it appeared that the CSC compared the proposed labor rates with the rates of other vendors – generally vendors on contract under the same multiple-award contract vehicle. However, this is not adequate to establish fair and reasonable pricing. Price reasonableness cannot be established by evaluating only the labor rate; the labor hours must be evaluated as well. FSS special ordering procedures for services specifically state that the ordering office must evaluate the level of effort and labor mix to make a determination that the total price is fair and reasonable. FTS has plans to re-compete one of these existing orders after expiration of the current period of performance.

Maximum Order Threshold. The Maximum Order Threshold (MOT) is the dollar amount determined by the contracting activity that awarded the Schedule contract where experience shows that it is advantageous for the ordering office to seek price reductions. The Schedule user should attempt to negotiate a price reduction before issuing any order exceeding the MOT. In addition, FAR 8.405-2 requires the ordering office to seek additional competition when orders exceed the MOT. In five of the ten orders reviewed (two new awards, three existing tasks), we found that the procurements exceeded the MOT of the base FSS Schedule contracts. In all five cases, there was no evidence that the CSC attempted to negotiate greater discounts or sought additional competition. Although these tasks were awarded without negotiating a price reduction, contracting personnel have the opportunity at the option year to seek additional pricing discounts.

Evaluation of Other Direct Costs. In most cases, if the vendor does not have a proposed cost pre-priced under the base contract, the ordering office must determine and negotiate a fair and reasonable price. These additional cost items are referred to as

Other Direct Costs (ODCs). We reviewed task order documentation for evidence to support the fair and reasonable pricing of ODCs. In seven of the ten task orders reviewed (three new awards, four existing tasks), the supporting documentation was not included in the file or was insufficient. As mentioned previously, after R6 informed a client of the need to re-compete one of these existing orders, the client made the decision to transition the effort to another regional CSC. FTS has plans to re-compete another existing order in our sample after expiration of the current period of performance. ODCs may constitute a large portion of the total value of a task order; accordingly, it is imperative that the ordering office (the CSC) ensures price reasonableness. For example, for one of the new task orders we reviewed, the ODCs comprised over 26% of the total proposed amount. In this instance, we found no documentation in the file regarding the price reasonableness of these costs.

**Improper and Questionable Contracting Actions.** For one existing task order, the CSC improperly executed contract options and improperly extended the period of performance. While these actions took place prior to the March through May 2004 time period, these prior instances affect the ongoing task order. These improper practices have resulted in substantial cost growth – from \$688,993 at the time of award (November 2000) to \$7.4 million as of the most recent modification executed in March 2004.

FAR 17.207 outlines specific requirements for proper exercise of options, including a written determination that exercising the option is in the best interest of the Government. Extensions to the period of performance should be the exception because extensions can adversely impact contractor efficiency. When the contracting officer determines an extension to be in the Government's best interest, the file documentation should contain an adequate explanation.

**Inappropriate Use of the IT Fund.** For two of the ten task orders we reviewed (one new award and one existing task), the CSC engaged in inappropriate contracting practices to procure, on behalf of clients, services which did not meet the intent of the IT Fund. However, we noted that for the existing task order, the documentation indicated that the CSC had already identified this order as inappropriate for the IT Fund. The CSC informed the client for the need to re-compete the task order. The client decided to terminate the task order and transition it to the Southeast Sunbelt Regional CSC.

**Frequent Use of Time-and-Material Authority.** A time-and-materials (T&M) contract provides for acquiring services on the basis of direct labor hours at fixed hourly rates and materials at cost. T&M task orders are disfavored under FAR 16.601 because this type of task provides no incentive to the contractor for cost control or labor efficiency. FAR 16.601 requires the contracting office to prepare a written justification for use of a T&M contract. The CSC frequently used time-and-materials tasks versus firm fixed-price tasks. Of the ten orders for services that we reviewed, eight were time-and-materials tasks (three new awards and five existing tasks). We noted that for the three new awards, the file contained the required justification. R6 management has taken steps to educate FTS associates on using alternatives to T&M contracts.

**Contract Oversight.** In six of the ten task orders we reviewed (two new awards and four existing tasks), we found either improper billings or lack of support for the costs billed. For example, in two task orders we identified billings in which the vendor billed ODCs as a lump sum amount with no supporting breakdown of the component costs. Also, in four instances, the CSC had not reviewed the invoices, and based on a review of two months' invoices for one of the tasks, we identified potential overbillings of approximately \$10,000. R6 management has informed us that, with the implementation of FTS' new project management system (GSA Preferred), CSC associates will review all invoices.

## **Conclusion**

The R6 CSC has made substantial progress in implementing controls to improve its procurements. Specifically, the CSC has begun to implement controls initiated by FTS Central Office and has also developed its own processes and procedures designed to protect the integrity of its procurements. However, our review of procurement actions for the period March through May 2004 indicates that the CSC needs to focus not only on the integrity of new awards but also existing orders that are high-risk due to improper actions that have occurred during the life of the task. Our review indicated that while there is evidence that the CSC has begun remediation efforts to improve existing tasks, much work is needed to correct deficiencies that remain, including inadequate support for fair and reasonable pricing, improper exercising of task order options, and improper or inadequate support for contractor billings.

As indicated in our January 2004 report on the FTS Client Support Centers, we believe that steps to remedy these 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 additional overall recommendations are deemed necessary at this time. However, the results of our review indicate that on five specific orders R6 FTS needs to take corrective action. Please refer to the appendix notes section of this report for our recommendations related to the subject orders.

## **Management Response**

On November 3, 2004, GSA's Regional Administrator for the Heartland Region submitted a response that indicated the Region concurred with the draft audit report. The response also noted a desire to partner with the Kansas City Field Audit Office as the region builds an efficient and effective technology acquisition business model. Management's response is included in its entirety as Appendix B 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 FAR and the terms and conditions of the contracts utilized. Our review indicated that the CSC has implemented various

controls to improve the procurement process. However, our limited review of procurement actions recently executed by the CSC indicated weaknesses; most notably, limited competition, insufficient documentation to support that the Government received fair and reasonable pricing, continued frequent use of time-and-materials tasks, and misuse of the IT Fund. The Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC program during fiscal year 2005.

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

  
Erin P. Priddy  
Audit Manager  
Heartland Region

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CONTROLS AND TESTING OF THOSE CONTROLS  
FOR THE HEARTLAND REGION  
REPORT NUMBER A040191/T/6/Z05007

APPENDIX A  
**SCHEDULE OF FY 2004 ORDERS REVIEWED IN THE HEARTLAND REGION**

| Order Number <sup>44</sup> | Client                       | Contract Type | Contractor   | Contract/BPA Number | Task Order Value | Notes |
|----------------------------|------------------------------|---------------|--|---------------------|------------------|-------|
| K03AM080S00                | Army                         | Schedule 70   | Titan Corporation                                  | GS-35F-5396H        | \$2,996,586      | 1     |
| K04AM042S00                | Air Force                    | Schedule 70   | DynCorp Information Systems LLC                    | GS-35F-4639H        | 675,561          | 2     |
| K04JB113F00                | Army                         | ID/IQ         | Henry Ford Health System                           | GS06T00BND0254      | 2,750,000        | 3     |
| K04KM017S00                | Army                         | Schedule 70   | Anteon Corporation                                 | GS-35F-4357D        | 1,377,467        | 4     |
| P04KH349P00                | Air Force                    | MOBIS         | Scitor Corporation                                 | GS-10F-0104N        | 19,532,072       | 5     |
| K00HS012S04 <sup>45</sup>  | Air Force                    | Schedule 70   | TRW Systems and Information Technology Group       | GS-35F-4522G        | 7,363,773        | 6     |
| K02BN015S00                | Defense Manpower Data Center | Schedule 70   | Electronic Data Systems Corporation                | GS-35F-0323J        | 65,783,647       | 7     |
| K02SS312S00                | Army                         | PES           | MESA Associates, Inc.                              | GS-23F-0013L        | 1,543,256        | 8     |
| K03MT167S00                | Army National Guard          | Schedule 70   | EWA Information & Infrastructure Technologies Inc. | GS-35F-0665J        | 15,750,992       | 9     |
| K03MM021S00                | Army                         | MOBIS         | Science Applications International Corporation     | GS-23F-8006H        | 500,152          | 10    |

<sup>44</sup> See following pages of this Appendix for the corresponding task order numbers and detailed findings.

<sup>45</sup> This review is based upon file documentation only. We were unable to hold any interviews regarding this task order.



## Notes for Schedule of Task Orders Reviewed

### ***New Awards***

11. Order K03AM080S00, awarded April 29, 2004, is a firm, fixed-price (FFP) task to provide help desk and Army Directory System support to the Defense Message System of the Army. The file contained no documentation supporting the price analysis of the travel/Other Direct Costs (ODCs) included in this task order. While the ODCs proposed are relatively small, Titan proposed a 10.6% General and Administrative (G&A) fee on travel and a .9% material handling markup plus 10.6% G&A fee on material handling. However, per the FSS Schedule contract, G&A fee on travel is unallowable.
12. Order K04AM042S00, awarded April 14, 2004, is a six-month time-and-materials (T&M) award to provide support for the development and deployment of automated travel solutions throughout the Air Force. The subsequent task order will require legal review and the Client Support Center (CSC) advised that they made this award as a bridge contracting action until the new task order can be properly competed and awarded. While there was a justification for using a T&M type task in the file, there was no ceiling price included on the SF300 in the file, as required by FAR 16.601.
13. Order K04JB113F00, awarded March 18, 2004, is a FFP task order for the Army to develop an automated platform for a research study. There was no information in the file explaining why FTS did not seek competition on this order and therefore, was noncompliant with DoD Section 803 requirements. In addition, the government estimate was lower than the contractor's proposed amount (for example, the contractor's proposal includes \$704,068 in ODCs for hardware, travel, and supplies, but the Independent Government Estimate includes only ODCs for travel and supplies at \$88,348), and there was no evidence in the file that the contracting officer made a determination of fair and reasonable pricing for the labor or ODCs. There was also no technical evaluation. In the absence of competitive bids, in our opinion, it is particularly important for there to be documentation of an adequate evaluation of price.

The description of the work, per the statement of work (SOW), shows that only a minor portion of this work appears to be Information Technology (IT). Most of the work appears to be research, clinical testing and documentation. Reviewing the cost proposal for this task order, it appears that 36% of the total labor costs are non-IT (administrative managers, biostatistician, physician, principal investigator, etc.). Another 34% of the labor costs are questionable IT. The labor categories that are included within this 34% are research associates and a senior advisory analyst/consultant. These labor categories were not included in the vendor's employment descriptions; therefore, we could not make a determination as to what extent of these employees' work was IT-related. FTS should review the labor categories being billed to the project, along with the services being provided, to determine if this work is appropriate for the IT Fund.

We determined that FTS does not receive or review the invoices for this task order. FTS Finance does not receive supporting documentation for the invoices billed on this task order. The client reviews and signs off on the invoices. FTS should consider obtaining breakdowns of the invoiced costs to better understand what is being billed to ensure that they are related to the original scope of work and that the prices are fair and reasonable.

While one of the applicable acquisition checklists was included in the file, and it appears as if the proper checklist steps were completed in accordance with the FTS Commissioner's October 6, 2003 letter, the other applicable checklist and acquisition checklist cover page were not prepared.

14. Order K04KM017S00, awarded May 7, 2004, is a temporary T&M contract for the Army to support the daily operations of war fighting software. R6 CSC did not process the prior task; however, since this task order is critical to the wartime effort; the CSC chose to award this temporary task until there was adequate time for them to properly compete this effort. Overall, this order appears to be minimal risk since it is a short-term bridge order put in place until competition can be completed. However, there was no evidence supporting an evaluation of pricing. Also, this procurement exceeded the maximum order threshold (MOT) for the base contract, but there was no evidence that FTS attempted to negotiate additional price concessions on this order, as required by FAR 8.405-2.
15. Order P04KH349P00, awarded April 22, 2004, is a T&M task to provide professional services for the Air Force. FTS competed this task on e-Buy, but only one offer was received. In the absence of competitive offers, FTS should use an alternative method to establish that the total price is fair and reasonable. The file did not adequately document that the contracting officer made this determination. This task exceeds the Maximum Order Threshold (MOT) for its base contract, yet the file contained no evidence that FTS requested additional price concessions from the contractor, as required by FAR 8.405-2. According to the price analysis in the file, the contractor submitted a cost proposal showing a 2.6% discount on the labor rates. However, neither the cost proposal in the file, nor the invoice reviewed included discounted rates.

Per the FTS Commissioner's October 1, 2003 memo, all actions that will result in the issuance of a task order under an existing vehicle in excess of \$5,000,000 require a legal review. This procurement was estimated to be over \$19,000,000. There was no documentation in the file showing that the procurement package was provided to legal for review.

#### ***Existing Task Orders with Contracting Actions Between March and May 2004***

6. Order K00HS012S04, awarded November 7, 2000, is a sole source T&M task to provide support and development for command, control, communications, computers and intelligence platforms for the Air Force Command and Control Training and Innovation Group. For the period March through May 2004, the CSC processed one modification to add \$28,011 to labor.

Because of existing deficiencies over the life of the task, the CSC should have recognized the need to remediate the problems before continuing to administer the task. Based on the file documentation, we could not conclude that the CSC determined the prices for labor or ODCs to be fair and reasonable, either for the initial award or for subsequent modifications the CSC processed that added work to the task. There was also no evidence that the CSC evaluated whether or not the additional work was within the original scope of the task. Further, the value of the order exceeded the MOT for the Schedule contract, yet the file contained no evidence that FTS requested additional price concessions from the contractor, as required by FAR 8.405-2.

This was a T&M task; however, there was no justification for this type of task in the file and no ceiling price listed on the purchase order. Also, in Modification 11, processed in November 2001, the file indicates that this is a multi-year task in its second option year; however, this was the first time the task is referred to as a multi-year order. The SOW does not mention option years. Options cannot simply be added to a task. The SOW needs to indicate if options are contemplated and pricing should be established at time of award. In addition, the contracting officer did not complete a determinations and findings in accordance with FAR 17.207, if an option was exercised.

In addition, FTS has extended the period of performance (POP) six times for a total period of almost three years. For a portion of the POP extensions, there was inadequate information in the file to justify why the task should be extended.

The original value of this subtask was \$688,993. After the most recent modification signed in March 2004, the task order amount had grown to \$7,606,000. This constitutes over 1,000% growth of this task since November 2000. The cost growth is an indicator that FTS has not closely monitored and has improperly modified the task well beyond its original scope. Because of the significant deficiencies over the life of this order, FTS should consult with Legal Counsel to determine the appropriate remedial actions to take at this time.

While many of the situations outlined in this summary occurred prior to the March through May 2004 time period, FTS should have remedied these deficiencies before going forward with the task order.

7. Order K02BN015S00, awarded April 10, 2002, is a sole source T&M task to provide maintenance of the Department of Defense Personnel Data Repository system for the Defense Manpower Data Center. There are two other task orders (K02BN041S00 and K02BN038S00) related to this project. Documentation indicates that FTS has been involved with the same client and vendor for several years.

FTS re-competed the latest task order (K04BN001S00), which closed on July 16, 2004. FTS solicited thirteen firms under Schedule 70, but received only one offer from the incumbent for \$59.1 million.

This was a T&M task; however, there was no justification for this type of task in the file and no ceiling price listed on the purchase order. During the March through May 2004 time period, the CSC issued Modification 26, which added incremental funding and extended the POP so that the CSC could continue to support the client while the re-compete was being processed. While the recent re-compete is a positive sign, the incumbent is still the only bidder. To avoid an indefinite sole source situation, which is high-risk to the Government, we suggest that FTS and the client work toward a procurement strategy that would provide a better chance of introducing greater competition for this work, as the dollar value involved is significant.

In the re-compete (to combine orders K02BN015S00 and K02BN041S00), which closed on July 16, 2004, Tasks 4, 7, and 10 are not included. Those tasks are being transferred to the Pacific Rim CSC because they are overseas tasks. Without a Government estimate or competitive proposals, FTS will face a challenge in establishing that the total price is fair and reasonable for the K04BN001S00 award.

For K02BN015S00, the client advised they negotiated a 4-5% discount from the FSS Schedule labor rates. This discount is not documented in the Information Technology Solutions Shop and the task order file does not include the FSS Schedule rates. We found that the Schedule labor rates provided by the contractor did not match the proposed or invoiced rates for this task and that, based on invoices covering work for February and March 2004, there were potential overbillings of approximately \$10,000. FTS should take action to review all task invoices for over-billings and if identified, take action to recover funds.

8. Order K02SS312S00, awarded August 5, 2002, is a sole source T&M task to provide grenade fuze studies and development for the Army. It is not appropriate to the IT Fund. During March through May 2004, the CSC issued a modification to notify the contractor of intent to cancel the task, changing the POP end date from August 5, 2007 to May 24, 2004. The Information Technology Representative (ITR) advised that after implementation of new control processes, the CSC determined that this effort would be better suited to the professional services fund and advised the client that the transition would require re-competing the effort. We believe this to be a proper action considering the fundamental deficiencies with this order, including issuing the order on a sole source basis to the incumbent contractor selected by the client without proper justification. The client justification stated that the previous order (K01SS054S00) was competed; however, we determined that the previous award was also sole source.

In addition, the file documentation did not support an evaluation of pricing at the time of award, and there was no evidence that FTS attempted to negotiate better pricing despite the fact that the proposal was above the MOT for the Schedule contract. A review of billings indicated that the contractor did not provide breakdown of ODCs with its invoices. FTS did not review the invoices and, therefore, had no assurance that the billings were in accordance with the base contract. This was a T&M task; however, there was no justification for this type of task in the file and no ceiling price

listed on the purchase order. While these actions took place prior to our March through May audit timeframe, the CSC should have remediated these deficiencies prior to exercising the option years.

The ITR stated that the client was not pleased with the CSC's decision to re-compete this task and chose to close the task order and transition the task to the Southeast Sunbelt Region.

9. Order K03MT167S00, awarded January 15, 2003, is a sole source T&M task for Information Operations Training Support to the Army National Guard. During the March through May 2004 time period, the CSC issued a modification to exercise the first option year and also to incrementally fund the task.

Order K03MT167S00 exceeded the MOT for the Schedule contract; therefore, FTS should have requested additional discounts as required by FAR 8.405-2. There was no documentation to support that FTS attempted to negotiate better pricing. In addition, this was a T&M task; however, there was no justification for this type of task in the file and no ceiling price listed on the purchase order.

Our review of billings indicated that the vendor has not provided a breakdown of ODCs with its invoices. FTS does not see the invoices, and we determined that even after FTS denied approval of ODCs pending the vendor's completion of a teaming arrangement with Boise Cascade, the vendor continued to bill FTS for ODCs. The ITR is following up on the situation to ensure that the government is receiving fair pricing and that the teaming arrangement is completed. Before proceeding with the task, the CSC needs to remediate the task by seeking discounts at the option year, properly evaluating the proposed costs, and sufficiently documenting the actions taken.

10. Order K03MM021S00, awarded April 7, 2003, is a T&M task for the Army to develop a strategy to use knowledge management as a tool to make associates more effective. According to the file documentation, the client sole sourced this task to Science Applications International Corporation. There was inadequate documentation in the file to support a determination of fair and reasonable pricing for this task order. In addition, the original award was not accompanied by the required determinations and findings and ceiling price required for use of a T&M type task. During the March through May 2004 window, FTS extended the POP. The CSC executed the extension through September 30, 2004, in conjunction with its decision to re-compete the project. The documentation indicates that the CSC evaluated the task and recognized that while the project was appropriate for the IT Fund, the CSC used an inappropriate contract vehicle because the work was outside the scope of the base contract.

Review of the contractor's invoice dated May 27, 2004, indicates that the vendor is billing the Government without a breakdown of subcontract or material costs. The CSC should obtain a breakdown to ensure that billings are appropriate.

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CONTROLS AND TESTING OF THOSE CONTROLS  
FOR THE HEARTLAND REGION  
REPORT NUMBER A040191/T/6/Z05007

APPENDIX B  
MANAGEMENT RESPONSE



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

NOV 03 2004

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

FROM: BRADLEY M. SCOTT *Bradley M. Scott*  
REGIONAL ADMINISTRATOR (6A)

SUBJECT: Response to October, 2004 Draft Heartland region FTS  
CSC Report on Controls and Testing Controls

We have reviewed the subject draft report and discussed it with you. With the notes and changes you have attached, we take no exception to the report as prepared. The model FAST program was developed in this region, and we clearly added value mainly with timely response to client prepared statements of work and task order preparation. The partnership we have with your office will lead to changes enhancing the propriety of acquisition actions while developing an efficient 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 continue to work very closely with your office as we create a technology acquisition business model which operates efficiently and effectively for our immediate clients and ensures GSA fiduciary responsibility to the American citizens who pay for our services.

cc: T, 6T

cc: Official: 6AD  
Reading File: 6A

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AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
GREATER SOUTHWEST REGION  
REPORT NUMBER A040097/T/7/Z05011  
December 10, 2004





General Services Administration  
Office of Inspector General  
819 Taylor Street  
Fort Worth, TX 76102



**DATE:** December 10, 2004

**REPLY TO**

**ATTN OF:** Regional Inspector General for Auditing  
Greater Southwest Region (JA-7)

**SUBJECT:** Audit of Federal Technology Service's Client Support Center  
Greater Southwest Region  
Report Number A040097/T/7/Z05011

**TO:** Scott Arme, Regional Administrator  
Greater Southwest Region (7A)

Sandra N. Bates, Commissioner  
Federal Technology Services (T)

This report presents the results of the Office of Inspector General's audit of Federal Technology Service's (FTS) Client Support Center (CSC) in the Greater Southwest Region.

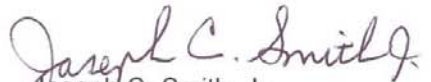
This audit was conducted in response to requests from Mr. Stephen A. Perry, General Services Administration Administrator. Our specific audit objectives were to answer the following questions: Did the CSC award and administer procurements in accordance with Federal Acquisition Regulation (FAR) and the terms and conditions of the contracts utilized? Did the CSC implement the national controls developed and distributed by Central Office FTS? What additional controls has the regional CSC implemented to improve the procurement process? Have the enhanced national and regional controls implemented by the CSC been effective in improving the task order and contract award process? Specifically, based on review of actual contracting actions, are the controls effective in ensuring that the CSC is making procurements in accordance with the FAR and the terms and conditions of the contracts utilized?

The audit identified a number of improper procurement practices used in task order awards, such as inadequate competition and inadequate support for fair and reasonable pricing.

In March 2003, the CSC began implementing national controls. Although they were not fully complied with in all of the task orders we reviewed, we noted improvements in the FY 2004 procurements when compared to the FY 2003 procurement results discussed in this report.

We have included the Regional Administrator's written response to the draft report in Appendix C of the report.

Sincerely,

  
Joseph C. Smith, Jr.  
Audit Manager  
Greater Southwest Region (JA-7)

AUDIT OF FEDERAL TECHNOLOGY SERVICES  
CLIENT SUPPORT CENTER  
GREATER SOUTHWEST REGION  
REPORT NUMBER A040097/T/7/Z05011

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## **RESULTS OF AUDIT**

### **Results in Brief**

In our review of 23 task orders awarded and/or modified in FY 2003 (FY 2003 task orders), we identified instances where CSC officials did not consistently award and administer procurements in accordance with FAR and the terms and conditions (T&C) of the contracts utilized. Based on our limited review of controls and the procurement process for FY 2004 task orders awarded or modified during March through May 2004, we found the GSR had implemented the national and regional controls identified. Although the controls were not completely adhered to in some instances, we noted that the procurement process improved when compared to the FY 2003 audit work.

For the FY 2003 task orders reviewed, we identified the following issues: inadequate competition; inadequate support for fair and reasonable pricing; improper use of Time and Materials (T&M) task orders without executing determination and findings (D&F) and establishing a ceiling price; misuse of contract vehicle, improper contracting actions, lack of contract oversight, lack of file documentation, and improper use of the IT Fund. Specific information relating to each task order reviewed is summarized in Appendix A.

The FY 2004 portion of our review identified the implementation of national and regional controls and an overall improvement in the procurement practices when compared to practices employed in FY 2003. Our review disclosed that the CSC generally adhered to national controls, but did not universally adhere to the regional controls. Specific information relating to each task order is summarized in Appendix B.

### **Testing of FY 2003 Transactions**

#### **Inadequate Competition**

Promoting competition is an important part of the foundation of the federal procurement process. Inadequate competition existed in 17 of the 23 task orders reviewed, valued at \$536 million (87 percent of total dollars), due to issues found in at least one of the following areas: (1) Sole-source, (2) Vendor Selection, and (3) One Bid Received.

One of the guiding principles presented in FAR Part 1.102 is that the Federal Acquisition Regulations System (System)<sup>46</sup> will satisfy the customer in terms of cost, quality, and timeliness of the delivered product or service. For example: (1) maximizing the use of commercial products and services, (2) using contractors that have a track record of successful past performance, and (3) **promoting competition**. FAR Part 1.102-2 presents the performance standards for this principle, one of which is that the

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<sup>46</sup> Established for the codification and publication of uniform policies and procedures for acquisition by all executive agencies, which consists of the FAR, the primary document, and agency acquisition Regulations that implement or supplement the FAR.

primary customers for the products and services provided by the System are the users and line managers acting on behalf of the American taxpayer. A second performance standard is that it is the policy of the System to **promote competition** in the acquisition process. (emphasis added)

For task orders placed against FSS MAS contracts, FAR Part 8.404 states that such task orders are considered to be issued using full and open competition if the ordering procedures in the subpart are followed.

FAR Part 8.402 recognizes that occasionally GSA may need to establish special ordering procedures for certain FSS Schedules. In April 1998, FSS issued Acquisition Letter FC-98-6 that established ordering procedures for those FSS Schedules that include services with prices based on hourly rates. Further, the Acquisition Letter explained that the ordering procedures were added to the latest contract T&C that make up the “boilerplate” for each affected FSS Schedule, and applicable to “all Federal Supply Schedule solicitations that include services priced on an hourly rate.” The special ordering procedures would be included in the T&C of new contracts.<sup>47</sup> Existing MAS contracts were modified to include the special ordering procedures.

When ordering services, the special ordering procedures required the ordering offices to prepare a request for quotes (RFQ) with a statement of work (SOW), and the basis that will be used for selecting the contractor to receive the order. The ordering office “shall transmit the Request for Quotes to Contractors.” The ordering procedures further state “the request for quotes should be provided to at least 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 for quotes should be provided to additional contractors that offer services that will meet the agency’s needs.” Further, the ordering office shall evaluate the responses against the factors in the RFQ and should place the order with the contractor that represents the best value. The special ordering procedures state that the order file should document the evaluation of contractor’s quotes received that formed the basis for the selection and the rationale for any trade-offs made in making the selection.

**Sole-source** – Twelve task orders (valued at \$360 million) included in our sample were sole-source awards. The file documentation for the 12 task orders did not substantiate that RFQs had been sent to at least three MAS contractors as required by the special ordering procedures contained in the T&C of the contracts.

**Vendor Selection** – For eight task orders (total value \$160 million) the client either suggested or selected the vendor ultimately awarded the task order. In one instance (FH573102 Sample #13) a task order was awarded to an 8(a) vendor, eligible to accept task orders up to \$3 million without further competition. The CO split the initial requirement into two task orders, and reduced the requirements, in order to not exceed

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<sup>47</sup> We obtained the T&C of the contracts utilized for all MAS task orders reviewed and verified the special ordering procedures were included in the T&C of each contract.

the \$3 million limitation, allowing the CO to grant the client's request for a preferred vendor.

**One Bid Received** – Although at least three vendors were solicited for four task orders, only one vendor submitted a proposal for each. Receiving one bid is an indicator that adequate competition may not have been achieved. An example of task orders being competed where only one bid was received is presented below:

(FS1702206 Sample #10) - We found the solicitation was sent to the successful bidder and two non-respondents: (1) a shipping and receiving manager, and (2) a company unable to accomplish the requirement due to its size. Further, the CO sent the one bid received to the client for approval prior to the response due date.

The CSC procurement services generally resulted in awards to the clients' preferred vendors. In our opinion, this indicates that the CSC did not emphasize the basic FAR principle of promoting competition in their procurement activities. As a result, the Government may not have obtained the benefits resulting from adequate competition.

### **Inadequate Support for Fair and Reasonable Pricing**

We found 17 task orders, valued at \$585 million (95 percent of the amount reviewed), did not include adequate support for labor and/or other direct costs (ODCs). The lack of price reasonableness determination holds true not only for the initial task order award process, but also for modifications processed for these task orders. This issue has a greater than normal level of significance given the lack of adequate competition discussed above.

**Labor** - File documentation for 15 of 17 MAS task orders (valued at \$538 million) did not substantiate that the COs considered the level of effort and mix of labor or determined that the firm fixed price (FFP) or ceiling price was fair and reasonable. The special ordering procedures in the T&C of the contracts provided that GSA has determined that the rates 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 to perform specific tasks being ordered and for making a determination that the total FFP or ceiling price is fair and reasonable. The COs sometimes accepted brief emails from clients as evidence that complex and detailed contractor proposals were evaluated for best value, including price reasonableness.

An example of task orders awarded without any documentation indicating the total proposed price was deemed fair and reasonable is presented below:

(FS1702206 – Sample #10) - There was no analysis or evaluation by the CO except for an attempt to compare some labor categories and price. As a result, there was no assurance that the labor and ODCs were fair and

reasonable. Further, the CO accepted the contractor's assertion that their proposal represented an 11.3 percent discount from their MAS schedule price when it was actually only 9.4 percent.

**Other Direct Costs** - We found 10 of 17 task orders (valued at \$523 million) lacking documentation indicating the COs evaluated the reasonableness of the proposed ODCs. In one instance, (FU190110T1 - Sample #14) the CO approved the contractor's proposed unidentified ODCs estimated at \$1 million for each of the 4 years proposed. Prior to increasing the value of ODCs in the base year, the contractor purchased ODCs totaling \$4 million. This required the CO to issue a modification retroactively ratifying those purchases made and increasing ODCs by \$5.8 million (now totaling \$9.8 million) without substantiating fair and reasonable pricing.

### **Improper Use of Time and Materials Task Orders**

We found 9 T&M task orders (valued at \$152 million) where the CO did not execute the required D&F that no other contract type was suitable and 12 T&M task orders (valued at \$398 million) where the CO did not establish a ceiling price.<sup>48</sup> T&M task orders provide for acquiring services on the basis of direct labor hours at fixed hourly rates and materials at cost. T&M task orders are expressly disfavored under FAR.

FAR 16.601(b)(1) states:

A time-and-materials contract provides no positive profit incentive to the contractor for cost control or labor efficiency. Therefore, 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(b) states:

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. (emphasis added)

FAR 16.601(c) states:

A time-and-materials contract may be used (1) **only** after the contracting officer executes a D&F 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. (emphasis added)

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<sup>48</sup> Seven task orders valued at \$142.4 million were duplicated.



An example is presented below:

(FG2100017 - Sample # 22) - This task order was for a refinement of conceptual work anticipated to span a period of 2 months and was awarded for \$203,762 with no option periods and no ceiling price. However, some 4 years later this task order had grown to more than \$81 million.

Although cost growth is allowable when justified, inefficient management of T&M task orders can lead to unrestrained cost growth. Later in this report, we will discuss the cost growth experienced for 16 of the 23 task orders we reviewed.

### **Misuse of Contract Vehicle**

Two task orders, (valued at \$23 million), where in our opinion, all or most of the work was outside the scope of the contractor's underlying contract are discussed below:

1. (FH573102 – Sample #13) - This sole-source, T&M task order was improperly awarded to an 8(a) vendor. The client for this SOW needed privacy officers (\$9.7 million) and administrative assistants (\$4.7 million) for 5 years to implement the Health Insurance Portability and Accountability Act (HIPAA) at 16 medical treatment facilities. The proposed project involved providing administrative support services, which are not IT type services and are not within the scope of the 8(a) contract.
2. (FG173C10T2 – Sample #4) - The scope of this task order was to “Provide operational support for processing Energy Employees Occupational Illness Compensation Program Act (EEOICPA) claims, business process analysis and improvement, and specification and implementation of an automated records management system.” The majority of the work for this task order (70-75 percent) is not IT related, but is for claims processing.

### **Improper Contracting Actions**

Our audit identified 13 task orders (valued at \$483 million) that, in our opinion, were improper awards resulting from inadequate SOWs and/or work outside the scope of the original SOW. They also resulted from an identified split procurement and task orders containing leases of real property.

**Inadequate Statement of Work** - We noted four instances where, in our opinion, the SOWs were vague, ill defined, and in some cases appeared to be open-ended. Well-defined SOWs are essential to provide the basis for price proposal evaluation and for effectively measuring receipt of services. An example follows:

(FS1702212 – Sample #19) - This was a \$96 million FFP task order with an ill-defined SOW that had vague deliverables making it difficult to evaluate whether all required services are being provided. Given the method in which this task order is being administered, the CO should have awarded this as a T&M task order.

**Work Added Beyond the Original Scope of Work** - We noted seven instances where, in our opinion, work was added beyond the scope of the original SOW. Examples follow:

1. (LE212704T6 – Sample #8) - This task order was initially awarded to dismantle and remove the existing infrastructure and implement high bandwidth ATM and 10/100 MB switched ethernet technologies. Two years later, Modification 7 was issued to transition from the ATM infrastructure to Gigabit Ethernet network technology resulting in \$3.9 million of work outside the original SOW. This increase was awarded without competition.
2. (FE211122T6 – Sample #12) - This governmentwide acquisition contract (GWAC) purchase was issued as a T&M task order. This task order was to implement a Gigabit Ethernet network. However, through modifications valued at approximately \$1.5 million, the contractor also replaced lead cable, set up a wireless local area network for a convention, installed a voice over internet protocol network and performed other work outside the original scope of work.

**Split Procurement** - One of the task orders reviewed resulted from the CO splitting a requirement exceeding the \$3 million limitation for awarding an uncompleted task order to the client's "preferred" 8(a) contractor. The client submitted a single requirement with two SOWs supporting the implementation of the HIPAA at 16 medical treatment facilities. The CO awarded two task orders, but the client and the CO administratively treated them as one. The CO accepted the contractor's proposals, which did not satisfy the client's requirement.

(FH573102 – Sample #13) - The SOW requirement for this task order was for 16 privacy officers and two program managers for 5 years. The CO and the client accepted the contractor's proposal of \$944,193 for one privacy officer for 5 years instead of the required 16 privacy officers and 2 program managers. According to the COR, the client evaluated the proposal based on the amount of funding available at the time of the task award, September 27, 2002, rather than on the level of effort for the total project per the independent government estimate. Within three days after award, the client provided additional funding to fulfill its initial requirement for the remaining privacy officers and program managers. After modifications, the total value of the task order was \$9.7 million.

Although not part of our sample we noted identical actions, including funding, took place on the same dates for Task Order FH573100. The SOW requirement for this task order was for 16 administrative assistants for 5 years. The CO and the client accepted the contractor's proposal of \$512,661 for one administrative assistant over 5 years instead of the required 16 administrative assistants. The total value of this task order after modifications was \$4.7 million.

In our opinion, these task orders should have been combined as they were a single requirement, and competed since they exceeded the \$3 million 8(a) threshold for a non-competed award.

Furthermore, we noted a sister organization had a requirement for its HIPAA program with an overall value of \$5.6 million. The same CO also split this requirement to the same preferred vendor in order to award the task orders under the \$3 million threshold. Again, we believe these two task orders should have been combined and competed.

**Leases of Real Property** - We found three instances where contract funds were used to lease office space. However, MAS contract purchases are limited to the acquisition of commercial items. The FAR Part 2.101 definition of commercial items states, "(1) as any item, other than real property..." Consequently, real property leasing transactions as ODCs on task orders against MAS contracts are not an authorized procurement under FAR. Examples are discussed below:

1. (FS1712489T2/AT1 – Sample #11) - Modification 9 was issued by the CO to lease office space for primarily Navy and some contractor personnel at a work site for 5 years and \$3.4 million was charged as ODCs. The 5-year lease term ends September 30, 2007, while the period of performance (POP) for the basic task order ends 3 years earlier on September 30, 2004.
2. (FU190110T1 – Sample #14) – One of the ODCs purchased included leasing of office space for \$328,572. The contractor's project director informed us the initial proposal had offsite and onsite rates, and after the task was under way it became apparent that 50 positions would need to be located offsite. As a result, the client proposed having the contractor direct bill the rent as an ODC and offset the lease costs by billing the cheaper onsite rates for the effort to be expended.

### **Lack of Contract Oversight**

In our opinion, the CSC's lack of contract oversight over 16 of its task orders resulted in several questionable practices involving customers and contractors, including an improper billing, cost growth, and extensions to the POP. Although cost growth and POP extensions are not necessarily improper, we concluded that the CSC was not

performing the needed monitoring functions to ensure compliance with the contract T&C for the audited task orders.

**Cost Growth** - There was cost growth<sup>49</sup> on 16 task orders reviewed. The initial award amounts for these task orders totaled \$122.6 million, but the aggregate value at the time of our audit was \$352.8 million, representing cost growth of \$230.2 million, or an average growth rate of 188 percent.

In our opinion, cost growth may be a symptom of other procurement problems, such as inadequate SOWs, improper extensions of the POP, adding work outside the scope of the original SOW through modifications instead of issuing new awards, the absence of a ceiling price, etc. Three examples are presented below:

1. (FH5790001 – Sample #9) – This was a sole-source, T&M award. The SOW was general and open-ended, the POP was routinely changed to accommodate additional work, and there was no ceiling price on the purchase order. Also, Modifications 3 and 18, each for more than \$6 million, were treated as “subtasks” with separate proposals and periods of performance, rather than issuing new task orders. As a result, this task grew from \$3.3 million to \$28.5 million, or 752 percent.
2. (FS1712489T2/AT1 – Sample #11) – The CO solicited a proposal only from the sole-source incumbent contractor for a T&M task order. However, the client requested this be a FFP-level of effort task and the CO awarded the task as FFP-level of effort. This was an improper use of this type of contract because FAR Part 16.207-3 limits the contract price to less than \$100,000, **unless** the chief of the contracting office approves the award. This approval was not obtained. The CO routinely extended the POP, increased the level of effort via modifications, and added ODCs. Specifically, Modification 9 for \$4.7 million was issued by the CO to lease office space for 5 years. As a result of these actions, this task order grew from \$352,727 to \$21.7 million, or 6,048 percent. (emphasis added)
3. (FG2100017 - Sample #22) – This sole-source, T&M task order was awarded for \$203,762 for a project anticipated to span 2 months with no option periods. Twenty-five days after the POP ended, the CO renewed the task order via Modification 1, extending the POP and adding work outside the scope of the original SOW. The POP was extended eight more times to add more work outside the scope of the original SOW. As a result of these actions, this task grew to \$81 million or 39,675 percent.

**Improper Extensions to Period of Performance** – In our opinion, eight task orders also had improper POP extensions. Further, when a contract modification extends the POP and increases the value, the extension may be tantamount to a sole-source award that should be justified. An example follows:

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<sup>49</sup> Our analysis included task orders with cost growth of 25 percent or more.

(FS1702206 – Sample #10) – This FFP task order was awarded October 2000 for \$18,960,837 for a 1-year period. This initial SOW and the contractor's proposal identified a 5-year POP, but prior to award, the client requested the POP be reduced to 1 year. File documentation included a notation that this task order should be re-competed at the end of the POP and re-solicited across a broader base of potential vendors. Nevertheless, the POP was extended numerous times through September 30, 2004.

**Improper Billing** - For most of the task orders reviewed, the CO relied on the COR to monitor billings. We found one instance where the contractor had improperly billed GSA. A discussion of the task order follows:

(F7213228T6 – Sample #3) - During our verification of invoices, we found the contractor had incorrectly billed GSA \$62,892 for a labor category not authorized for this task. Based on the results of our audit work, the CO requested a credit from the contractor and instructed the client representative to reject similar invoices.

#### *Other Issues - Lack of File Documentation*

We noted 18 task orders with missing and/or inadequate file documentation. Twelve task order files did not contain an acquisition plan as required by GSAM Part 507.102 for all acquisitions exceeding the simplified acquisition threshold for task orders awarded after September 1, 1999. Further, fifteen task order files lacked the required letter of designation (GSAM Part 502.101) that officially sets forth the duties and responsibilities of the COR. The COs generally relied on the CORs to prepare the SOWs, review and evaluate proposals, analyze the level of effort and labor mix, and administer the contract. In addition, the majority of the task orders reviewed were awarded without competition and/or support for fair and reasonable pricing. Thus in our opinion, the COR's documented understanding and acceptance of their assigned duties and responsibilities becomes even more important to ensure the Government's best interest is being served.

#### **Inappropriate Use of the IT Fund**

In our opinion, five task orders involved the inappropriate use of the IT fund because the task orders involved a significant portion, if not all, of non-IT work. Some task orders began with clearly identified IT requirements and evolved into non-IT effort. Others were situations where staffing was being provided involving little, if any, IT effort. Examples follow:

1. (FH573102 – Sample #13) – This was a sole-source procurement awarded to an 8(a) vendor with a value of \$9.7 million--previously discussed in the Split Procurement section. The task order was to provide administrative support services, which were not IT related

services, in the form of privacy officers to implement HIPAA at 16 medical treatment facilities.

2. (FG173C10T2 – Sample #4) – This T&M task order was valued at \$13.3 million. The scope of this task order was to “Provide operational support for processing Energy Employees Occupational Illness Compensation Program Act (EEOICPA) claims, business process analysis and improvement, and specification and implementation of an automated records management system.” This project started out (in prior task orders) being IT work to design and implement a claims data processing system. The emphasis of the program switched to case production. Approximately 75 percent of the work for this task order is for claims processing, which is not IT related.

### **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 did not always adhere to proper procurement procedures in order to accommodate client agency preferences, and a focus on customer satisfaction and revenue growth. Also, CSC personnel generally did not comply with the ordering procedures in the T&C of the contracts for services under the MAS program, designed to ensure the Government receives the best value.

The CSC relied upon client agencies for 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. We recognize that the CSCs should involve the client during the procurement process, including proposal evaluations. However, as the procuring office, the CSCs are still responsible for the evaluations and ensuring that they are sufficiently supported.

### **Testing of FY 2004 Transactions**

In response to the GSA Administrator’s concerns resulting from the prior audit, the CSC implemented national and regional controls. Although our limited review identified instances where the CSC did not fully adhere to the control measures implemented, we noted improvements in the FY 2004 procurement practices when compared to FY 2003. The Office of Audits will conduct a more comprehensive testing of internal control through out the CSC program in FY 2005.

**National Controls** - The national controls implemented were to: 1) obtain a legal review for newly awarded contracts over \$5 million; 2) incorporate FTS Acquisition Checklists; 3) develop a Client Support Center Management Plan; 4) implement Section 803 of the National Defense Authorization Act of FY 2002; 5) institute a Procurement Management Review program; and 6) establish ITS contract/project closeout guidance.

Our review disclosed one task order that did not comply with Section 803 of the National Defense Authorization Act for FY 2002 resulting from an apparent misunderstanding of the requirement to compete task orders against BPAs. The task order was not competed because the CO believed the competition requirement had been achieved prior to award of the BPA. A letter from the FTS Commissioner dated March 11, 2003, required “all FTS personnel, when using FSS Schedule contracts, must follow the competition requirement (sic) when establishing orders for services exceeding \$100,000 **even if** the orders are to be placed under existing BPAs **unless** the specific tasks were identified and priced in the initial BPA competitive award process.” (emphasis added)

**Regional Controls** – The GSR identified and established various regional controls since the issuance of the prior CSC audit report. The regional controls were: 1) sole-source reviews, 2) reviews at different phases of the procurement process; 3) post award audit and review of contract actions; 4) two people per order; 5) COR delegation of authority; and 6) acquisition alerts sent to the ITRs and COs. In addition, the GSR established a CMRB to review contract actions at the pre-solicitation acquisition plan phase, the post-solicitation/pre-award market analysis phase, and the post award modification phase. The Acquisition Director participates on the CMRB and when unavailable designates a representative.

The limited review further disclosed the CSC did not universally adhere to the identified regional controls. The review revealed instances where sole-source awards, acquisition plans, market analysis, and modifications were not reviewed. Further, our review disclosed two instances where a fully warranted CO performed the duties of ITR and CO. See Appendix B for issues identified by task order.

**Procurement Issues** - Our review of the four task orders awarded during our sample period disclosed that all four contracting actions were not completely made in accordance with FAR and the T&C of the contracts utilized. However, the number and types of issues identified were not as significant as those identified in our FY 2003 sample. See Appendix B for task order discussion.

## **Conclusions**

We concluded that for the initial portion of the audit (FY 2003 task orders) the CSC 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 CSC made little attempt to secure competition, relied on the client agencies for proposal evaluations and task administration, and improperly modified task orders. However, our limited audit of FY 2004 task orders showed that national and regional controls had been implemented and some improvements were noted.

## **Recommendations**

Based on the comprehensive recommendations contained in Audit Report Number A020144/T/5/Z04002 dated January 8, 2004, no further recommendations are deemed necessary at this time.

## **Internal Controls**

While we did not specifically assess the overall system of internal controls over CSC procurements, it is evident from the number of improper procurement practices discussed above, that the internal controls were not effective up through FY 2003.

During FY 2004, the CSC implemented six national internal controls mandated by Central Office FTS. In addition, the CSC also developed and implemented six regional controls. We conducted limited tests to verify that both types of controls were implemented. We concluded the internal controls implemented in FY 2004 were not always followed and thus, did not provide assurance that government funds were reasonably protected.

We believe an effective internal control structure, which has the on-going endorsement of management, would have identified and prohibited many of the inappropriate practices with the task orders reviewed.

## **Management Response**

In his response dated November 3, 2004, the Regional Administrator (RA) stated the audit report brought to light areas requiring the CSC's immediate and future attention. Over the past year the CSC has implemented effective national and regional controls in the form of the establishment of a CMRB and an Office of Acquisition Services. These additional controls should ensure procurements are made in accordance with FAR and the T&C of the contracts. The internal controls and increased management attention in place now should prevent an occurrence of acquisition issues as raised in this audit report.

The RA also stated while this audit revealed issues requiring the CSC's attention, the clarification of FAR guidance, the clarification of ordering procedures, and the implementation of national and regional control procedures provides reasonable assurance that the issues discovered should not occur and that the fundamental objectives of the federal procurement process will be achieved. The RA took exception with some of our individual findings and provided other specific comments which are discussed below.

Regarding inadequate competition, the RA maintains the CSC followed FAR 8.4, which states that orders placed pursuant to Multiple Award Schedules are considered to be issued pursuant to full and open competition, and ordering offices need not seek further competition. To promote competition, the CSC now requires all Schedule service



requirements exceeding \$100,000 to be placed into FSS' e-Buy systems which allows all schedule contractors the opportunity to see each requirement and decide whether they want to bid. The RA further states that controls are now in place to review sole-source justifications.

As we state in our report, FSS issued additional guidance under FAR 8.402 regarding special ordering procedures for certain FSS Schedules. In April 1998, FSS issued Acquisition Letter FC-98-6 that established ordering procedures for those FSS Schedules that include services with prices based on hourly rates, which stated that the request for quotes should be provided to at least 3 vendors if the proposed order is estimated to not exceed the maximum order threshold, and to additional vendors if expected to exceed. We verified that the T&C of the base contract for each task order reviewed included the special ordering procedures language.

The RA also stated that the client should be part of the overall procurement process to include vendor selection, and there were no instances where the client alone selected the vendor. We agree the client should be part of the process, but not to the point where the T&C of the contract are circumvented to satisfy the client's request. The file documentation showed that the COs awarded task orders FA5730020T6 (Sample #2), FA210715 (Sample #6), LE212903T6 (Sample #7), FS1712489AT1 (Sample #11), and FU2190021 (Sample #20) to the client's preferred vendor without soliciting quotes from at least 3 vendors. In addition, for task order FS1702206 (Sample #10), the client provided a list of three contractors to receive the RFQ. However, two of the three contractors were not viable contenders for the SOW (one was a shipping and receiving manager and the other was a business too small to perform the task). Only the preferred contractor submitted a proposal. Further the CSC sent the successful offer to the client for approval before the response period ended.

The RA commented that during the time of the task order awards, FAR 8.4 was unclear as to what was required regarding fair and reasonable price determinations for schedule awards and there was no guidance in FAR Part 8 regarding ODCs. Further, the RA responded that FTS Central Office has provided guidance regarding the evaluation of level of effort and labor mix and the determination of fair and reasonable pricing. Also, the RA indicated that FTS Central Office is currently reviewing the ODC issue and guidance will be provided in the near future.

As we previously stated, the CSC was noncompliant with the full requirements of FAR 8.4 and the T&C of the contracts, which require an evaluation of the level of effort and labor mix and a determination of the price reasonableness of the total price of the task order. Although FAR Part 8 was silent regarding ODCs, the T&C of the Schedule contracts require open market items to be clearly labeled on the order, all applicable regulations be followed and price reasonableness to be determined by the ordering activity for open market items.

The RA responded that due to inconsistent guidance within GSA, the CSC was not following FAR Part 16, which required a D&F and an established ceiling price when

using a T&M type task order. However, we noted in some cases the CSC did follow FAR 16 by preparing a D&F and establishing a ceiling price. The CSC now requires a D&F and an established ceiling price on all delivery orders and modifications awarded on a T&M basis. Task Order FG2100017 (Sample #22), with extreme cost growth beyond the initial scope, is a clear example of why a T&M task order needs a D&F and ceiling price. This task order was for a refinement of conceptual work anticipated to span a period of 2 months and was awarded for \$203,762 with no option periods and no ceiling price. However, some 4 years later this task order had grown to more than \$81 million. With regard to cost growth, the excessive percentages found were way beyond reasonable and demonstrate the effect of inadequate competition or scope of work. The RA stated the CSC is now conducting reviews by senior COs, team leaders, and the CMRB to ensure this will not be an issue in the future.

Regarding our finding on the testing of the national and regional controls for the FY 2004 transactions, the RA stated the CSC determined that in all but one case the specific internal control had been employed but not properly documented. The RA further stated the CSC has increased emphasis on file documentation and the National and Regional controls are now firmly entrenched in its acquisition process and should prevent any findings in the future.

We noted that the GAO Standards of Internal Controls In The Federal Government (Internal Control Standards), require "...all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination." The Internal Control Standards for documentation further state "complying with this standard requires that the documentation of internal control systems and transactions and other significant events be purposeful and useful to managers in controlling their operations, and to auditors or others involved in analyzing operations." As stated in the report, we found a lack of controls including separation of duties and required reviews not performed or performed after solicitation issuance.

Although the RA recognized the seriousness of the issues found, he disagreed with a number of the audit findings on specific orders, which are summarized below with our responses.

| Management's Response   | Audit Comments  |
|---|---|
| <b>F7213228T6 (Sample #3)</b>                                     |   |
| This task order contained work within the original scope of work. | The original SOW was for the design and implementation of a patient data and tracking system. Modification 1 incorporated an addendum to the original SOW for the creation of an additional database to track and report the quality of care in the Preferred Provider Network. |
| <b>FG173C10T2 (Sample #4)</b>                                     |   |
| This task order is within the scope of the subject contract.      | This task order primarily involved providing operational support for processing health claims and required the contractor to hire registered nurses that were not part of the labor categories in the base contract.  |

| Management's Response  | Audit Comments  |
|--|---|
| This task order is an appropriate use of the IT Fund. The RA's response stated this is not an "exact science"; therefore, the CSC must rely on the judgment of the CO. | This project started out (in prior task orders) being IT work. The emphasis of the program switched to medical claims case production. According to the client's Program Manager and the contractor's Senior Project Advisor, approximately 75 percent of the work is not IT related.   |
| This SOW was adequate and contained well-defined requirements.   | The SOW allowed the contractor to provide additional support resulting from performance of the identified requirements. Specifically the SOW stated, "the contractor will continue to provide support to the current processes for processing EEOICPA claims. This support will use the existing processes. As new processes are established as a result of this task order, the operational support resources will support those processes as well." A SOW that is open-ended discourages competition because new work requirements are added to the existing task order rather than being competed as a new task order. |
| <b>LE212704T6 (Sample #8)</b>  |   |
| This task order contained work within the original scope of work.  | This task order was awarded to dismantle and remove the existing infrastructure and implement high bandwidth ATM and 10/100 MB switched Ethernet technologies. Two years later, a modification was issued to transition from the completed ATM infrastructure to Gigabit Ethernet network technology. ATM and Gigabit Ethernet are not equal substitutes for each other as each is appropriate for specific applications.   |
| <b>FH579001 (Sample #9)</b>  |   |
| This SOW was adequate and contained well-defined requirements.   | The objective of the task order is "to provide all the necessary direction to fully develop, test, field, and implement a MADARS OFP change...The work order concept will be used to describe any additional specific task as they are identified by the customer..." A SOW that is open-ended discourages competition because new work requirements are added to the existing task order rather than being competed as a new task order.   |
| <b>FS1702206 (Sample #10)</b>  |   |
| The POP extensions for this task order were acceptable.  | The CO initially awarded the task order for one year with no option periods. The POP was then extended by subsequent COs almost three years beyond the original POP.  |
| This task order is an appropriate use of the IT Fund. The RA's response stated this is not an "exact science"; therefore, the CSC must rely on the judgment of the CO. | This task order was to provide support regarding project management, engineering, design and integration support throughout the Joint Theater Air and Missile Defense process. Specifically, the contractor was to "draft, review and comment on draft operational and acquisition documents..., draft memoranda for the record and develop briefings for leadership as   |

| Management's Response  | Audit Comments  |
|--|---|
|  | needed..., provide a war room for meeting support, briefing development, graphics support, strategy sessions, and government off-sites....” According to the contractor's program manager, and the Director of Contracts for Systems Engineering, although some of the engineering work may have involved IT type work, the bulk of the work was for program support and administration.  |
| <b>FS1712489AT1 (Sample #11)</b>   |   |
| The POP extensions for this task order were acceptable.  | This task order was initially awarded for a six-month base period and a six-month option period. The POP was extended beyond the option period by over 2.5 years. Further, if the task continues for the lease portion of the task order, the POP will extend another three years.  |
| <b>FE211122T6 (Sample #12)</b>   |   |
| This task order contained work within the original scope of work.  | This task order was awarded with a well defined SOW to implement a Gigabit Ethernet network constructed with fiber optic cable. However, the contractor also set-up a wireless local area network for a convention, installed a voice over internet protocol network, and replaced lead cables with new wire cabling. The COR concurred that none of this additional work was stated in the original scope of work.   |
| <b>FU190110T1 (Sample #14)</b>   |   |
| This task order is an appropriate use of the IT Fund. The RA's response stated this is not an "exact science"; therefore, the CSC must rely on the judgment of the CO. | This task order was awarded to provide personnel with technical capabilities to perform technology surveys, site surveys, planning and estimating, countermeasures inspections, systems design, testing, staging, installation, and quality management support for the upgrades and remote monitoring of classified and unclassified access control and security equipment at foreign posts. Simply stated, the requirements of the SOW were predominately for technical security upgrades of American embassies rather than IT type efforts. |
| <b>FU1900004 (Sample #16)</b>  |   |
| The POP extensions for this task order were acceptable.  | This task order was initially awarded for a base year and two option years. The POP was extended an additional 15-months beyond the last option period.   |
| <b>FE212611T6 (Sample #17)</b>   |   |
| This task order contained work within the original scope of work.  | The original SOW was to maintain existing application systems, upgrade and enhance existing application systems and to extend and expand existing capabilities in an evolutionary manner. Modification 7 required a new SOW for entering and maintaining all individual medical readiness and historical immunization information into the Medical Protection System for the  |

| Management's Response  | Audit Comments   |
|--|--|
|  | soldiers in US Army Europe.  |
| <b>FU199002D (Sample #18)</b>  |  |
| The POP extensions for this task order were acceptable.  | This task order was initially awarded for a base year and two option years. The POP was extended over two years beyond the last option period.   |
| <b>FS1702212 (Sample #19)</b>  |  |
| This task order is an appropriate use of the IT Fund. The RA's response stated this is not an "exact science"; therefore, the CSC must rely on the judgment of the CO. | This task order was awarded to support Naval Sea Systems Command program support offices. The contractor was to assist in the preparation of funding execution documents, track and analyze program financial transactions, assist in the development of obligation phasing plans and numerous other program support functions. According to the contractor's program manager, and the Director of Contracts for Systems Engineering, although some of the engineering work may have involved IT type work, the bulk of the work was for program support, engineering, and administration, which was not IT related. |
| <b>FU2190021 (Sample #20)</b>  |  |
| This task order contained work within the original scope of work.  | The original SOW included two requirements. The SOW was revised to add two additional requirements and subtasks.   |
| The POP extensions for this task order were acceptable.  | The original POP was for one year with no option periods. The CO extended the POP for four years beyond the original POP.  |



**AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
GREATER SOUTHWEST REGION CLIENT SUPPORT CENTER  
REPORT NUMBER A040097/T/7/Z05011**

**SCHEDULE OF 2003 TASK ORDERS  
REVIEWED IN THE GREATER SOUTHWESTERN REGION**

| <b>No.</b> | <b>Order Number</b> | <b>Award Date</b> | <b>Client</b> | <b>Acquisition Vehicle</b> | <b>Order Type</b> | <b>Contractor</b>              | <b>Value Of Task</b> | <b>Notes</b> |
|------------|---------------------|-------------------|---------------|----------------------------|-------------------|--------------------------------|----------------------|--------------|
| 1          | FY573224T6          | 07/02/2003        | Air Force     | MAS                        | T&M               | Science Applications Intl Corp | \$ 719,726           | 1            |
| 2          | FA5730020T6         | 09/05/2003        | Air Force     | MAS                        | T&M               | ManTech Adv Systems Intl Inc   | 35,868               | 2            |
| 3          | F7213228T6          | 08/28/2003        | Army          | MAS                        | T&M               | ASM Research Inc               | 364,336              | 3            |
| 4          | FG173C10T2          | 10/01/2002        | Navy          | MAS/BPA <sup>50</sup>      | T&M               | Science & Engineering Assoc    | 13,369,427           | 4            |
| 5          | FS1712615T2         | 10/23/2001        | Navy          | Open Market                | FFP               | Audiocare Systems              | 1,712,317            | 5            |
| 6          | FA210715            | 09/03/1999        | Army          | MAS                        | FFP               | Electronic Data Systems Corp   | 5,654,500            | 6            |
| 7          | LE212903T6          | 02/04/2002        | Army          | MAS                        | T&M               | Force 3 Inc                    | 5,015,751            | 7            |
| 8          | LE212704T6          | 08/18/1998        | Army          | MAS                        | FFP               | Force 3 Inc                    | 11,212,341           | 8            |
| 9          | FH579001            | 07/14/1999        | Air Force     | MAS                        | T&M               | OnBoard Software, Inc.         | 28,580,431           | 9            |
| 10         | FS1702206           | 11/03/2000        | Navy          | MAS                        | FFP               | Anteon Corp                    | 27,094,569           | 10           |
| 11         | FS1712489AT1        | 04/06/2001        | Navy          | MAS                        | FFP               | Titan / Delphin Systems        | 21,687,321           | 11           |
| 12         | FE211122T6          | 12/27/2000        | Army          | GWAC                       | T&M               | Gov Telecommunications Inc     | 9,208,399            | 12           |
| 13         | FH573102            | 09/27/2002        | Air Force     | 8(a) FAST                  | T&M               | Force 3 Inc                    | 9,708,695            | 13           |
| 14         | FU190110T1          | 04/22/2001        | Dept of State | MAS                        | T&M               | ManTech Adv Systems Intl Inc   | 106,669,336          | 14           |
| 15         | FU1920003T1         | 04/24/2002        | Dept of State | MAS                        | T&M               | ManTech Adv Systems Intl Inc   | 54,289,612           | 15           |
| 16         | FU1900004           | 05/04/2000        | Dept of State | MAS                        | T&M               | ManTech Adv Systems Intl Inc   | 12,458,093           | 16           |
| 17         | FE212611T6          | 08/21/2002        | Army          | MAS                        | T&M               | ASM Research Inc               | 37,044,514           | 17           |
| 18         | FU199002D           | 02/19/1999        | Dept of State | MAS                        | T&M               | ManTech Adv Systems Intl Inc   | 51,998,514           | 18           |
| 19         | FS1702212           | 11/01/2000        | Navy          | MAS                        | FFP               | Anteon Corp                    | 96,786,188           | 19           |
| 20         | FU2190021           | 10/01/1999        | Army          | MAS                        | T&M               | Synoptic Systems Corp          | 9,760,667            | 20           |
| 21         | FU1901112T1         | 09/25/2001        | Dept of State | MAS                        | T&M               | ManTech Adv Systems Intl Inc   | 32,779,780           | 21           |
| 22         | FG2100017           | 01/12/2000        | Army          | MAS                        | T&M               | Northrop Grumman Corp.         | 81,047,665           | 22           |
| 23         | FJ210103T2          | 07/17/2001        | Army          | 8(a) FAST                  | T&M               | U.S. Robotech, Inc.            | 866,338              | 23           |
|            |                     |                   |               |                            |                   | Total                          | \$618,064,388        |              |

<sup>50</sup> This is the second task order under the Memorandum of Agreement between the Department of Energy and the US Navy for the design and support of a DOE case management system, using the existing BPA between Science & Engineering Associates and the US Navy. This BPA covers up to 5 years and has a maximum order limit of \$1,053 million.

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**Notes**

1. (FY573224T6) This competed task order was for T&M, but the award did not specify a ceiling price amount.
2. (FA5730020T6) This was a sole-source, T&M task order. The vendor approached the client with an “unsolicited” proposal. The client submitted the vendor’s proposal to the CO for issuance of a task order in response to the vendor’s proposal. The CO relied on the client to evaluate the level of effort and the labor mix but did not obtain any documentation from the client other than the contractor’s proposal. There was no evidence that the CO prepared the D&F required when using T&M procurements. There was no file documentation substantiating that RFQs had been sent to at least three contractors, or that the level of effort and mix of labor had been considered in determining the total price was fair and reasonable, as required by the special ordering procedures contained in the T&C of the contract.
3. (F7213228T6) This was a sole-source, T&M task order without any documentation substantiating that RFQs had been sent to at least three contractors as required by the special ordering procedures contained in the T&C of the contract. An Acquisition Plan was prepared by the ITR and reviewed and approved by the CO, but it was dated 2 days after the task order was issued. Modification 1 was issued to incorporate an addendum to the SOW. There was no proposal from the contractor or the client for the CO to use to determine if the pricing for this additional work was fair and reasonable or within the original scope of work. As a result, the evaluation of the level of effort and mix of labor for being fair and reasonable required by the special ordering procedures was not documented as being performed. This modification added work outside the scope of the original task order and increased the costs by \$176,720. This task grew from \$180,400 to \$364,336, or 94 percent. During the verification of invoices, we found that the contractor had incorrectly billed GSA \$62,892 for a labor category not authorized for this task. Based on our work the CO requested a credit from the contractor and instructed the client representative to reject similar invoices.
4. (FG173C10T2) The scope of this task order was to “Provide operational support for processing Energy Employees Occupational Illness Compensation Program Act (EEOICPA) claims, business process analysis and improvement, and specification and implementation of an automated records management system.” According to the former director of the program, the majority of the work for this task order (70-75 percent) is not IT related, but is for claims processing. Modification 6 adds additional temporary employment, extended work hours, additional personnel, and approximately \$396,000 in ODCs. It also revises the SOW and adds over \$2 million in funding to cover these costs. The SOW was vague and appeared to be open-ended. Labor categories were misleading (i.e. mailroom personnel are hired as Data Analysts, and Nurses were hired as Management Analysts). These employees



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were performing case production work, not IT work as described in the task descriptions. Therefore, this modification should not have been issued. There was no acquisition plan in the official contract file. This task order grew from \$10,339,130 to 13,369,427, or 29 percent.

The Navy's Space and Naval Warfare Systems Command, Information Technology Center, (SPAWAR ITC) requested that the CSC issue a BPA for support activities. The CSC competed the solicitation with 13 FSS MAS vendors, received two offers, and made the award to Science and Engineering Associates (SEA). The CSC previously awarded SEA a MAS contract (GS-35F-5790H) covering the period July 2, 1998, through October 21, 2008. The CSC issued a BPA (GS07T00BGD0070) to SEA covering the base period September 1, 2000, through August 31, 2001, with four 1-year options, and having a maximum order limit of \$1,053 million. On November 20, 2001, (more than a year after the BPA was issued,) the DOE's Office of Environment, Safety & Health entered into a Memorandum of Agreement (MOA) with SPAWAR ITC to provide the initiation, requirement definition, design, development, and lifecycle support of an automated information system, and associated deliverables needed to support DOE's execution of its EEOICPA responsibilities. The MOA work required the development of a unique system that did not use any of the systems developed, or being developed, by SEA for SPAWAR ITC. The MOA period of performance was for 3 years. The task order reviewed was the second task order under the MOA.

5. (FS1712615T2) The CO relied on the COR for task administration. Although the COR was designated, the COR responsibilities and duties were not documented.
6. (FA210715) The task order was awarded to the contractor on a sole-source basis without any documentation substantiating that RFQs had been sent to at least three contractors as required by the special ordering procedures contained in the T&C of the contract. The file indicates the client performed a market analysis and best value evaluation prior to sending requirements to GSA for a sole-source award. However, the file documentation did not include support for the client's analysis and best value determination. The special ordering procedures require the CO to consider the level of effort and the mix of labor in determination that the total price was fair and reasonable. There was no designation letter for the COR. For modifications 5 and 6, the CO relied on the client for the evaluation of the contractor's proposed levels of effort and labor mix. This task order grew from \$4,235,000 to \$5,654,500, or 33.5 percent.
7. (LE212903T6) This was a sole-source, T&M task order awarded without any documentation substantiating that RFQs had been sent to at least three contractors as required by the special ordering procedures contained in the T&C of the contract. The contractor was selected by the client and the CO made the award without competition. There was no file documentation substantiating that the CO considered

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the level of effort and labor mix in determining that the total price was fair and reasonable, as required by the special ordering procedures. Also there was no documentation that the CO had prepared the D&F required when using T&M procurements. Further, the award did not specify a ceiling price amount. There was no designation letter for the COR.

8. (LE212704T6) This task order was competed among five contractors; however, Modification 7 for \$3,889,480 was for work that was outside the original statement of work. Rather than being competed, the increase was awarded without competition. There was a COR designation letter in the file, but the COR stated he never received the letter. This order grew from \$7,301,476 to \$11,212,341, or 53.6 percent.
9. (FH579001) This was a sole-source, T&M task order awarded without any documentation substantiating that RFQs had been sent to at least three contractors as required by the special ordering procedures contained in the T&C of the contract. There was no evidence that the CO prepared the D&F required when using T&M procurements. There was no evidence the CO considered the level of effort and mix of labor in determining the total price was fair and reasonable, as required by the special ordering procedures. There was no designation letter for the COR. In our opinion, the SOW for this task order was general and appeared open-ended. In addition, the task order did not specify a ceiling price amount and the POP was routinely changed to accommodate additional work. As a result, the cost of the task grew from \$3,355,396 to \$28,580,431, or 752 percent. Modifications 3 and 18, each for more than \$6 million, were treated as "subtasks" with separate proposals and POP. It may have been more appropriate to treat these modifications as new task orders.
10. (FS1702206) Initially, this project was to cover 5 years; however, the client requested that the scope be reduced to 1 year. As a result, the original FFP task order was awarded in October 2000 for \$18,960,837 for a 1-year period with no option years. The client accepted the proposal and there was no valid price analysis made by the CO. There was no file documentation substantiating that the CO considered the level of effort and mix of labor in determining the overall FFP was fair and reasonable, as required by the special ordering procedures in the T&C of the contract. As a result, there was no assurance that the labor and ODCs were fair and reasonable. In our opinion, the SOW was general and appeared to be open-ended. Further, the CO accepted the contractor's assertion that their proposal represented an 11.3 percent discount from their MAS schedule price when it was actually only 9.4 percent. The solicitation process consisted of the CO sending the RFQs to the three contractors on a list provided by the client. Only the "preferred" contractor responded. One of the requests was sent to a shipping and receiving manager, and the other was sent to a business that was too small to perform the work. In fact, the CSC sent the successful offer to the client for approval before the response period

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for submitting a request had ended. The CO had a notation in the file that this project should be re-competed after 1 year and solicited across a broader base of potential vendors. Nevertheless, the POP has been extended several times without providing a fair opportunity to other vendors, and the total project value has increased to \$27,094,559, or 43 percent. Also, the contractor submitted summary invoices without sufficient detail to evaluate the level of effort.

This task order was not a proper use of the IT Fund. We discussed the types of services being provided with the COR, the contractor's program manager for the task order, and the contractor's Director of Contracts for Systems Engineering. They stated that while some of the engineering work may have involved IT type work, the bulk of the work was for program support and administration. The support for one of the current invoices reported work accomplished as: drafted a letter, attended meetings, updated paper for pending visit of foreign officer, and prepared congressional testimony documentation.

11. (FS1712489AT1) This task order was a sole-source, FFP-level of effort task order awarded to the contractor identified by the client. The CO solicited a proposal only from the incumbent contractor without any documentation substantiating that RFQs had been sent to at least three contractors as required by the special ordering procedures contained in the T&C of the contract. Another issue in the award process was that the contractor's proposal initially classified this effort as a T&M task order. However, the client requested that this be a FFP-level of effort task. The CO complied with the client's request and advised the contractor to change their proposal. FAR Part 16.207 explains that FFP-level of effort procurements are suitable for investigation or study in a specific research area where the product is a report. In addition, FAR Part 16.207-3 limits the contract price to less than \$100,000 unless the chief of the contracting office approves the award. This was an inappropriate use of the FFP-level of effort type of task order because the initial proposed amount was \$352,727 and there was no evidence of the required approval. There was no acquisition plan and no evidence the CO determined if the total FFP was fair and reasonable. There was no evidence substantiating that the CO considered the level of effort and labor mix in determining the total price was being fair and reasonable as required in the special ordering procedures. The file documentation did not include evidence that the CO evaluated the fair and reasonableness of subsequent proposals with ODCs. Also, there was no designation letter for the COR. The CO routinely approved extending the POP without obtaining the required justification from the client. The task order grew from \$352,727 to \$21,687,321, or 6,048 percent.

The CO issued Modification 9 proposed for \$4.7 million to lease office space for Navy and contractor personnel as a work site for 5-years. Of the proposed \$4.7 million, \$3.4 million was ODCs. MAS contract purchases are limited to the acquisition of commercial items. The FAR Part 2.101 definition of commercial items states, "(1) as any item, other than real property...." Consequently, the

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Modification 9 leasing transaction was not an authorized procurement under FAR. Furthermore, the leasing of real property is not an appropriate use of the IT Fund. The 5-year period of performance for the lease ends September 30, 2007, while the period of performance for the basic task order ends 3 years earlier on September 30, 2004. Since this space is already being leased, it provides an unfair advantage to the contractor for future work. Should this task order be completed at the end of the POP, GSA could be subject to settlement costs to terminate the lease.

12. (FE211122T6) This GWAC purchase was issued as a T&M task order. This was not in accordance with the contractor's existing wiring and cable services contract, which requires that all quotations shall be FFP. The CO solicited eight vendors and received only one proposal. There was no acquisition plan and no evidence that the CO evaluated the level of effort and labor mix, or prepared the D&F required when using T&M procurements. Further, the award did not specify a ceiling price amount, and there was no designation letter for the COR. Also, there were several modifications that added work outside of the original scope of work with a value of about \$1.5 million. In addition, there was about \$5.9 million of ODCs incurred on this task order, which according to the contractor's WACS contract, required vendor quotes were to be submitted to the CO for review and selection of the most advantageous to the customer. None of the quotes were submitted. This task order grew from \$3,137,130 to \$9,208,399, or 194 percent.
  
13. (FH573102) This sole-source, T&M task order was improperly awarded to Force 3, Inc., an 8(a) vendor eligible to accept a task order up to \$3 million without any further competition. The USAF Air Combat Command (ACC) needed privacy officers and program managers (\$9.7 million) and administrative assistants (\$4.7 million) for 5 years to implement the HIPAA at 16 medical treatment facilities. The Air Force specifically mentioned using Force 3, Inc., if possible. The CO awarded Force 3, Inc., two related task orders for the ACC work. Both task orders were for the same type services, same SOW, same period of performance, etc. The primary difference was the labor category. This task order covered the privacy officer portion and task order FH573100 covered the administrative assistant portion. The CO relied on the client to evaluate the proposals. According to the COR, the client evaluated the proposals based on the amount of funding available at the time of the task order award, not on the level of effort for the total projects per the independent government estimate. As a result, the CO awarded the task orders without competition to Force 3, Inc. because the proposals were under the \$3 million limit. The CO issued three modifications to increase the initially proposed level of effort by over \$8.7 million. The first modification was issued 2 weeks after the initial award and additional funding was provided a day after the task order was awarded. The same actions took place on task order FH573100 raising the value to over \$2.4 million. Had the client or the CO considered the level of effort in the independent government estimate, the proposal would have exceeded the \$3 million threshold and would have to have been competed.

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In addition, we noted that the USAF Space Command had a similar need for its HIPAA program. Again the project was split into two task orders: FH573104 for privacy officer for 5 years at a cost of \$2.7 million, and FH573105 for administrative assistants for 5 years at a cost of \$2.9 million. These two task orders had the same SOW and POP as the other two task orders previously discussed. If these task orders had been combined they would have exceeded the \$3 million limit and the award would have had to be competed. It is evident the two task orders for ACC could have been combined into one and competed. Also, the two orders for the Space Command could have been combined and competed.

The file documentation did not include an acquisition plan, evidence that the CO evaluated the level of effort and labor mix, prepared the D&F required when using time and material procurements, or established a ceiling price amount. Also, the CO did not designate a COR in writing. This task order grew from \$944,193 to \$9,708,695, or 928 percent.

The proposed project involved providing administrative support services, which are not IT type services and are not within the scope of the 8(a) contract. In view of this, the project should not have been fully charged to the IT fund.

14. (FU190110T1) This was a sole-source, T&M task order awarded without any documentation substantiating that RFQs had been sent to at least three contractors as required by the special ordering procedures contained in the T&C of the contract. However, the requirements of the SOW were predominately for technical security upgrades of American Embassies rather than IT type efforts. Therefore, in our opinion, this task order for \$106.7 million should not have been fully charged to the IT fund.

For this task order, there was no acquisition plan, or designation letter for the COR, and the POP was allowed to expire twice. However, the CO had prepared the D&F required when using T&M procurements, but did not set a ceiling price amount for the award. The client evaluated the level of effort and labor mix for the initial award, but there was no evidence of any type of review of modifications that increased the level of effort, or of ODCs, to determine if the prices were fair and reasonable. The special ordering procedures contained in the T&C of the contract require the CO to consider the level of effort and the mix of labor in determining the total price was fair and reasonable. The CO approved the contractor's proposed unidentified ODCs, estimated at \$1 million for each of the 4 years proposed. Prior to increasing the value of ODCs in the base year, the contractor purchased ODCs totaling \$4 million. This required the CO to issue a modification retroactively ratifying purchases made and increasing ODCs by \$5.8 million (now totaling \$9.8 million) without determining fair and reasonable pricing. One of the ODCs purchased included leasing of office space for \$328,572. The contractor's project director informed us the initial proposal

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had offsite and onsite rates, and that after the task was under way it became apparent that 50 positions would need to be located offsite. As a result, the client proposed having the contractor direct bill the rent as an ODC and offset the lease costs by billing the cheaper onsite rates for the effort to be expended. MAS contract purchases are limited to the acquisition of commercial items. The FAR Part 2.101 definition of commercial items states, "(1) as any item, other than real property...". Consequently, this leasing transaction was not an authorized procurement under FAR. Furthermore, the leasing of real property is not an appropriate use of the IT Fund.

15. (FU1920003T1) Although this task order was competed, we think that it was unfair because the proposal evaluation factors and the start-up time greatly favored the incumbent. The RFQs were sent to six contractors and resulted in two responses and one no-bid. The primary evaluation factor was Past Experience Performance which read as follows: "*The Past Experience factor will be evaluated based on the offeror's relevant past experience compared to the requirements specified in the above SOW. An offeror who has successfully performed the identical task as required in the above SOW would receive a higher rating than an offeror who has successfully performed a similar task.*" The next important evaluation factor was the Phase-in Plan to discuss how to minimize disruption of on-going work, followed by the last factor, which was price. ManTech's proposal pointed out that they were the incumbent currently doing the "identical" task required in the SOW, and that there would be "no" disruption of on-going work. The SOW was dated April 8, 2002, and had a required commencement date of May 1, 2002. In our opinion, there was no competition and this was an indirect way to achieve a sole-source award.

For this task order, there was no acquisition plan or designation letter for the COR, and the POP was allowed to expire. The CO had prepared the D&F when using T&M procurements, but did not set a ceiling limit for the award. The client evaluated the level of effort and labor mix for the initial award. The special ordering procedures in the T&C of the contract require the CO to consider the level of effort and the mix of labor in determining the total price was fair and reasonable. Even though the proposal showed that a significant portion of the task order was for ODCs (\$18 million out of \$54.3 million) the CO did not review any of the actual purchases to determine if the prices were fair and reasonable, and if procurement requirements were followed.

16. (FU1900004) This was a sole-source, T&M task order awarded without any documentation substantiating that RFQs had been sent to at least three contractors as required by the special ordering procedures contained in the T&C of the contract. The CO made the award without competition. There was no acquisition plan and no evidence that the CO evaluated the level of effort and labor mix for being fair and reasonable as required by the special ordering procedures. Further, the award did not specify a ceiling price amount. There was no designation letter for the COR.

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The CO extended the POP without obtaining the required justification. This task order grew from \$9,167,133 to \$12,458,093, or 36 percent.

17. (FE212611T6) This task order was awarded on a sole-source basis without any documentation substantiating that RFQs had been sent to at least three contractors as required by the special ordering procedures contained in the T&C of the contract. This was a T&M task order for which there was no acquisition plan, and the D&F required when using T&M procurements was not prepared. There was no documentation substantiating that the CO considered the level of effort and the mix of labor in determining the total price was fair and reasonable as required by the special ordering procedures. Further, the award did not specify a ceiling price amount. There was a designation letter for the COR. This task order was modified to perform work outside of the original SOW. For example, the contractor proposed computer analysts where the SOW for the proposed modification called for data entry work. However, in our opinion data entry work was not within the scope of the original SOW and was not a discipline in the contractor's MAS contract. The cost of this task order grew from \$26,717,594 to \$37,044,514, or about 39 percent.
18. (FU199002D) This was a sole-source, T&M task order awarded without any documentation substantiating that RFQs had been sent to at least three contractors as required by the special ordering procedures contained in the T&C of the contract. The D&F required when using T&M procurements was not prepared. Further, the award did not specify a ceiling price amount. There was no documentation substantiating that the CO considered the level of effort and the mix of labor in determining the total price was being fair and reasonable as required by the special ordering procedures. There was no designation letter for the COR. The CO extended the POP without obtaining the required justification. The cost of this task order grew from \$14,183,252 to \$51,998,514, or about 266 percent.
19. (FS1702212) This \$96,786,188 FFP task order was for 5 years. Although the RFQ was sent to 12 companies, only one proposal was received (Anteon). The 11 non-responsive companies were subcontractors to the successful awardee (Anteon). Apparently, many of these subcontractors had been working under their own delivery orders, and the client was attempting to consolidate orders because: "... administering over 20 delivery order contracts each year has become an administrative challenge to adequately manage." There was no acquisition plan. There was no documentation substantiating that the CO considered the level of effort and the mix of labor in determining the total price was fair and reasonable as required by the special ordering procedures in the T&C of the contract. Additionally, there was no evidence that the CO evaluated ODC price reasonableness. We especially take exception to the 5 percent pass-through-rate that the contractor was allowed. The CO was unable to explain what the charge was for stating that the client told her it was a normal practice. Apparently, the fee was comprised of three components: (1) profit to the prime for performance and risk assumption for the

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overall task; (2) the Industrial Funding Fee; and, (3) material and handling costs. In our opinion, the SOW was general, had vague deliverables, and appeared to be open-ended. Further, the order is not working as a FFP award, but rather as a T&M, or FFP level of effort award. This work process was specifically outlined in Anteon's proposal that was accepted and incorporated into the award. The current CO admitted that a T&M award would have "... been a better fit." Further, in our opinion the work accomplished under the task order constituted an improper use of the IT Fund. We discussed the types of services being provided with the contractor's program manager for the task order, and the contractor's Director of Contracts for Systems Engineering. They stated that while some of the engineering work may have involved IT type work, the bulk of the work was for program support, engineering, and administration. There was no designation letter for the COR. Invoices do not provide detail, but rather reflect a lump-sum amount. As such, there is no assurance that the Government is receiving the services ordered. ODCs included at least one lease (and associated costs) in the amount of \$476,917. The lease space was used to review proposals for award of the DD(x) Preliminary Design Phase Contract in support of the Navy DD(x) Shipbuilding Program. The space was also used to answer GAO questions concerning a subsequent bid protest from General Dynamics.

20. (FU2190021) The original proposal was for \$2,544,447 under task order (FU2190021) that transitioned to FU2190021AT1 and closed with a total value of \$9,760,666, or task growth of 261 percent. This was a T&M task order awarded to the contractor on a sole-source basis. There was no D&F as required for a T&M task order. There was no file documentation substantiating that RFQs had been sent to at least three contractors, or that the level of effort and mix of labor had been considered in determining the total price was fair and reasonable as required by the special ordering procedures contained in the T&C of the contract. The CO relied on the client agency to perform the task order administration on the original award as well as on subsequent modifications. There was no designation letter for the COR and no acquisition plan in the official contract file.

There were five modifications to the task order adding work outside the scope of the original task (Modifications 3, 4, 8, 9, and the transition to FU2190021AT1 under the Form 300). The CO stated she did not have the technical expertise to verify if the work was within the original scope of work and leaves that to the client to make that evaluation. Also, Modifications 4, 14, 22, and FU2190021AT1, Modification 3 were exercised to extend the POP. As option years were not included in the original SOW, these modifications should not have been issued.

21. (FU1901112T1) This task order was for a T&M contract with a total task order value of \$20,853,265, issued for a POP of September 21, 2001, through March 31, 2004. The D&F required when using T&M procurements had been prepared. Solicitations were sent to five companies, but only one response was received. There was no acquisition plan in the file. The initial award was prepared, negotiated,



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and awarded in accordance with regulations. The Form 30 for Modification 7 increased the ceiling by \$11,926,514. An email dated April 25, 2002, from the contractor to the (successive) CO that IRM/EX/PST advised a recompetition, but the CO issued a modification to the existing task order instead. A letter to the CO from the Director of the DOS, Program Management and Analysis Division dated May 8, 2002, stated there was no change in scope nor any change in the POP, but then states, "the requirement to make the change to Windows 2000 in the midst of an already challenging deployment schedule dramatically complicates the CCPIL program execution." Also, during an interview with the auditors, the director stated some of the work was out of scope. This task order grew from \$20,853,265 to \$32,779,780, or 57 percent.

The total value of ODCs for this task order was \$5,580,028. This represents 27 percent of the proposed task order value (\$20,853,265) and 17 percent of the total task order value (\$32,129,957). The CO issued a letter to the contractor authorizing them to purchase ODCs for the contract. The CO did not review the procurement documentation on ODCs to ensure (1) the Government received the best value, and (2) the purchases were made in accordance with procurement laws and regulations as required by FAR Part 1.602-1(b) and the FSS contract.

Also, according to a flowchart provided by the contractor, the DOS only gets one quote for ODCs. As a result, ODCs over \$2,500 were not properly treated as an open market item and handled in accordance with FAR 8.401(d).

22. (FG2100017) The task order was awarded as a sole-source without any documentation substantiating that RFQs had been sent to at least three contractors as required by the special ordering procedures contained in the T&C of the contract. The task order was for a refinement of conceptual work anticipated to span a period of 2 months, funded for \$203,763, with no option periods. The CO improperly extended the POP nine times (Modifications 1, 2, 3, 8, 11, 13, 20, 25, and 38), although option years were not included in the original SOW. Therefore, all subsequent modifications, beginning with Modification 1 (which was issued 25 days after the period of performance ended), were outside the original scope of work and should not have been issued. This task order grew from \$203,763 to \$81,047,665, or 39,675 percent.

The file documentation did not substantiate that the CO considered the level of effort and labor mix in making a determination as to whether the total price was fair and reasonable, as required by the special ordering procedures for the original task order, nor for any of the subsequent modifications. There is no documentation of negotiations in the file, or that the CO reviewed ODCs on any of the modifications. Also, this is a T&M task order, but there was no ceiling price amount on the Form 300.

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23. (FJ210103T2) This T&M task order was awarded to US Robotech, an 8(a) contractor, for routine network and computer equipment maintenance for \$116,160. Neither the ITR nor the CO prepared the D&F and the purchase order did not contain a not to exceed dollar amount. Furthermore, the ITR and the CO accepted the contractor's proposal without determining the percentage of the work to be subcontracted. In addition, there was no acquisition plan and no formal documentation substantiating that the ITR or the CO considered the level of effort and labor mix to establish that the total price of the initial and subsequent proposals were fair and reasonable. The CO processed three modifications that added work to the task that was beyond the scope of the original SOW. In addition, three other modifications increased the level of effort. The POP was extended three times and the file documentation did not include any justification from the client. By May 2004, the task order had grown from \$116,160 to \$866,338, or 646 percent.

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| <b>No.</b> | <b>Order Number</b> | <b>Award Date</b> | <b>Client</b>   | <b>Acquisition Vehicle</b> | <b>Order Type</b> | <b>Contractor</b>            | <b>Value Of Task</b> | <b>Notes</b> |
|------------|---------------------|-------------------|-----------------|----------------------------|-------------------|------------------------------|----------------------|--------------|
| 1          | FO174D04T2          | 03/03/2004        | Navy            | MAS                        | T&M               | Science & Engineering Assoc  | \$5,977,976          | 1            |
| 2          | FH574009            | 04/08/2004        | Army            | MAS                        | T&M               | MacAulay Brown Inc           | 878,706              | 2            |
| 3          | FU1940002T1         | 04/07/2004        | Dept of Defense | MAS                        | FFP               | ACS Defense Inc              | 28,409,144           | 3            |
| 4          | FJT214001T1         | 04/01/2004        | Army            | MAS                        | T&M               | Calibre Systems Inc          | 57,140,434           | 4            |
| 5          | FU190110T1          | 04/22/2001        | Dept of State   | MAS                        | T&M               | ManTech Adv Systems Intl Inc | 106,669,336          | 5            |
| 6          | FS1702212B04        | 11/01/2000        | Navy            | MAS                        | FFP               | Anteon Corp                  | 96,786,188           | 6            |
| 7          | FG2100017           | 01/12/2000        | Army            | MAS                        | T&M               | Northrop Grumman             | 81,047,665           | 7            |
| 8          | FJ210103T2          | 07/17/2001        | Army            | 8(a) FAST                  | T&M               | U.S. Robotech, Inc           | 866,338              | 8            |
|            |                     |                   |                 |                            |                   |                              |                      |              |

Highlighted task orders were awarded during March, April or May 2004. The remaining task orders were awarded prior to the sample period; however, a modification(s) was issued during March, April or May 2004. For purposes of management control implementation, we tested the newly awarded task orders and modifications issued during sample period. Procurement issues of the previously awarded task orders are included in Appendix A. Procurement issues for newly awarded task orders are discussed on the following pages in the notes.

**SCHEDULE OF 2004 TASK ORDERS**  
**REVIEWED IN THE GREATER SOUTHWESTERN REGION**

**Notes**

1. (FO174D04T2) This T&M task order was awarded against a fully competed BPA. However, the task order was awarded without fair opportunity as required by the FTS Commissioner's letter dated March 11, 2003. Although the required legal review was performed, the approval from Legal was dated March 26, 2004, 23 days after the POP began. Therefore, this control, though implemented, was not timely. Further, the file documentation did not include a sole-source review by the FTS ARA. The Acquisition Director was a participant of the CMRB that conducted the Acquisition Plan Review. The CO completed the appropriate FTS Acquisition Checklists and adhered to the regional control requiring two people per order (separation of duties). The COR was identified in the BPA and the delegation of authority was established with the BPA. The Acquisition Director waived the Market Analysis Review since the task order was a Directed Buy against a BPA and the pre-solicitation and pre-award reviews are identical for this type of task. In addition, there were no modification reviews required since the two modifications issued for this task did not meet the established criteria.
  
2. The CO prepared the D&F and established a not to exceed amount on the purchase order. The CO issued the task order without a proposal and did not evaluate the level of effort or labor mix as it was a "Directed Buy" and the task order was issued based on the independent government estimate.
  
3. (FH574009) This T&M task order was appropriately competed and in compliance with Section 803. The SOW was sent to ten contractors, four of who submitted a proposal. In addition, the ITR prepared an acquisition plan and completed the applicable FTS acquisition checklists. The ITR also provided the COR delegation of authority memorandum to the client representative. Because the value of the task order (\$878,706) was below the established criteria, the required legal and regional reviews were not applicable.

The ITR prepared the D&F and established a ceiling amount on the purchase order. Although the ITR obtained supporting documentation, the CO and the ITR relied on the client's evaluation of the labor mix and level of effort.

4. (FU1940002T1) This T&M task order was appropriately competed and in compliance with Section 803. The file documentation shows that the task order requirements were advertised on "e-Buy" and the solicitation was made available to all contractors. The required legal review was conducted and the CO completed the applicable FTS acquisition checklists. The required regional reviews were not completed. A review of Modification 1 by the Team Leader was not documented in the file. The CO prepared the acquisition plan in November 2003, prior to the requirement of the pre-solicitation review; therefore, this review was not applicable to this task order. The sole-source review was not applicable to this task order as it

**SCHEDULE OF 2004 TASK ORDERS**  
**REVIEWED IN THE GREATER SOUTHWESTERN REGION**

was competed. However, the regional control requiring two people per order (separation of duties) was not adhered to because the same individual served as both the ITR and CO. The CO provided the COR delegation of authority memorandum to the client representative.

The CO prepared the D&F and established a ceiling amount on the purchase order. The CO did not prepare a D&F for Modification 1, which exercised an option year. The file documentation did not substantiate an evaluation of the labor mix, level of effort, and ODCs proposed on the contractor's initial proposal.

5. (FJT214001T1) This T&M task order was appropriately competed and in compliance with Section 803. The file documentation shows that the task order was placed on "e-Buy" and fair opportunity was made available to all contractors. The CO obtained the required legal review, completed the applicable FTS acquisition checklists, and provided the COR delegation of authority memorandum to the client representative. Further, the lead CO, acting for the Team Leader, reviewed and signed a modification adding incremental funding. In this instance, the individual was a fully warranted CO who had the authority to approve such a modification. Although the CO prepared an acquisition plan and it was reviewed and approved by the Acquisition Director, Legal, and the CMRB, not all the required reviews of the acquisition plan were completed. The file documentation did not include a pre-solicitation review of the acquisition plan by the Regional Administrator. The ARA for FTS, acting for the Regional Administrator, approved the acquisition plan subsequent to solicitation issuance. However, the regional control requiring two people per order (separation of duties) was not adhered to because the CO did not utilize an ITR on this task order. Since this task order was competed, the sole-source review was not applicable.

The CO prepared the D&F and established a ceiling amount on the purchase order. The CO accepted the contractor's billings, which included G&A and material handling fees on ODCs.

6. (FU190110T1) This task order was awarded prior to the sample period. Thus, all but the Modification Review control are not applicable specifically to this task order. The required post award modification reviews were performed. See Appendix A for procurement issues related to this task order.
7. (FS1702212B04) This task order was awarded prior to the sample time period. Thus, all but the Modification Review control were not applicable specifically to this task order. Modification 2 identified scope of work, added work and added incremental funding of \$1.9 million. The file documentation did not include the required CMRB and Team Leader review of the modification, as the modification was over \$500,000. See Appendix A for procurement issues related to this task order.

**SCHEDULE OF 2004 TASK ORDERS**  
**REVIEWED IN THE GREATER SOUTHWESTERN REGION**

8. (FG2100017) This task order was awarded prior to the sample time period. Thus, all but the Modification Review control were not applicable specifically to this task order. Modification 44, issued February 2004, extended the POP and added funds. Modification 45, issued March 2004, added incremental funding. The CMRB reviewed and approved the Modification 44 extending the POP and adding funds; however, the file documentation did not include the required Team Leader review of Modification 45, which added incremental funding. See Appendix A for procurement issues related to this task order.
  
9. (FJ210103T2) This task order was awarded July 17,2001, prior to the sample time period. Thus, all but the Modification Review control were not applicable specifically to this task order. Modification 9, issued in May 2004, added level of effort and incremental funding. In addition, Modification 10, issued in June 2004, added incremental funding, which fully funded the task order. The file documentation did not include the required Team Leader review of the modifications adding incremental funding. See Appendix A for procurement issues related to this task order.



GSA Greater Southwest Region

November 3, 2004

**MEMORANDUM FOR** RODNEY J. HANSEN  
REGIONAL INSPECTOR GENERAL  
FOR AUDITING (JA-7)

**THRU:** SCOTT ARMEY *SA*  
REGIONAL ADMINISTRATOR (7A)

**FROM:** MARCELLA F. BANKS *Marcella Banks*  
ASSISTANT REGIONAL ADMINISTRATOR  
FEDERAL TECHNOLOGY SERVICE (7T)

**SUBJECT:** Management Response to Audit Report  
A040097/T/7/XXXXXX

Thank you for providing the opportunity to respond to the proposed audit report entitled "Audit of Federal Technology Service's Client Support Center (CSC) Greater Southwest Region." Our response to the audit report is below.

**General Comments:**

The audit report has brought to light areas requiring our immediate and future attention. Over the past year the CSC has implemented effective national and regional controls in the form of the establishment of a Contract Management Review Board (CMRB) and an Office of Acquisition Services. These additional controls should assure that procurements are made in accordance with FAR and the terms and conditions of the contracts. The CMRB consists of FTS Board of Directors to include the Acquisition Director and Deputy Acquisition Director. In the absence of these members, the CMRB can also consist of team leaders as well as senior contract specialists. There must always be a quorum of three. The CMRB looks at all procurements over \$1M during the presolicitation and preaward stage. The CMRB also reviews all modifications that increase the ceiling price or exceed \$500K. Team leaders and/or senior contracting officers review all of the actions before coming to the CMRB as well as many modifications before they are issued. In 2003, the CSC created the Office of Acquisition Services that provides acquisition guidance to the Region, writes policy and procedures such as Acquisition Policy Alerts, and conducts periodic reviews of procurements. In addition, this office provides training on all acquisition topics such as the areas requiring attention in this report. The 'two eye rule' is an example of an Acquisition Policy Alert that went into effect in

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December 2003 requiring all task orders exceeding \$100,000 to have two people working the task order, e.g., the project manager and the CO. The internal controls and increased management attention in place now should prevent an occurrence of acquisition issues as raised in this audit report. The following comments respond to specific findings in the report.

**Response to Testing of FY2003 Transactions.**

**Inadequate Competition:**

The CSC acknowledges the auditor's findings regarding sole sources, vendor selection, and one bid received. However, we would like to point out that at the time most of the task orders were awarded, we were following the FAR 8.4 guidance which stated, "*Orders placed pursuant to a Multiple Award Schedules (MAS), using the procedures in this subpart, are considered to be issued pursuant to full and open competition (also see 6.102(d)(3)). Therefore, when placing orders under Federal Supply Schedules, ordering offices need not seek further competition, synopsise the requirement; make a separate determination of fair and reasonable pricing.*" To promote competition, the CSC now requires that all Schedule service requirements exceeding \$100,000 be placed into FSS' E-Buy system which allows all Schedule contractors the opportunity to see each requirement and decide whether or not they want to bid. In the event that there is a sole source justification, all sole source justifications must be reviewed and approved by the Acquisition Director and the Assistant Regional Administrator. If the justification dollar amount exceeds \$500,000, then it also requires Legal Counsel's review and the review and signature of the Regional Competition Advocate. All Schedule sole source justifications, with the exception of urgent and compelling reasons, are posted in E-Buy as a "sources sought."

Regarding the vendor selection category, the CSC has always considered the client to be part of the overall procurement process and in the best position to assist with the vendor selection. FAR 1.102 states, "*The Acquisition Team consists of all participants in Government acquisition including not only representatives of the technical, supply, and procurement communities but also the customers they serve, and the contractor who provides the products and services.*" In our opinion, there were no instances where our client alone selected a vendor.

**Inadequate Support for Fair and Reasonable Pricing:**

**Labor** - During the time of the task order awards FAR 8.4 was unclear as to what was required regarding fair and reasonable price determinations for schedule awards. The CSC has received additional guidance on this and now requires contracting officers to carefully evaluate the level of effort and the mix of labor and make a determination of fair and reasonable pricing on all task orders placed against MAS contracts or GWACs.



**Other Direct Costs** - At the time of the identified task order awards, FAR Part 8 was silent on open market items and how other direct costs should be handled. We now have better guidance on how to handle ODC's and are encouraging teaming arrangements to procure items not found on the prime Schedule holder's contract. The Central Office is currently reviewing this issue. We anticipate receipt of clearer guidance in the near future.

**Improper Use of Time and Materials Task Orders:**

**No Justification and No Upper Dollar Limit** - As mentioned above under another category, the CSC was not following FAR Part 16 which required a Determination and Finding and an established ceiling price when using a Time and Material type task order. There was inconsistent guidance within GSA whether or not FAR Part 16 applied to Schedule task orders. A justification for doing a time and material type order and establishing an upper dollar limit are both requirements of FAR Part 16. The CSC has received additional guidance on this and now requires a D&F. We also require an established ceiling price on all delivery orders and modifications that are awarded on a time and material basis.

**Misuse of Contract Vehicle:**

**Work outside Scope of Base Contract** – It is the CSC's opinion that the two task orders identified in the audit report under this category are within the scope of the subject contract. To further ensure future task orders are within scope, the CSC has implemented the level of reviews on each task order to include the senior CO, the applicable team leader, the CMRB when \$1 million and above, and Legal Counsel at the \$5 million threshold and above.

**Improper Contracting Actions:**

**Inadequate Statement of Work** – It is the CSC's opinion that after reviewing the orders identified in the audit report under this category, the SOWs were adequate and contained well defined requirements.

**Work Beyond Original Scope of Work** - There were seven task orders identified in the audit report as work beyond original scope of work. It is the CSC's opinion that six of these orders contained work within the original scope of work.

**Leases of Real Property** - The audit report identified three task orders where the CO leased space in support of the task order. The CSC acknowledges the auditor's findings under this category. The CSC reviewed each task order and situation surrounding the necessity for leasing of space. In our opinion the CO was acting in the best interest of the Government in each case. For example, as in the case of task order FS1712489AT1, this lease was requested by the Navy immediately following the attack on the United States on September 11, 2001. The client had an urgent need for a SCIF – a secure office area for the vendor to

perform there 'beyond' top-secret function. An attempt was made by the CO to allow this region's Public Building Service (PBS) and the Washington DC PBS office handle this requirement. Neither one could assist the customer as they had other commitments/projects they had to complete. The CO made the decision that this was in the best interest of the Navy as well as our national security. The lease was an integral part of the task order. This SCIF (top secret) facility was needed "to establish a single work site to co-locate with existing NFN related government facilities and accredited for special compartmented intelligence for client's technical development team." This SCIF facility was needed to continue the task in a secure location and it had to meet directives of the National Security Agency (NSA) for the protection of electronic equipment processing classified information at the Top Secret level. It had to be accredited by the NSA in order to be utilized to operate the system for which the purpose of this task was awarded. This type of space is not available on the market. It is directly linked to the purpose of this task. Without it, the contractor would not have been able to meet the requirements of the task. The individuals who work in this room are there for the specific purpose of working on this classified system and supporting it. Contractor employees are the tenants of this SCIF. The purpose of this system is classified but it was used in the preparation for war and deployment during the war and is in operation today on Navy ships. The lease will end when the task order ends. The CSC's Office of Acquisition Services has issued acquisition guidance informing the associates not to lease real property unless allowed by the contract and approved by management.

**Lack of Contract Oversight:**

**Cost Growth** - The CSC's determination is that there is no regulation specifically restricting 'cost growth' in task orders where it is justified by the CO. For work in the IT arena, it is often not possible at the time of placing the task order to estimate accurately the final costs with complete confidence. Unanticipated changes frequently occur which may change the final cost. The CSC has placed special emphasis on this issue in the past year. Our several review levels, to include the senior CO, the applicable team leader, and the CMRB, should ensure that this will not be an issue in the future.

**Improper Extensions to Period of Performance (POP)** - During the CSC's review of the eight task orders noted in the audit report as having improper extensions to the periods of performance, the CSC identified five that were considered acceptable extensions. For the contracts that these task orders were awarded against, extensions to the POP are acceptable as long as the CO determines that the extension is appropriate. With the implementation of the 'two eye rule' on each task order, the applicable team leader, and CMRB reviews, this should not be an issue in the future.

**Other Issues - File Documentation:** The audit finding on lack of acquisition plans indicates that fifteen task orders had no acquisition plan. Our review shows that ten of these task orders were Schedule orders. We followed the FAR Part 8 regulations at the time of these task order awards. It was not until August

2002 that FAR Part 8 was changed to require acquisition planning. The CSC now requires acquisition plans on every procurement that is estimated at \$100,000 and above.

With regard to the audit finding of not having a COR designation document issued by the CO, the CSC agrees that in some cases there was never a formal letter sent to the COR. However, the roles of the contracting officer and contracting officer representative have been communicated verbally and understood by all parties. Acquisition Alert #10 issued March 5, 2004, directs that COR designations be issued in writing upon award of a new task order.

**Inappropriate Use of the IT Fund:** The CSC's opinion regarding four out of the five task orders identified in the audit report under this category is that the CO appropriately used the IT Fund. This is not an "exact science"; therefore, we must rely on the judgment of the contracting officer involved in the procurement at the time. This is acknowledged by GSA and others to be one of those "gray" areas where the contracting officer's judgment determines whether the scope is IT or in support of IT because there is no clear-cut definition.

**Causes of Improper Procurement Practices:** The audit report states, "*Our audit work indicated that several factors contributed to the improper contracting practices we identified: an ineffective system of internal management controls, CSC personnel did not always adhere to proper procurement procedures in order to accommodate client agency preferences, and a focus on customer satisfaction and revenue growth.*"

In regards to "*an ineffective system of internal management controls,*" it is important to note that only four of the twenty-three FY 2003 task orders audited were actually awarded in FY 2003. The other nineteen were awarded between 1998 and 2002. During this period, we were moving from a "single vendor" environment to the use of multiple contracts. We have made considerable changes in our processes and procedures since that time. We have been very proactive in implementing the necessary oversight to ensure our procurements are done properly. Prior to this audit the CSC had put internal management controls in place such as quarterly audits, frequent IT/acquisition meetings, and a designated Acquisition Executive. Then, in August of 2003 the position of Acquisition Director was established to conduct additional reviews such as review and approve all sole source justifications, establishment of necessary regional controls, and to provide significant oversight and training for FTS on acquisition issues. Acquisition Alerts are published periodically when an internal control is needed. In February 2004, the Contract Management Review Board (CMRB) was established to review all pre-solicitation, pre-award, and post award actions exceeding certain established dollar thresholds. Legal reviews were instituted for all procurements expected to exceed \$5M. In August 2004, a Deputy Acquisition Director position was instituted specifically to provide oversight and ensure compliance with various regional and internal controls as well as federal acquisition regulations and guidance. We will continue to improve our processes and controls.

In regards to the two statements, "*CSC personnel did not always adhere to proper procurement procedures in order to accommodate client agency preferences,*" and "*a focus on customer satisfaction and revenue growth,*" the CSC, along with other government agencies, strive to be a world-class organization, maintaining a constant focus on customer satisfaction. However, we maintain a stronger focus on abiding by the rules and regulations that govern our acquisition process. An increased focus on new internal controls and management reviews should result in great improvement in this area.

The audit report also stated that "*The CSC relied upon client agencies for 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.*" The CSC does rely on the client agency to participate in task order evaluations and administration because they are the individuals most familiar with their requirement and are on-site to provide effective administration of the support being provided by the contractor. The CSC has increased our focus on contract management in this area.

**Testing of FY2004 Transactions:** After the CSC reviewed the testing of 2004 transactions audit report findings, we determined that in all but one case where non-compliance was found, the specific internal control had been employed but not properly documented. The CSC has increased emphasis on file documentation and our internal controls should prevent any findings in the future. National and Regional controls are now firmly entrenched in our acquisition process.

### **Conclusion**

In conclusion, the CSC has greatly benefited from this review as it has highlighted areas requiring our increased focus and attention. We appreciate your in-depth attention to this audit review. As you are aware our focus is to make sure that in the future we "Get It Right."

While this audit has revealed some issues requiring our attention, the clarification of FAR guidance, the clarification of ordering procedures, and the implementation of national and regional control procedures provides reasonable assurance that the issues discovered should not occur and that the fundamental objectives of the federal procurement process will be achieved.

AUDIT OF FEDERAL TECHNOLOGY  
SERVICE'S CLIENT SUPPORT CENTER,  
ROCKY MOUNTAIN REGION  
REPORT NUMBER A040130/T/6/Z05010  
December 9, 2004





**U.S. GENERAL SERVICES ADMINISTRATION**  
**Office of Inspector General**

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DATE: December 9, 2004

REPLY TO  
ATTN OF: Regional Inspector General for Auditing  
Heartland Region (JA-6)

SUBJECT: Audit of Federal Technology Service's Client Support Center  
Rocky Mountain Region  
Report Number A040130/T/6/Z05010

TO: Larry E. Trujillo, Sr., Regional Administrator  
Rocky Mountain Region (8A)

Sandra N. Bates, Commissioner  
Federal Technology Services (T)

This report presents the results of the Office of Inspector General's audit of Federal Technology Service's (FTS) Client Support Center (CSC) in the Rocky Mountain Region.

This audit was conducted in response to requests from Mr. Stephen A. Perry, General Services Administration Administrator. Our audit objective was to determine whether the CSC made and administered procurements in accordance with the Federal Acquisition Regulation (FAR) and the terms and conditions of the contracts utilized.

The audit identified a number of improper procurement practices, including limited competition, insufficient documentation that the Government received fair and reasonable pricing, poor contract administration, and other improper or questionable contracting practices. As a result, R8 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.

At the request of the Administrator, we reviewed an additional limited sample of more recent procurement actions. In the more recent review, we identified some instances of improved contracting; however, many of the same issues remain. We determined that R8 FTS has been inconsistent in complying with Central Office FTS Controls developed as a result of our January 2004 report (Audit Report Number A020144/T/5/Z04002) on the FTS Client Support Centers. However, R8 has implemented some regional controls to improve the procurement process.

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We have included the CSC's written response to the draft report in Appendix C of the report.

Sincerely,

Erin P. Priddy  
Audit Manager  
Heartland Region (JA-6)



AUDIT OF FEDERAL TECHNOLOGY  
SERVICE'S CLIENT SUPPORT CENTER,  
ROCKY MOUNTAIN REGION  
REPORT NUMBER A040130/T/6/Z05010  
December 9, 2004

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## **RESULTS OF AUDIT**

### **Brief**

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 IT Fund's legislatively authorized purposes. Our findings included limited competition, insufficient documentation that the Government received fair and reasonable pricing, poor contract administration, and other improper or questionable contracting practices.

The factors contributing to these circumstances were ineffective management controls and an environment that emphasized client agency satisfaction and revenue more than compliance with proper and prudent procurement procedures.

At the request of the Administrator, we reviewed an additional limited sample of more recent procurement actions. We found that R8 has begun to implement several regional initiatives to improve the procurement process, including internal self-certified reviews, acquisition plan reviews, additional training, and improved internal communications. However, we identified some of the same issues identified in the FY03 review, including improper and questionable contracting actions, inadequate competition, insufficient documentation supporting that the Government received fair and reasonable pricing, and lack of implementation of various controls put in place by Central Office FTS.

### **Review of 2003 Procurement Actions and Controls**

As a follow-up to the OIG review of CSC procurements in Regions 4, 6, and 10, we reviewed a sample of R8 procurement actions performed in FY 2003. In our sample of 29 orders, we identified (1) limited competition, (2) lack of support for fair and reasonable pricing, (3) improper and questionable contracting practices, (4) and misuse of the IT Fund. The results of our task order review indicated that internal controls are inadequate, and many of the deficiencies identified in the previous audit exist in R8 FY03 procurements.

### **Limited Competition**

Of the 29 orders in our sample, R8 awarded 17<sup>51</sup> (59%) without the benefit of competitive bids. While R8 did generally seek quotes from more than one contractor (e.g., GWACs require the ordering office to solicit all contractors under the GWAC vehicle), for whatever reason, oftentimes only one contractor responded with an offer. As a result, R8 had reduced assurance that it received the best value for its customers.

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<sup>51</sup> Two orders in our sample were orders under \$3 million placed against small business contracts, which are allowed to be issued without competition per FAR 19.8.

The table below shows a breakdown of the 17 orders by contract vehicle and dollar value:

| <i>Contract Vehicle</i> | <b>Orders in Sample</b> | <b>Value</b>         | <b>One Offer Received</b> | <b>Value</b>         | <b>Percent of Value with One Offer</b> |
|-------------------------|-------------------------|----------------------|---------------------------|----------------------|--|
| FSS Schedules           | 16                      | \$ 90,763,986        | 11                        | \$ 51,833,959        | 57%                                    |
| GWACs                   | 11                      | 347,499,841          | 6                         | 94,257,534           | 27%                                    |
| Other <sup>1</sup>      | 2                       | 614,916              | n/a                       | n/a                  | n/a                                    |
| <b>TOTAL</b>            | <b>29</b>               | <b>\$438,878,743</b> | <b>17</b>                 | <b>\$146,091,493</b> | <b>33%</b>                             |

**FSS Schedules - FSS and DOD Ordering Procedures Require Competition.**

Recent legislation and FSS ordering procedures specify the need to obtain a minimum of three offers for most FSS Schedule orders to ensure fair and reasonable pricing. FSS Ordering Procedures for Services (that include a statement of work) expected to exceed \$2,500<sup>52</sup> require the ordering office to send the statement of work to a minimum of three Schedule contractors for competitive quotes. The criteria states that if an order is expected to exceed the maximum order threshold (MOT) of the base contract, the ordering office is required to request quotes from additional Schedule contractors that offer services that will meet the agency’s needs and to seek additional price reductions.

In addition, Section 803 of the National Defense Authorization Act for Fiscal Year 2002, Public Law 107-107 requires ordering agencies to obtain a minimum of three offers for Department of Defense (DOD) orders for professional services expected to exceed \$100,000 that are placed under multiple award contracts, including Federal Supply Service (FSS) Schedule contracts<sup>53</sup>. 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. Of the 29 orders in our sample, 24 were on behalf of DOD agencies.

**Our sample of 29 orders included 16 FSS Schedule services orders. In 11 of the 16 cases (69%), representing 12% of the total sample dollars, R8 made the awards without the benefit of competitive bids. R8 approved sole source awards for four of those orders, valued at \$19.8 million, without preparing adequate file documentation to justify acceptance of a sole offer. Several of the schedule orders in our sample also exceeded the MOT, but R8 did not request additional quotes or seek additional price reductions.**

**Competitive Bids on Orders Placed with GWACs.** Of the 11 GWACs<sup>54</sup> task orders included in our sample, R8 received only one bid on six of the orders (55%). The six task orders, valued at \$94 million, represented approximately 21% of the cumulative value of the entire sample of 29 orders. While R8 complied with competitive requirements by soliciting all GWAC vendors, the lack of competitive bids coupled with

<sup>52</sup> The micro-purchase threshold is \$2,500.

<sup>53</sup> The legislation affects DOD orders placed under multiple award contracts on or after October 25, 2002.

<sup>54</sup> Common GWACs utilized by FTS include the Millennia, Millennia Lite, and ANSWER contracts.

inadequate evaluation of pricing (discussed later in the report) leaves little protection against overpricing.

**R8 Did Not Always Include Qualified Vendors in the Bidding Process.** During the course of our review, we contacted vendors to find out why they did not bid on selected tasks. We determined that in some cases, the vendors R8 solicited were not able to perform the work.

- Order 03RT0119 is an environmental task, valued at approximately \$3 million, for the Army placed against FSS Schedule 899 for monitoring and maintaining military training grounds<sup>55</sup>. R8 solicited bids from three vendors and received one bid. One vendor who chose not to bid on the task advised us that they did not bid because they are not qualified to do the work. The vendor advised that they are in the business of air quality modeling, not land analysis. A proper market analysis would have ensured that qualified vendors received the opportunity to bid.
- For a \$229 million Millennia Lite (ML) order to Titan Corporation (Titan), the statement of work called for the development of a new enterprise system to deliver employee assistance program services (EAP) to military families, including providing call centers and counselors to serve clients. ML contract holders, who all provide IT services, were the only vendors allowed to bid on this project. While two other ML vendors bid on this order, EAP vendors excluded from the solicitation challenged the qualifications of the ML vendors in general and Titan to perform the counseling services required under the contract. Further, we determined that 90 percent of the task order payments were going to Titan's EAP subcontractor, Ceridian. Titan had never provided EAP services or systems before. In addition, all three ML bidders partnered with EAP providers to meet the requirements of the contract. Despite the multi-level approvals R8 received from its Central Office and GSA Legal Counsel to proceed with the award, R8 failed to perform adequate market analysis to ensure that more qualified vendors could bid on the contract<sup>56</sup>.

**Directed Procurements.** In the course of our review, we determined that several orders appeared to be directed to the client's preferred vendor. We determined that R8 approved agency justifications to limit competition with little scrutiny or effort to obtain additional sources. Following is one example:

Order 0R00015GSA1 is a FSS Professional Engineering Services (PES) Schedule task awarded to TASC, Inc. (TASC) for IT support for the Air Force Space and Missile Systems Center (\$13,718,395). Our review indicated that R8 was aware that the Air Force client wanted the award to go to TASC, as TASC was the incumbent vendor to the Air Force contract that preceded 0R00015GSA1. There was no evidence in the file that R8 formally solicited any other contractors. However, during our review, the ITM

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<sup>55</sup> We also determined this order to be inappropriate for the IT Fund. See Inappropriate Use of the IT Fund section of this report.

<sup>56</sup> We identified additional issues with the Titan order. See other sections of this report (Improper and Questionable Contracting Actions and Questionable Use of the IT Fund) for details.

provided documentation of e-mail memos R8 submitted to four vendors to request proposals. Only TASC submitted a bid. The total proposal amount was \$13,718,395. Despite the large dollar value, there was no market analysis, no justification for award, and nothing in ITSS indicating that FTS solicited other vendors.

### **Lack of Support for Fair and Reasonable Pricing**

Ninety-three (27 of 29) percent of the orders for IT services that we reviewed contained insufficient documentation to support that the Government received a fair and reasonable price. Specifically, we found that R8 did not:

- Evaluate the level of effort and labor mix to establish the reasonableness of the total price for labor;
- Evaluate the price reasonableness of additional direct costs, also known as Other Direct Costs (ODCs)<sup>57</sup>;
- Seek additional price reductions for orders exceeding maximum order thresholds (MOTs) established in the base contract, nor solicit additional offers for such orders; and
- Attempt to negotiate better pricing or terms in general.

This finding is of particular concern given that R8 awarded the majority of the orders in our sample without the benefit of competitive bids (See “Limited Competition” section of this report).

**Evaluation of Labor Costs.** We identified many orders in which R8 documented a comparison of proposed labor rates with the rates of other vendors - generally vendors on contract under the same multiple-award contract vehicle. R8 believed that because the labor rates under the base contracts are pre-determined to be fair and reasonable by the contracting office who awarded the base contract, such a comparison was adequate to establish fair and reasonable pricing. However, price reasonableness cannot be established by evaluating only the labor rate because:

1. The labor rate is only one part of the equation. To arrive at the conclusion that the total price is fair and reasonable, the contracting officer must consider the level of effort (hours) and labor mix, as well as the labor rates.
2. Unlike commodities, the contracting officer cannot ensure an “apples-to-apples” comparison when evaluating labor rates because labor rates for even identically titled labor categories can vary greatly. Accordingly, without convincing evidence or explanation as to how the rates are comparable, it is not sufficient to simply document the file with other contractors’ *GSA Advantage!* labor rates, for example. The chart below demonstrates the level of variance that can exist within the same labor category:

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<sup>57</sup> ODCs typically include material costs and travel.

| <b>Title in GSA Advantage!</b> | <b>Company</b>          | <b>Rate</b> | <b>Experience Requirement</b>   |
|--------------------------------|-------------------------|-------------|---|
| Project Manager                | Company A <sup>58</sup> | \$ 90.25    | 12 years progressive PM experience in IT projects.                      |
| Project Manager                | Company B <sup>8</sup>  | \$ 87.85    | Typically requires 4-5 years relevant PM experience.                    |
| Project Manager                | Company C <sup>8</sup>  | \$135.00    | 5 years experience as PM or 2 years PM experience plus advanced degree. |

The table shows that the rate and description for the same labor category can vary significantly; in this case, as much as \$47.15 per hour.

**Maximum Order Threshold (MOT).** As previously stated, when a FSS Schedule order will exceed the MOT, the ordering office is required to seek additional competition. The MOT is the dollar value determined by the contracting activity that awarded the Schedule contract at which the ordering office should expect to receive a price reduction. In addition to seeking further competition above the MOT, FSS Ordering Procedures for Services require the ordering agency to request additional discounts from schedule contract pricing. R8 typically included a boilerplate sentence in their solicitation for bids stating, for example, “Contractors are encouraged to provide discounted GSA FSS IT schedule rates,” but R8 did not take additional steps to request price concessions for orders above the MOT. We do not believe a boilerplate sentence in the request for proposal is adequate to satisfy this requirement.

**Evaluation of Other Direct Costs (ODCs).** In most cases, if the vendor does not have a proposed cost pre-priced under the base contract, the ordering office must determine and negotiate a fair and reasonable price. For example, under FSS Schedules, ODCs must be treated as open market procurements in accordance with FAR 8.401(d), which requires the ordering agency’s contracting officers to make a separate determination that ODC prices are fair and reasonable. For a majority of the orders in our sample, the file did not contain evidence of an evaluation of ODCs. As described in the examples below, ODC costs sometimes constituted a large portion of the total value of the order, and if the contracting office does not negotiate ODCs, the Government is vulnerable to unnecessary and/or unreasonable costs.

- Order 0R00015GSA1, previously described in this report, contained no evidence that FTS evaluated the proposed \$10.5 million in ODCs included in the task. It appears that FTS accepted the \$10.5 million in ODCs, which represented 57% of the total proposed costs of \$18.4 million.

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<sup>58</sup> For confidentiality purposes, we omitted the contractor’s name; however, the information is from actual Schedule contract holders.

In this example, R8 officials advised that FTS requested the FSS contracting office for the Schedule contract to issue a contract modification to the base contract (GS-23F-0008K) for the ODCs. Per the modification, FSS awarded such items as generators, nuts, bolts, wires, batteries, cables, and other ODCs that were not to exceed approximately \$5 million per year for 2000 through 2004. The ITM advised that he assumed that the contractor worked with the FSS contracting officer to ensure fair and reasonable pricing of the ODCs.

FSS' contract modification was not documented in the task order file and is not (per FAR 8.401(d)) an acceptable practice. The FSS (base contract) contracting officer is not responsible for ensuring fair and reasonable pricing for open market items on a task order managed by FTS, and FSS has no authority to provide a blanket approval for non-schedule costs.

- Order 03RT0119, also described previously in this report, included ODCs totaling \$277,115 (13% of the value of the original order) in the original proposal. Proposed ODCs included land rehabilitation costs (trees, shrubs, rock dams, straw bale check dams, etc.) and reseeding costs (fuel, seeds, etc.). In addition to being inappropriate to the IT Fund, these items were open market items not included as part of the base contract. The file did not contain any documentation that the FTS evaluated the price reasonableness of any of the ODCs.

Also, throughout the administration of the order, R8 continued to approve additional funds for ODC items. The additional funds that R8 has approved under this order have grown to nearly \$1 million (\$650,000 increase for ODCs). Invoices include additional ODC items not specified in the original task order or subsequent modifications to the task order (job materials, subcontractor non time-and-material costs, supplies, etc.).

**Negotiations.** Of the 29 orders we reviewed, we noted only one instance where there was evidence that R8 engaged in negotiations with the vendor. In that one case, negotiations were primarily performed by the client agency. The absence of negotiations is particularly disconcerting because of the issues we noted with support for fair and reasonable pricing. R8 concurred but advised that, despite the lack of active pursuit of additional competition and discounts for orders, R8 procurements resulted in an average discount of five percent off the allowable billing rates. There was no evidence, however, that these discounts were the result of negotiation efforts on the part of R8.

### **Improper and Questionable Contracting Actions**

R8 awarded inappropriate task orders, including pass-through procurements that potentially increased the Government's costs by several million of dollars. In addition, one procurement represented a misuse of an 8(a) small business contract. R8 also improperly modified task orders after award and approved payment for unsubstantiated



costs. Further, R8's lack of oversight for its task and delivery orders resulted in questionable practices, including conflicts of interest and award of national security orders.

**Pass-through Procurements Resulted in Millions in Increased Costs.** We determined that R8 sometimes awarded contracts to vendors who would not be performing the actual work. This practice resulted in the Government overpaying for the services received.

- Order 03RT0736 is a \$229 million task order awarded to Titan Corporation under Millennia Lite contract number GS07T00BGD0057 to provide employee assistance and counseling services to military families. This order represented a "pass-through" procurement because Titan subcontracted substantially all of the work to its subcontractor, Ceridian – an employee assistance services firm. We determined that Ceridian independently operates the systems utilized in the task. Titan, which adds a fee of approximately 10 percent to each invoice for its involvement in the task, was unable to provide sufficient documentation to substantiate its contribution to the delivery of the task requirements. Ten percent of \$229 million is \$23 million. We believe that Titan's fee could represent largely unnecessary costs to the Government. (See discussion of remedial actions taken on this project by R8 later in this report under Inappropriate Use of the IT Fund.) R8 management advised that the pass-through award was due, in part, to inadequate market research. R8 maintained that had they conducted thorough market research, R8 would have concluded that the proposed work was significantly less "IT" in nature than originally estimated and would have handled the procurement differently.
- R8 awarded Order 02RT0734 to Lockheed, the sole bidder after solicitation of all Millennia vendors, for nearly \$25 million. However, the Air Force client advised that the contractor actually performing the work is a separate division of Lockheed that was not associated with the Millennia contract. Lockheed passes 100 percent of the work on to the other division and charges the Government an additional seven percent mark-up. Seven percent of \$25 million is \$1.75 million in mark-ups.

**Misuse of Small Business 8(a) Sole Source Authority.** FAR 19.805-1(a) 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. Our sample included two 8(a) IDIQ FAST orders. We determined that one of these orders also represented a pass-through procurement, as described in the previous section, which compromises the intent of the 8(a) program.

R8 placed Order 02RT0955 under 8(a) contract number GS06K97BND0710 for consulting services to assist USDA's Forest Service by analyzing and determining an appropriate level of fire suppression. This task represents an improper use of 8(a) contracting authority because the 8(a) contractor, Information Systems Support (ISS), teamed with a large business (CommonThread) that performed all the work on the project. The ITM advised that CommonThread performed 100 percent of the work on

the project, and that CommonThread teamed with ISS in order to utilize the 8(a) status of ISS to obtain the award. FAR 52.219-1 states that 8(a) contractors are required to supply a minimum of fifty percent of the effort for their contracts. While we understand that this requirement applies over the life of the 8(a) contract versus by individual task order, 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.

**Improper Modifications.** R8 perpetuated non-competitive situations on some task orders by processing improper modifications to task orders. 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, (2) exercised task option years without performing the requisite analyses per FAR 17 (See “Fair and Reasonable Pricing” section for criteria), or (3) extended the period of performance of the task without appropriate justification. Such improper practices also often resulted in uncontrolled cost growth.

- On order 0R000624GSA, a time-and-materials task, the statement of work indicated that the task was not to exceed \$484,635 for a one-year period. However, within five months after the award, R8 had approved task costs of \$678,502, an amount that exceeded the original estimate for the work for a twelve-month period. By January 2003 (less than three years into the task), when R8 approved Modification 14, the value of the task order reached \$6.1 million, which represented a 1,100% increase to the original task amount.

R8 increased the scope of this order through four period of performance (POP) extensions and numerous modifications to approve increased labor costs. Extensions to the POP should be the exception and should not be executed without a proper justification. The Government should generally request consideration for performance delays. In addition, R8 improperly exercised option years in that option years were not included in the original statement of work. Options cannot simply be added to a task order. The statement of work must indicate if options are contemplated, and option pricing should be established at the time of award. Further, if the options are exercised, the CO must complete a written determination and findings in accordance with FAR Part 17.207.

- R8 awarded order 02RT0776, a Navy task for network and telecommunication technical support to Titan Support Corporation Information Solutions Group for a total value of \$8,470,969 in July 2002 for a five-year period. However, by November 2003 with award of Modification 28, the value of the task had more than doubled to \$18,840,311. This was a 122% cost growth of this five-year task in only its second option year. R8 approved various cost increases on nine different occasions in the first thirteen-months of the task order. Without proper oversight in such situations, there is risk that vendors can freely determine labor categories to add and potentially

increase costs by billing the Government for labor categories that were not included or evaluated in the initial proposal and that may not be within the scope of the task.

**Unsubstantiated Costs.** We determined that R8 contracting personnel did not review invoices, leaving billing review solely up to the client. This practice led to over billings, other improper billings, and concerns of the propriety of some billings. For example, we frequently found billings in which the vendor billed ODCs as a lump sum amount. In many cases, neither R8 nor the client had a record of the specific ODCs being billed. In one example, even the vendor could not provide an adequate record of the items it billed to the Government.

- On order 03RT0119 for the Army's Integrated Training Area Management division, we found categories of ODCs and labor costs billed to the task that were not included in the original proposal or subsequent modifications. Of particular interest were billings for the Technical Expert labor category for which the vendor (Anteon) has billed at as much as \$299 per hour. As of January 2004, 72% (over \$1 million) of the billed labor was for Technical Expert work, which was not proposed. We learned from the client that the billing actually represented costs for heavy machinery rental and operator labor. Our review indicated that R8 was aware that the Technical Expert labor category included provision for equipment for a land erosion project.

Army and Anteon officials advised that they arranged to bill for the heavy machinery projects under this IT task. Anteon advised that they determined the total cost of machinery and billed it at an hourly rate already approved for the Technical Expert category in the base contract. We determined that the qualifications required for the Technical Expert level IV, which represents over half the Technical Expert time billed, include a PhD and fifteen years of experience. Anteon advised that the Technical Experts billed to this project have commercial drivers' licenses and knowledge of land construction.

We also determined that Anteon was billing the Government for data entry clerks at rates above the proposed amount. The contract file indicates that the Army may have approved raises without R8's approval, which is not within the Army's authority. We determined that this resulted in cost increases of approximately \$60,000. As the party responsible for payment, FTS should have ensured that the rates billed were in accordance with the contract.

- On order 02RT0734, billings as of April 2004 included approximately \$7.5 million in ODCs (43% of the total billings). Neither R8 nor the client (Air Force) could provide a breakdown of the ODCs billed. We had to contact the vendor (Lockheed Martin) in order to obtain a list of ODCs. The fact that no one in R8 or the Air Force could produce a listing of the ODCs billed for the task indicates that there is poor contract administration associated with this task. FTS is relying on the vendor to bill the Government in accordance with the contract prices without requesting any support for the billed costs.

**National Security Orders.** Of the 29 orders we reviewed, 10 of the orders involved the purchase of IT systems for R8's military clients that related to national security, such as weapon systems and satellite communications systems. We noted that many of R8's system and equipment purchases were located in top-secret clearance areas, and that R8 contracting personnel did not have the security clearances needed to receive complete order information or to view the systems. R8 should not accept work where it does not have the ability to access its own contract deliverables.

**Conflict of Interest.** In two cases, we determined that the successful offeror drafted or participated in drafting the statement of work. Direct contractor involvement in this phase of the procurement process represents a conflict of interest and gives the appearance of directed procurement or unfair advantage in competitive procurements. In one case, the documentation supports that the contractor's cost proposal was developed prior to the statement of work.

**Frequent Use of Time-and-Material Authority.** R8 frequently used time-and-materials tasks versus firm fixed-price tasks. Of the 29 orders for services that we reviewed, 23 were time-and-materials tasks (see appendix for more details). 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 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 utilized.

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.*

Of the 23 time and material orders in our sample, none of the order files documented a determination and findings for time-and-material contracting authority. In addition, purchase orders for time-and-materials orders did not clearly state the maximum funds to be expended on the project, as required by the FAR.

**Acquisition Plans.** The GSA Acquisition Manual (GSAM) requires at least a limited acquisition plan for all task orders exceeding \$100,000. A key component of an acquisition plan is to show how competition will be promoted. R8 awarded 27 of the orders in our sample without the benefit of an acquisition plan.

### **Questionable Use of the IT Fund**

We believe that 12 of the 29 task order awards we reviewed, with a cumulative value of over \$279<sup>59</sup> million (64% of the sample value), the CSC engaged in questionable contracting practices to procure, on behalf of clients, services which did not meet the intent of the IT Fund.

40 USC Section 322 (the statute creating the Information Technology Fund) states that 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)). R8 advised us that FTS, on a national level, has been struggling to define what is or is not IT, especially when services are involved. We believe FTS needs a universal guideline for proper use of the IT Fund. Despite the varying interpretations, our audit sample included numerous examples of inappropriate uses of the IT Fund.

- Task Orders 0R00015GSA1, 03RT0135, and 04RT0378 are all task orders R8 awarded to support the Air Force through the FSS Professional Engineering Schedule. Combined, these contracts have obligated the Government for over \$25 million for services and supplies to support the Air Force Space Based Infrared Systems (SBIRS). The scope of work is to maintain the reliability and performance of fielded SBIRS weapon system components. SBIRS consist of satellites linked to a network of worldwide mobile and fixed ground stations. Although satellite systems are IT in nature, we estimated that 70% of the services TASC provided under 0R00015GSA1 are related to the maintenance, management, and revamping of mobile satellite trucks and support vehicles. Each mobile satellite station is housed in a trailer that is pulled by a diesel truck, and the Air Force uses five support vehicles with each satellite station truck. The support vehicles include a fuel truck, crew quarters truck, crew support truck, spare parts truck, and a mission van. The Air Force advised that the largest cost on 0R00015GSA1 is for the maintenance of the trucks and that a majority of the maintenance is not for station equipment.

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<sup>59</sup> One of the orders represents \$229 million of the \$279 total. The eleven other orders inappropriate to the IT Fund represent 11% of the total sample dollars.

Included in the contractor's proposal and billings were items such as a rifle rack, tractor paint, fuel, pillows and mattresses, kitchen cabinets and countertops, windows, microwave, refrigerator, and a water purification system.

Since 03RT0135 is a follow-on to 0R00015GSA1, many of the original proposal requirements transferred to 03RT0135. 03RT0135 includes services such as furnishing living quarters; replacing water tanks, tires, and radiator hoses; and painting vehicles. In addition, the monthly status reports for September and December 2003 included use of forklifts, loading docks, gator utility vehicles<sup>60</sup>, and tractors. The client advised that these items relate to a new facility in which the client will house a backup for a satellite ground station. These costs are not appropriate to the IT Fund.

R8 processed both 0R00015GSA1 and the follow-on order 03RT0135 through the IT Fund. R8 subsequently opened 04RT0378 for this same effort through the General Supply Fund. R8 officials advised that the transition should be complete by fiscal year end.

- Order 03RT0736, described previously in this report, is a \$229 million task order awarded to Titan under Millennia Lite contract number GS07T00BGD0057 to provide employee assistance and counseling services to military families. The IT Fund and the Millennia Lite contracts are for information technology (IT) products and services. We determined that the Department of Defense attempted to solicit these same services in 2002 under the FSS Human Resources Schedule. The statement of work that was used in the 2002 solicitation was modified to make the FTS solicitation for the same services appear to be IT and suitable for the Millennia Lite contract. In addition, the funding documents for this procurement call for the contractor to provide on demand information and referral support services for an employee assistance program, not IT services.

To justify and support continuation of this project, R8, central office FTS officials, and the contractor have asserted that the largest part of the costs under this task are IT. They advised that when they approved the award they believed an IT infrastructure would be developed as part of the task. In addition, R8 maintains that they awarded this task in accordance with FAR 2.101, which includes significant use of technology in its definition of IT. However, even applying the FAR criteria, employee assistance services delivered to clients via an electronic infrastructure that the vendor developed and was using before R8 FTS awarded the subject task does not make use of the IT Fund or the ML contract appropriate. To date, the billings support that Titan's subcontractor, Ceridian, has performed approximately 90 percent of the work under this task. Ceridian provides employee assistance services, not IT services.

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<sup>60</sup> A gator is a small utility vehicle similar to a four-wheeler and is used for hauling equipment and other warehouse activities.

Also, because FTS classified this procurement as IT and used the ML contract vehicle, the contractors most qualified to perform the actual work did not have the opportunity to bid. The EAP providers who partnered with the ML bidders were the only ones who could participate in the solicitation. Use of ML effectively excluded other EAP providers from the competition. When competition is unnecessarily limited, there is an increased risk that the Government will not receive the best performance at the lowest price.

On August 6, 2004, R8 awarded sole source six-month bridge contracts to Titan and Ceridian through the General Supply Fund using a MOBIS base contract for Titan and an FSS Human Resources Schedule contract for Ceridian. We have been informed that R8 plans to re-compete the employee assistance services before the bridge contract period expires. R8 management advised that they are currently doing market research to develop an acquisition strategy for re-procurement of this task. In order to obtain a high quality and fairly priced solution, we believe that the strategy should ensure the solicitation of proposals from the actual employee assistance service providers directly.

- 03RT0119 is a \$3,006,810 FSS environmental Schedule order for the Army's Integrated Training Area Management division awarded the order to Anteon for monitoring and maintaining military training grounds. As described earlier in this report (See "Improper or Questionable Contracting Actions"), we determined that 72% of the billed labor through January 2004 was for a technical expert labor category, which actually represented heavy machinery rental and operator labor (the heavy machinery included a backhoe, dozer, loader, and concrete rip-rap).

The proposal also included environmental sampling drilling, reseeding and replanting, surveying, and additional construction engineering. In addition to the non-IT labor costs, R8 also approved land rehabilitation costs of nearly \$1 million for this task. The breakdown of other direct costs on this task order included seed mix, plants, shrubs, fuel, straw bale check dams, rock dams, and snow fencing.

- Order 02RT0185, valued at \$1,075,512, is for conducting surveys for various threatened and endangered species (such as the flycatcher bird), trapping brown-headed cowbirds, monitoring the avian community, collecting fisheries data and entering collected data into a database. The client is the Department of Interior, Bureau of Reclamation. We determined that as of March 2004, 46% of the billed labor was for field-related studies. Field related studies constitute activities such as locating and plotting the location of the flycatchers and cowbirds and examining avian habitat. The office related work consists of data entry, data management, data analysis, and report writing. We have no way of calculating how much of the office related work is for data entry and report writing (tasks not inherently IT). We believe this task order would be better suited for the General Supply Fund.

## **Causes of Improper Procurement Practices**

Our audit work indicated that an ineffective system of internal management controls was the primary cause for improper procurement practices in R8. The internal controls did not (1) ensure adequate contracting officer participation in the procurement process or (2) prevent R8 FTS personnel from sacrificing adherence to proper procurement procedures in order to accommodate customer preferences, which we concluded was due to an excessive focus on customer satisfaction and revenue growth. We also believe that more focus on acquisition training would be of benefit.

We noted that in 2002, an FTS internal review team reported similar problems to R8. Our findings revealed that R8 did not take effective action to address the problems.

**Ineffective Management Controls.** We determined that R8 did not have adequate internal controls to protect the integrity of its procurements. Our sample of task orders indicated that management did not have effective controls to ensure that procurements were executed in accordance with applicable laws, regulations, and within contract scope.

In February 2002, FTS' Information Technology Center for Regional Operations (CRO) completed a review of R8's operations to determine whether R8 was operating in compliance with regulations and was maintaining adequate file documentation. The CRO reported conditions identical to those identified in our review. For example, the CRO noted that R8 contracting officers were not involved early in the procurement process. We observed the same situation during our review.

R8 management's response to the CRO report advised that they planned to make several procedural changes to address the discrepancies noted in the report by June 30, 2002. On February 15, 2002, R8 management issued a memo requiring more CO involvement in acquisition process. None of the other procedural changes described in R8's response to the CRO review began prior to December 2002, and many of the changes were not implemented until after our current review commenced in January 2004.

We noted that the memo regarding CO involvement was not implemented, and we concluded that R8 management disregarded the recommendations of the CRO. R8 management stated that a management change contributed to their failure to act on the CRO's recommendations because the current IT Director was not aware of the CRO review until we asked about it during the audit.

In accordance with FAR 37.103, the contracting officer is responsible for ensuring that a proposed contract for services is proper. However, our audit revealed that R8 contracting officers did not always take appropriate steps to ensure compliance with regulations. Based on our fieldwork, including interviews with IT Managers and contracting officials, we believe that this occurred primarily because of (1) inadequate involvement by contracting officers in the procurement process, and (2) an environment



in R8 that emphasized sales and customer service more than compliance with regulations.

*Contracting Officer Participation in Procurement Process.* In several cases, we determined that the contracting officer did not become involved in the order process until the ITM presented the complete order package to the contracting officer for signature. When this occurred, contracting officers felt pressure from the ITM and R8 FTS management to process the order quickly without adequate time for review.

We noted that the 2002 FTS CRO report recommended numerous times that R8 COs be involved in the procurement process at the time of formulation of the procurement planning and execution of significant orders. This recommendation was a result of the CRO's findings that the ITMs did not have adequate contracting knowledge to make contracting decisions. Documentation indicates that R8 management committed to incorporating a policy as of June 30, 2002, requiring ITMs to submit any order greater than \$500,000 to the contracting officer accompanied by a procurement plan detailing the methodology the ITM planned to use for the procurement and a checklist of items to be completed at each phase of the procurement. During our review, R8 management advised that, while they had not yet implemented this policy, they had specifically addressed contracting officer involvement and directed the contracting officers and ITMs to work together on larger and more complex orders. R8 management released a memo on February 15, 2002 in which management advised that they had assigned warrant authority to several ITMs in order to allow the senior CO's more time for contracting involvement. However, our audit results indicated little evidence of contracting officer involvement in procurement planning activities as a result of the memo.

*Emphasis on Accommodating Client Agencies and Revenue.* Throughout our review of R8 procurements, we met with several R8 clients. Client representatives advised that R8 provides good customer service and has helped them accomplish their missions in an expeditious manner. Military clients particularly favored FTS over their own contracting organizations, which the clients stated were slower and required more documentation. While R8 focused on customer service efforts, we determined that R8 frequently disregarded rules and regulations in order to meet the demands of the customer.

We concluded that a culture within R8 emphasizing revenue growth also contributed to the problems we identified. Several R8 personnel advised that revenue generation was a primary focus in R8 FTS. Also, the CRO report stated that R8 management hired associates to increase revenue, and sales generated by R8 grew dramatically to meet that objective. The report further stated that R8 might want to consider revising their focus and identifying ways to promote proper contracting practices and increase project management practices. R8 management acknowledged that the customer-focused culture existed and advised that they have undertaken steps to promote behavior that supports proper compliance and solid management practices.

## **Review of 2004 Procurement Actions and Controls**

At the request of the Administrator, we reviewed an additional limited sample of R8 procurement actions for the period March through May 2004. The sample consisted of 10 task orders, five of which were new awards and five of which were existing task orders where R8 had executed modifications during this time period. We found that while some controls implemented by Central Office FTS were not being employed on various task orders, R8 has begun to implement some additional controls. The results of our limited 2004 task order review indicated that some of the same deficiencies existed for procurement actions during this time period as did in the FY03 procurements.

**Regional Controls Implemented.** Regional FTS management has implemented several regional initiatives to improve the procurement process, including internal self-certified reviews, acquisition plan reviews, additional training, improved internal communications, and added acquisition personnel.

*Acquisition Plans.* For new orders included in our FY04 sample, we noted that acquisition plans were completed in all cases.

*Contract Management Review Panel (CMRP).* The CMRP has been in place in R8 since November 2003. This panel consists of regional staff, some of which are from FTS. The CMRP reviews:

- Any action requested by a R8 project Team Lead,
- Contracts over \$100,000 awarded without a fully completed acquisition plan,
- Actions requiring approvals outside of FTS,
- Actions involving cost-type, labor hour, and time-and-materials contracts over \$100,000 prior to requesting an audit, after receipt of an audit report, or after conclusion of discussions prior to making an award, and
- Terminations for convenience over \$100,000 and all terminations for default, and interagency agreements.

R8 tracks the CMRP reviews electronically, and the panel presents a monthly summary to the R8 FTS Assistant Regional Administrator. We reviewed comments made by the CMRP regarding various task orders. While these orders were not included in our FY04 sample, the comments indicated that this control has been effectively implemented.

*Self-Certified Reviews.* R8 has a policy in place for each ITM, Team Lead, and CO to perform reviews and monitor their own work. The ITM should have the knowledge to identify file discrepancies and take the necessary action to correct these issues. The Team Lead is responsible for monitoring the performance of their team associates paying special attention to procurements over \$100,000. Contracting Officers are to review the contract files for agreement before they sign the award. These reviews are to be documented using a Quality Review Checklist. We determined that this is a valuable control to ensure file and procurement integrity; however, for the five newly

awarded task orders included in our sample, we did not find any quality review checklists included in the file documentation.

*Acquisition Plan Reviews.* For all procurements reviewed by the CMRP, the acquisition plans are reviewed by the panel and then again by either the Director of IT Solutions or the Director of Network Services. We reviewed acquisition plan reviews performed by the CMRP and an FTS Director regarding various task orders, including five orders in our FY04 sample. The documentation indicated that this control has been effectively implemented.

*Training and Communication.* R8 is currently emphasizing additional training and has two training plans. One addresses attendance in procurement courses such as acquisition planning and price analysis. The other plan is more general including classes such as project leadership and risk management. As of August 2004, 66% of the required procurement courses had been completed or had been scheduled for completion.

R8 is also in the process of preparing a procurement flowchart to distribute to all FTS R8 procurement personnel to assist them in the procurement process. This flowchart lines out the process step by step, from initial client contact to award.

To enhance internal communication, R8 FTS has implemented weekly 30-minute all-hands meetings. These meetings cover a variety of topics from systems issues to Central Office FTS memos. In addition, R8 FTS has developed a communication plan to ensure that associates' questions and concerns are addressed in a timely and effective manner. R8 advised that FTS is implementing the plan service-wide.

*Appointment of Regional Contracting Official and FTS Acquisition Director.* Regional management is in the process of hiring a regional contracting official to oversee all procurement activities in R8. Regional management advised that this official will report directly to the Regional Administrator and have joint supervisory responsibility over regional contracting staff, along with regional program officials. Regional management also stated that R8 FTS plans on hiring an Acquisition Director. We believe that these positions will strengthen the control environment.

**Task Order Review.** Our review of procurement actions for the period March through May 2004 indicated that at that time, procurement deficiencies still existed and some Central Office FTS controls had not been fully implemented. Deficiencies noted included lack of support for fair and reasonable pricing, non-compliance with competition requirements, improper task order modifications, unsubstantiated costs, continued preference for time-and-material orders, and a task dealing with national security. As for implementation of Central Office controls, in one case, R8 legal performed a pre-solicitation review rather than a pre-award review of a task. In addition, R8 omitted or did not complete some acquisition checklists.

*Inadequate Competition.* Of the five new awards in our FY04 sample, R8 awarded four without the benefit of competitive bids. The total combined value of these orders is \$11,562,759. Two of the five new awards we reviewed were not in compliance with the FTS Commissioner's memo dated March 11, 2003 regarding Section 803 of the National Defense Authorization Act. Per the memo, for all orders for services over \$100,000 placed under multiple award contracts on or after October 25, 2002, the contracting officer must receive offers from at least three contractors or determine in writing that no additional contractors can fulfill the requirements. It is important to note that while e-Buy satisfies the requirement for fair opportunity, if the contracting officer does not receive a minimum of three offers, the contracting officer must document in writing that there are no other contractors that can fulfill the requirement.

*Lack of Support for Fair and Reasonable Pricing.* For 9 of the 10 FY04 orders we reviewed, we did not find sufficient evidence that R8 made a determination that pricing was fair and reasonable. For three of the existing orders, (01RT0203, 03RT0597, and 03RT0616) we determined that the risk that the Government did not receive fair and reasonable pricing is unacceptably high. R8 management informed us that they plan to re-compete task orders 01RT0203 and 03RT0597.

*Improper Modifications.* For two of the five ongoing task orders we reviewed for FY04, R8 added work beyond the scope of the original task and/or improperly executed contract options. For one of these task orders, these improper practices resulted in a 270% cost growth.

*Unsubstantiated Costs.* In two of the ten task orders we reviewed (one new award, one existing task), we found either improper billings or lack of support for the costs billed. In one task order, the vendor was charging the client at labor rates higher than those proposed.

*National Security Orders.* None of the new orders included highly classified information; however, one of the existing orders did include highly classified information. The ITM for the existing order informed us that she could not completely describe the work being completed because she was not privy to all of the information and did not receive the entire proposal.

*Frequent Use of Time-and-Material (T&M) Authority.* As in the FY03 review, the FY04 review indicated that R8 continues to frequently use time-and-materials type tasks orders. All five newly awarded task orders services we reviewed were time-and-material tasks. One of these orders did not have justification for using a T&M type task, as required by FAR 16.6.

*Legal Review for Orders Over \$5 Million.* Per the FTS Commissioner's memo dated October 1, 2003, for all actions that result in the issuance of a task order under an existing vehicle in excess of \$5 million, the procurement package requires a legal review/approval/concurrence. One new task order in our sample met this criteria.

While we determined that Legal Counsel reviewed the acquisition plan and file documentation prior to solicitation, R8 did not present the file for legal review prior to award, as required.

*Omitted or Incomplete FTS Acquisition Checklists.* Of the five new awards in our sample, two of the task orders were accompanied by the appropriate checklists, as required per the FTS Commissioner's memo dated October 6, 2003. In two cases, an acquisition checklist was not completed. For one task order, R8 created a checklist; however, it was the incorrect checklist for that type of procurement. We did not evaluate the effectiveness of the checklists in preventing procurement deficiencies.

*Procurement Management Review (PMR) Program.* The FTS Office of Acquisition is conducting tri-annual reviews to ensure that regulatory guidance is being followed and that the integrity of the acquisition process is preserved. R8 procurement officials informed us that the FTS Office of Acquisition performed its first review of the CSC in late July 2004. The draft report from this review was expected within 60 days.

*CSC Management Plan.* FTS issued guidance establishing national standards governing internal controls for task order acquisition activities including pre-award and post-award oversight, training requirements, and management controls. As required by the plan, each CSC is responsible for conducting self-assessments of its operation on a recurring basis, and Assistant Regional Administrators (ARAs) and Assistant Commissioners (ACs) are required to review task orders on a sample basis to ensure that proper controls are in place. Results are included in the annual assurance statements of the Regional Administrators, ARAs, ACs, and the FTS Commissioner.

Regional FTS management provided us with the region's management plan and its current status. We determined that this plan was adequate; however, we provided management with specific informal feedback on ways to improve the effectiveness of the plan.

*ITS Contract/Project Closeout Guidance.* FTS issued guidance establishing contract and project closeout procedures. Each regional ARA and IT Solutions National Program Director is responsible for developing and submitting written closeout procedures for his/her region or business unit(s). The procedures are to encompass contract, task order, project, and financial closeouts; must require regular reporting of closeout results to the AC, IT Solutions; and must assign specific responsibilities to specific FTS associates for ensuring closeouts are conducted in a thorough and timely manner.

Regional FTS management provided us with proposed closeout procedures for the region. R8 is currently awaiting Central Office approval of these procedures. We do not take exception with them as written.

## **Conclusion**

In the FY03 review, 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 findings involve numerous instances of misuse of the IT Fund, inappropriate and questionable contracting actions, and inadequate competition and documentation supporting that the Government received fair and reasonable pricing.

As a result, R8 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 were ineffective management controls and an environment that emphasized client agency satisfaction and revenue over compliance with proper and prudent procurement procedures.

In the FY04 review, we identified some instances of improved contracting; however, many of the issues we found in FY03 remain. We determined that R8 FTS has been inconsistent in complying with Central Office FTS Controls developed as a result of our January 2004 report (Audit Report Number A020144/T/5/Z04002) on the FTS Client Support Centers. However, R8 has implemented some regional controls to improve the procurement process. The Office of Audits is currently conducting additional testing of internal controls in the R6 CSC.

As indicated in our January 2004 report on the FTS Client Support Centers, 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. However, our work indicates that R8 needs to focus not only on the integrity of new awards but also existing orders that are high-risk due to improper actions that have occurred during the life of the task. While in some cases, R8 has identified and begun to remediate task orders inappropriate to the IT Fund, much work remains to remediate tasks with other serious deficiencies, such as inadequate support for fair and reasonable pricing, improper exercising of task order options, etc. The appendices to this report identify specific actions required for the task orders included in our audit.

## **Management Response**

On November 23, 2004, GSA's Regional Administrator for the Rocky Mountain Region (RMR) submitted a response that indicated the Region concurred with the draft audit report. The response also noted that the RMR is taking the steps necessary to perform its acquisition role to the highest standards of customer service quality and acquisition compliance. For example, the RMR has initiated an aggressive training program for

associates to bring acquisition knowledge and skills to a superior level. RMR FTS also has instituted a number of other initiatives to improve acquisition quality, including project management training leading to certification that encompasses training on contract administration; hiring of additional contracting officers and an acquisition director; a centralized "Knowledge Portal" on-line tool that provides associates with easy access to policies and procedures; management controls have been implemented which require reviews of acquisitions at a variety of levels; and remediation efforts are underway on a number of tasks.

Management's response is included in its entirety as Appendix C to this report.

### Audit Comments on Management Response

We believe that the RMR is sincere about strengthening controls to improve acquisitions. In general, the RMR's response conveys acknowledgement that problems existed and a forward focus toward improvement.

One area in which the RMR partially disagreed with the audit findings was relative to a FY04 order that was not reviewed by legal counsel prior to award. RMR noted that legal counsel did review the order pre-solicitation. We emphasize the importance of legal review prior to award to ensure overall legal sufficiency before the obligation of funds.

### Internal Controls

We assessed the internal controls relevant to the CSC's procurements to assure that the procurements were made in accordance with the FAR and the terms and conditions of the contracts utilized. We identified improper procurement practices including limited competition, insufficient documentation that the government received fair and reasonable pricing, improper or questionable contracting practices, poor contract administration, and questionable use of the IT Fund. We believe that an effective internal control structure would have identified and prohibited many of the inappropriate procurement practices we noted.

Additionally, given the magnitude of the problems noted in our review of FY 2003 procurements, the control environment did not provide reasonable assurance that misapplication of customer agency funds would be prevented. Therefore, we concluded that for FY 2003, the internal controls were not always effective and did not provide assurance that Government funds were reasonably protected. Our limited review of task orders issued from March to May 2004 indicated that improvements were being made. However, due to the limited nature of our review of 2004 procurements, we cannot determine whether these improvements are reflected in all FY 2004 contracting actions.

The Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC program during fiscal year 2005.





## APPENDICES



**AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER, ROCKY MOUNTAIN REGION  
REPORT NUMBER A040130/T/6/Z05010**

Schedule of 2003 Task Orders Reviewed in the Rocky Mountain Region

| <b>Order Number</b> | <b>Client</b> | <b>Contract Type</b> | <b>Contractor</b>                                     | <b>Contract/BPA Number</b> | <b>Order Value<br/>(as of 6/30/04)</b> | <b>Notes</b> |
|---------------------|---------------|----------------------|---|----------------------------|--|--------------|
| 01RT0048            | Defense       | Answer               | Tasc Inc.   | GS09K99BHD0008             | \$11,428,568                           | 1            |
| 01RT0278            | Air Force     | Millennia            | Litton PRC, Inc.                                      | GS00T99ALD0206             | 7,642,102                              | 2            |
| 01RT0542            | Air Force     | Millennia            | Litton PRC, Inc.                                      | GS00T99ALD0206             | 23,983,504                             | 3            |
| 01RT0566            | Air Force     | Millennia            | Lockheed Martin Services Inc.                         | GS00T99ALD0205             | 12,839,121                             | 4            |
| 01RT0677            | Air Force     | Schedules            | Lockheed Martin Management & Data Systems             | GS-35F-0400J               | 6,813,714                              | 5            |
| 02RT0185            | Interior      | Millennia Lite       | ACS Government Services, Inc.                         | GS07T00BGD0019             | 3,438,981                              | 6            |
| 02RT0355            | Air Force     | Schedules            | Titan Systems Corporation Information Solutions Group | GS-35F-5396H               | 111,870                                | 7            |
| 02RT0437            | Air Force     | MOBIS                | Applied Research Associates, Inc.                     | GS-10F-0298K               | 225,630                                | 8            |
| 02RT0724            | Air Force     | Answer               | Computer Sciences Corporation                         | GS09K99BHD0003             | 18,429,639                             | 9            |
| 02RT0734            | Air Force     | Millennia            | Lockheed Martin Services Inc.                         | GS00T99ALD0205             | 25,625,292                             | 10           |
| 02RT0776            | Navy          | Schedules            | Titan Systems Corporation Information Solutions Group | GS-35F-5396H               | 18,840,310                             | 11           |
| 02RT0895            | Air Force     | Millennia Lite       | Computer Systems Technology Inc.                      | GS07T00BGD0022             | 6,179,327                              | 12           |
| 02RT0904            | Air Force     | Schedules            | Riverside Research Institute                          | GS-35F-0185J               | 454,998                                | 13           |
| 02RT0955            | USDA          | FAST 8(a) IDIQ       | Information Systems Support Inc.                      | GS06K97BND0710             | 215,536                                | 14           |
| 03RT0005            | Air Force     | Schedules            | Shim Enterprises Inc.                                 | GS-35F-0005J               | 8,006,004                              | 15           |
| 03RT0028            | Interior      | Millennia Lite       | SAIC, CST Group                                       | GS07T00BGD0022             | 12,421,817                             | 16           |
| 03RT0119            | Army          | Schedules            | Anteon Corporation                                    | GS-10F-0154K               | 3,006,810                              | 17           |
| 03RT0135            | Air Force     | PES                  | TASC INC.   | GS-23F-0008K               | 8,831,686                              | 18           |
| 03RT0174            | Air Force     | Schedules            | Dell Computer Corporation                             | GS-35F-4076D               | 15,543,629                             | 19           |
| 03RT0368            | USDA          | FAST 8(a) IDIQ       | SI Enterprise Consulting Corporation                  | GS06K97BND0697             | 306,201                                | 20           |
| 03RT0570            | HHS           | Answer               | Booz-Allen & Hamilton Inc.                            | GS09K99BHD0002             | 1,984,973                              | 21           |
| 03RT0585            | Air Force     | Schedules            | Riverside Research Institute                          | GS-35F-0185J               | 4,148,671                              | 22           |
| 03RT0736            | Defense       | Millennia Lite       | Titan Corporation (formerly BTG Inc.)                 | GS07T00BGD0057             | 229,217,209                            | 23           |
| 03RT0763            | Air Force     | MOBIS                | Booz-Allen & Hamilton Inc.                            | GS-23F-9755H               | 190,476                                | 24           |
| 03RT0772            | Air Force     | Schedules            | CompuCom Federal Systems Inc.                         | GS-35F-0351K               | 244,799                                | 25           |
| 03RT0992            | Air Force     | Schedules            | Science Applications International Corporation        | GS-35F-4461G               | 325,685                                | 26           |
| 0R00015GSA1         | Air Force     | PES                  | TASC Inc.   | GS-23F-0008K               | 13,718,395                             | 27           |
| 0R00176GSA1         | Air Force     | Schedules            | Northrop Grumman Information Technology Inc., GS      | GS-35F-4340D!              | 4,365,775                              | 28           |
| 0R00624GSA1         | Air Force     | Schedules            | Dynamics Research Corporation                         | GS-35F-4775G               | 6,108,603                              | 29           |

## Notes for Schedule of 2003 Task Orders Reviewed

1. Order 01RT0048 is a task to provide on-site operational support (system maintenance, data collection, and report generation) for the Department of Defense (DOD). 01RT0048 is a follow-on task order to 0R00438GSA1. The best value determination stated that the DOD determined through its own justification, market research, and analysis that the use of TASC Inc.'s ANSWER contract vehicle benefits the work effort and is the best value for the project. The file did not include R8's analysis of labor mix, labor effort, or Other Direct Costs (ODCs). The proposed ODCs included parking and office supplies, which may not be appropriately billed as direct costs. R8 should review ODCs to ensure that they are allowable and do not represent a duplicate cost recovery.

In addition, R8 did not formally evaluate or exercise option years as required in FAR 17.207, but allowed option year costs to be funded. In Modification 4, R8 extended the period of performance (POP) to cover the option years included in the statement of work. Since R8 never formally exercised option years, yet R8 is still performing actions on the task, R8 should consult with Legal Counsel to determine the appropriate remedial actions necessary at this time to render the task legally sufficient. There was no documentation in the file to state why R8 extended the POP. Extensions to the POP should not be executed without a justification.

Contractor invoices contained only a lump sum amount for ODCs. Without details as to what ODCs are being charged, there is no assurance that the amounts billed are reasonable or proper. Lack of FTS oversight in this area places the Government at risk of improper or irregular billings and potential cost and time overruns. R8 should evaluate the billings and request additional supporting documentation to ensure that ODCs are relevant and reasonably priced in accordance with the proposal.

2. Order 01RT0278, providing software maintenance and operational support to the Air Force's Global Awareness Division, is a Millennia task order competed among all Millennia contractors. Only the incumbent vendor, Litton PRC, submitted a proposal. There was inadequate documentation to support a price evaluation of labor and ODCs. The ODCs included a copier, phone, pager, and network support costs, which are general administrative costs typically reimbursed through fully loaded labor rates. Also, there was no evidence that FTS analyzed the ODCs to ensure that duplicate cost recovery did not occur. In addition, the total task grew approximately 66% from the original proposal amount. The ITM advised that the task cost increased due to the need to increase labor to support the original scope, as well as to fund repairs that were necessary due to a tropical storm. However, we determined that additions to the level of effort constituted an improper increase in scope. Although R8 advised that the added effort was in accordance with the statement of work, we concluded that such a substantial increase constitutes an inappropriate addition to scope. R8 also did not determine the pricing of the additional work to be fair and reasonable. Since these costs were not included in the initial evaluation, R8 was responsible to ensure that the costs were reasonable. R8 also processed multiple POP extensions without justification.

In addition, we determined that R8 authorized funding levels above the total approved funding amount on multiple occasions during the administration of this task. For example, Modification 7 represented the last R8 approval of additional funding to bring the task order value to \$7,343,915, yet R8 approved numerous extensions to costs that reached \$7,786,572 by Modification 18. In addition, contractor invoices contained only a lump sum amount for ODCs. Without details as to what ODCs are being charged, there is no assurance that the amounts billed are reasonable or proper. R8 completed and closed out this task in April 2003.

3. Order 01RT0542 is a Millennia cost plus award fee task order to provide IT support to the Air Force's Early Warning Radar (EWR) Service Life Extension Program (SLEP). Litton PRC (Litton) submitted the sole proposal. Contract file documentation did not adequately corroborate R8's evaluation of Litton's proposed labor and ODCs. ODCs proposed under this task totaled over 50% of the total (equating to \$11 million); therefore, inadequate evidence of evaluation is of particular concern. Despite the file weaknesses, subsequent to our inquiries, R8 was able to produce

documentation to demonstrate that an evaluation process occurred, initiated by the Air Force. Although the evaluation process was inadequately documented, we learned that the Air Force conducted a comprehensive evaluation and therefore have reasonable assurance that the task order was adequately reviewed.

We also found an inappropriate addition of work beyond the original scope of work, as well as inadequate support for ODCs billed against this task. R8 should take proactive steps to ensure that future billings include adequate support for ODCs applied to the project and that those costs are in accordance with the proposal.

4. Order 01RT0566 is a Millennia task for the Air Force to support the Space Based Infrared System Mission Controls Station, as well as for maintaining and managing a media library for the department. While we do not believe that this task is entirely IT, the majority of the efforts appear appropriate to the IT Fund. All Millennia vendors received the solicitation, but only the incumbent vendor, Lockheed Martin, responded with a bid. We determined that R8 did not evaluate the level of effort, labor mix, or ODCs associated with the task. Because the documentation does not support that R8 made an adequate determination that the pricing under this task was fair and reasonable, R8 should not continue the task until price reasonableness can be established and documented. On June 25, 2004, R8 issued a modification to extend the POP in order to allow time for re-competition of this task.

The contract file also contained improper contracting actions including improper increases in scope with no evaluation of additional costs and failure to formally evaluate or exercise option years funded in accordance with FAR 17.207. Since no option years were ever formally evaluated or exercised, yet actions are still being performed on this task, R8 should consult with Legal Counsel to determine the appropriate remedial actions to take at this time.

We also noted that billings did not contain adequate support for the ODCs submitted. R8 should take proactive steps to ensure that future billings include adequate support for ODCs applied to the project and that those costs are in accordance with the proposal.

5. FTS awarded order 01RT0677 to the sole FSS Schedule bidder, Lockheed Martin, to provide Space Based Infrared System (SBIRS) software development and system integration for the Air Force. While R8 competed this task, the file documentation indicated that the Air Force "insisted and required" that Lockheed Martin maintain program control, and that R8 chose the Schedule contract vehicle in order to ensure that the Air Force could continue its relationship with Lockheed Martin. Accordingly, there is an appearance that the award to Lockheed Martin was a forgone conclusion, which compromises the integrity of the competitive process.

This task also included improper contracting actions, including addition of work beyond the scope of the original task, questionable funds management, and failure to formally exercise options. R8 improperly added \$7.5 million (over 100% of the original contract value) to the task for unrelated research and development studies and failed to evaluate the additional costs. R8 also cancelled a portion of work approximately three months after Lockheed Martin proposed the costs (\$527,366), but did not reduce the approved funding amount. By allowing the funds originally approved for the canceled activities to supplement other activities, FTS rendered the original proposal estimates meaningless. There is no evidence that FTS ever made a determination that additional funds were necessary for completion of the remaining tasks.

We also determined that there was no documentation in the file to support adequate analysis of pricing of labor or ODCs. The best value determination in the file cited market research, cost comparisons, current pricing data, and professional knowledge as factors in R8's acceptance of other direct costs. However, we learned that R8 did not take any steps to evaluate ODCs, as the evaluation components referenced were merely taken from a boilerplate document. ODCs represented over 20% of the contract value and included questionable mark-ups typically included in overhead that could indicate duplicate cost recovery. Although this task is still open, R8 advised that they are currently in the process of closing out the order.

6. Order 02RT0185 is a Millennium Lite task for the Department of Interior. This task includes activities such as conducting surveys for various threatened and endangered species and monitoring the avian community. As discussed in the body of the report, this task is not appropriate for the IT Fund. It is also inappropriate to the Millennium Lite contract vehicle. We determined that the vendor had to sculpt the biology-related labor into the labor categories in the information technology field. By limiting eligible vendors to information technology vendors authorized under Millennium Lite, R8 eliminated the most qualified contractors from the bidding process. R8 should consult with Legal Counsel to determine the appropriateness of the IT Fund and contract vehicle for this task.

We also identified several pricing issues. R8 authorized an increase to labor rates when a modification was signed, but advised that they were not cognizant of the increase. We also noted inadequate support for proposed travel costs and ODCs. The vendor applied a mark-up of 9.61% to travel. Assuming the mark-up is to cover overhead costs, the mark-up is unallowable per the Millennium Lite contract, which states that overhead costs are not allowable on travel and are limited on ODCs. Accordingly, R8 should evaluate the mark-up and recover over billings.

In addition, the statement of work for this project was insufficient. We determined that the Department of Interior intentionally wrote an all-encompassing scope of work in order to accommodate unanticipated future projects. Statements of work are supposed to be performance-based and must reasonably describe the general scope, nature, complexity, and purpose of the services or supplies to be acquired. The requirement that orders be within scope is critical since protesters can file grievances on the grounds the order increases the scope, period, or maximum value of the contract against which the task order is issued. We also noted a 38% growth in costs above the proposed amount, signifying an increase in scope. R8 should consult with Legal Counsel to determine the appropriate actions to remediate this task. R8 advised that they are currently in the process of remediation for this order.

7. Order 02RT0355 is an Air Force schedule order for consulting work including strategic planning, advisory assistance in the generation of studies, and assessment of operations. We determined that the work is inappropriate to the IT Fund. In addition, there was no documentation in the file to support adequate analysis of pricing. R8's evaluation of labor consisted of comparisons of labor category rates through *GSA Advantage!*, which is not adequate. Also, R8 did not evaluate labor mix or labor effort. The proposal documentation adequately supported a need for travel; however, R8 approved a modification to allow the vendor to switch the allotted travel funds over to labor. By allowing the reallocation, R8 allowed the vendor to augment their originally proposal labor costs. This order has been closed out as of June 2004.
8. Order 02RT0437 is for the Air Force Space Command's Reusable Launch Vehicle concept, analyzing the lethality of weapons. This effort is inappropriate to the IT Fund. R8 has taken corrective action and re-competed this effort through the General Supply Fund. R8 also approved payment for lump sum billings that did not include documentation of the labor effort, labor mix, or ODCs billed. Since this order has been completed, we did not recommend corrective actions for the issues identified.
9. Order 02RT0724 is an Answer task for the Air Force Space Command Network Operations Flight's systems. All Answer vendors received the solicitation, but only the incumbent vendor submitted a proposal. We determined that there was inadequate documentation in the file to support adequate analysis of pricing. Although the client prepared an independent cost estimate, it was only for the base year. Therefore, the option years that followed were not included in the price analysis at the time of award. R8's evaluation of labor rates consisted of a spot check of contract rates against *GSA Advantage!*, which FSS' ordering procedures for services do not prescribe because (1) unlike commodities, it is very difficult to establish that the rates are comparable, and (2) there are two components to price for services – rates *and* hours. R8 also approved ODCs without adequate determination of fair and reasonable pricing. The risk to the government associated with this task is high not only because R8 has not establish price reasonableness for the option years, but also

because R8 only received one bid and the task has growth potential in excess of \$74 million. R8 should evaluate current pricing and consult with Legal Counsel to determine whether this task should be re-competed due to the absence of an adequate pricing evaluation.

R8 has also failed to formally evaluate or exercise option years funded in accordance with FAR 17.207. Since no option years were ever formally evaluated or exercised, yet actions are still being performed on this task, R8 should consult with Legal Counsel to determine the appropriate actions to take at this time to ensure legal sufficiency.

10. Order 02RT0734 is a Millennia task for the Air Force's SBIRS System Support Manager Division, providing services such as maintenance control, mission studies and analysis, and software modifications. FTS solicited the Millennia vendors for this task, but only the incumbent, Lockheed Martin, responded with a proposal. As discussed in the body of the report, this task represents inappropriate pass-through of work, resulting in additional mark-ups of \$1.6 million.

There was no documentation in the file to support an evaluation of labor rates, level of effort, or labor mix. We also determined that three labor categories associated with this task are not included in Lockheed's Millennia contract. The fact that R8 approved three labor categories in the proposal that are not in the base contract illustrates how using a specific contract vehicle does not preclude the vendor from adding additional labor categories into the labor mix. Further, there is no documentation in the file to support that these additional labor category rates were determined to be fair and reasonable. R8 also failed to adequately document an evaluation of ODCs, which totaled \$8.5 million (34% of the total value). Further, R8 and the client could not provide support for ODC billings; we had to contact the vendor to determine what was purchased. The fact that neither R8 nor the client could produce a listing of the ODCs billed for the task shows that there is poor contract administration associated with this task. We concluded that without R8 knowing what is being purchased and billed, it is not possible to have determined price reasonableness of these items.

R8 also failed to formally evaluate or exercise option years funded in accordance with FAR 17.207. Due to the extent of problems with this task R8 should consider re-competing the task. R8 advised that they are re-competing this order.

11. Order 02RT0776 is a Schedule order to provide support services to the Navy for planning, engineering, implementing, operating, and maintaining select computer networks and telecommunication requirements. In addition to the inappropriate 122% cost growth described in the body of this report, R8 approved ODCs of \$50,000 at the time of award, but later approved invoices in excess of \$600,000 for ODCs. There was no documentation to support a determination of price reasonableness for the additional ODCs. The importance of the price reasonableness determination is emphasized because of the unexplained growth in ODCs. R8 should review this task to assess the cost growth and discrepancy in ODC costs proposed versus charged.

R8 also approved billings for labor rates above the proposed rates. R8 should review all billings to date under this task to determine if over billings have occurred, and if so, take action to collect the over billings from the contractor.

12. Order 02RT0895 is a Millennia Lite task to provide logistical support and technical management for the sustainment of the Air Force's F-16s. For this order, we determined that R8 increased the scope of the order without ensuring fair and reasonable pricing or justifying the change. R8 also augmented client agency funding by paying the vendor for more than the allowable funding limit. R8 should consult with Legal Counsel to determine appropriate actions that may be necessary to remediate this situation. We also found discrepancies between contractor timesheets and invoice billings, which gave the appearance that the vendor was over billing for labor costs. We recommend that R8 review all billings to date under this task to determine if over billings have occurred, and if so, take action to recover the over billings from the contractor. R8 also approved lump sum ODC billings with no supporting documentation. R8 should take proactive steps to ensure that future billings include adequate support for ODCs applied to the project and that those costs are in accordance with

the proposal. R8 advised that they are currently in the process of remediation for this order.

13. Order 02RT0904 is a Schedule task to provide support, including technical and programmatic assistance to the Air Force Institute of Technology. R8 awarded the effort to Riverside Research Institute on a sole source basis. We determined that the sole source justification was invalid as the best value evaluation stated that this task was directly related to task order 02RT0375, therefore, only Riverside Research was solicited. This is not a proper basis for a sole-source action.

The task order file did not include any documentation supporting an analysis of the proposed labor mix or level of effort, as required by FSS Ordering Procedures. There was also no support of a price analysis of the ODCs proposed for this task, which represented 54% of the total proposed costs. Before proceeding with this task, R8 must be able to establish that the price is fair and reasonable or make plans to re-compete the effort. R8 also approved lump sum ODC billings with no supporting documentation, and accepted invoices for labor categories not included in the original proposal. R8 should review all billings to date under this task to determine the appropriateness of the ODCs and the additional labor categories billed.

14. Order 02RT0955 is an 8(a) award for consulting services for the Department of Agriculture. We discussed issues of misuse of the 8(a) authority, improper exercise of option year, and conflict of interest regarding this order in the body of the report. We also determined that use of the IT Fund was inappropriate, fair and reasonable pricing was not documented in the file, and ODCs not proposed were included in the contractor's billings. In addition, FTS has continued to fund this task beyond the POP (no option years were proposed); accordingly, the contracting officer should consult with Legal Counsel to determine the appropriate actions to take at this time to ensure legal sufficiency. R8 should further consult with Legal Counsel regarding the propriety of continuing this task through the IT Fund, as well as the appropriateness of the subcontracting situation. R8 should also review all billings to date under this task to determine whether the ODCs are in accordance with the proposal.

15. Order 03RT0005 is a Schedule award to provide IT services to produce CROSSTALK, the Journal for Defense Software Engineering for the Air Force. R8 solicited 5 contractors; only one responded. Because the award date was prior to October 25, 2002, there is no Section 803 violation; however, R8 did not perform an adequate evaluation of price reasonableness (no evaluation of labor effort or labor mix). Also, R8 did not comply with FSS Ordering Procedures in that R8 did not request additional discounts even though the order was above the Maximum Order Threshold (MOT) for the Schedule contract.

In addition, the sample of invoices we reviewed revealed that all of the billed labor rates were higher than the vendor's established schedule rates. This resulted in over billings in excess of \$93,000 for the month of December 2003 alone. In addition, there was very little detail to support the invoiced ODCs and R8 did not have access to additional support to substantiate the costs. R8 should review all billings to date under this task to determine whether the proposed labor rates are in accordance with the base contract, whether the ODCs are in accordance with the proposal, and initiate action to recover over billings.

Other improprieties we noted: R8 allowed six revisions to the SOW, adding or changing labor categories or subcontract work, and increased funds for labor, travel, and material. Changes to the SOW can leave FTS vulnerable to protests if the actual scope of work is materially different from the original scope of work that FTS solicited.

16. Order 03RT0028 is a Millennia Lite task for the Department of Interior for remote sensing support. R8 improperly added work to the task that more than doubled the value of the original proposal. R8 did not ensure that the scope of work was clearly defined in the statement of work, and there was no discernable indication that anyone considered the actual amount of effort the job required. FTS should evaluate the task and consider termination and re-competition with a restructured statement of work that clearly defines the work to be performed.



17. Order 03RT0119 is a Schedule task for the Army to monitor and maintain training land. As discussed in the body of this report, this task was not appropriate to the IT Fund, included unsubstantiated costs for items not included in the proposal, and included unqualified vendors in the bidding process. In addition, there was no documentation supporting an analysis of the labor mix or level of effort or ODCs. We determined that R8 approved more than two times the proposed ODCs with no evaluation of the pricing or need for such costs. This task has increased in cost 45% since the original award. Due to the extent of issues with this task, we recommend that R8 consult with Legal Counsel to discuss termination of this task and evaluate all billings to rectify any over billings that occurred. R8 management has advised that they identified problems with this order prior to our review. Legal Counsel recommended termination or remediation in February 2004, and R8 advised that they are currently remediating the order. However, as of the date of the report, R8 had not provided any documentation to support that remediation efforts are in progress.

18. Order 03RT0135 is a professional services task awarded to TASC, Inc. (TASC) to support the SBIRS program by maintaining the reliability and performance of fielded SBIRS weapon system components for the Air Force. As stated in the body of the report, this task is inappropriate to the IT Fund, and R8 improperly awarded ODCs without evaluating the costs for price reasonableness. We determined that the statement of work was too broad, allowing the contractor to support nearly all, if not all, of the Air Force's needs, which inappropriately limits competition. We recommend that R8 consult with Legal Counsel regarding the vast array of subtasks included in this order and the subsequent order, 04RT0378, to determine if the handling of this work is perpetuating a non-competitive environment.

R8 also failed to formally exercise the option as required by FAR 17.207, although it allowed option year costs to be funded. Accordingly, the contracting officer should consult with Legal Counsel to determine the appropriate actions to take at this time to ensure the legal sufficiency of this task.

We also determined that the vendor has billed for non-IT work under the premise of IT. For example, two invoices indicate that a Junior Technical Management IV employee actually represents amounts for labor to paint vehicles. R8 should evaluate the activities performed under this task and ensure that the vendor is supplying labor that it is appropriate to the base contract.

19. Order 03RT0174 is a Schedule task to replace old and outdated computers for the Air Force. The competition appeared adequate, but we determined that the actual purchases were not in accordance with the original quote; accordingly, we could not determine if the invoices were in accordance with established rates. Since R8 is procuring items that were not priced based on the solicitation or proposal, this is an improper procurement and should be referred to Legal Counsel to determine an appropriate course of action.

We determined that R8 improperly awarded this task as a time-and-materials task when it should have been a commodity buy. The use of a time-and-material vehicle requires that labor be billed at an hourly rate in addition to any materials; however, this order was for materials only. R8 should also consult with Legal Counsel on this issue to determine appropriate action.

20. Order 03RT0368 is an 8(a) task to perform a requirements analysis for a new automated veterinary services information system for the USDA. The file did not contain documentation to show that R8 adequately analyzed the proposed pricing for the task. In addition, R8 approved additional work outside the scope of this task three times without establishing price reasonableness. These additions resulted in a 600% increase in the value of the task. The dollar value increase alone renders these contracting actions outside the scope. R8 also allowed five POP extensions without justification. POP extensions should be the exception and should always be accompanied by an appropriate justification. R8 advised that they are currently in the process of remediation for this order.

21. Order 03RT0570 is an ANSWER task for the Department of Health and Human Services. We determined that the work was administrative in nature, and not appropriate to the IT Fund. R8 should evaluate this order for transfer to the General Supply Fund.

We also questioned R8's allowance for the contractor to clarify their bid after all bids were submitted without providing the same opportunity to the other vendors. Legal Counsel has asked that this task order be referred for appropriate disposition.

We also identified contractor billings that included labor rates that were not in accordance with the proposed rates. R8 should evaluate the billings and recover any over billings that may have occurred.

22. Order 03RT0585 is a Schedule task to provide advisory and assistance support to the Air Force Research Laboratory. R8 processed this task as a follow-on to 02RT0375. R8 competed the previous task; however, only received one offer. The price analysis for labor was inadequate in that it did not include an evaluation of level of effort and labor mix. In addition, this order also exceeded the MOT for the Schedule contract, but there was no evidence that R8 requested additional price concessions from the contractor, also required per FSS Ordering Procedures. Before continuing this task, R8 needs to establish price reasonableness.

In regard to ODCs, the contractor proposed a 7.1% general and administrative fee applied to travel and ODCs. Schedules do not allow for this markup on travel, and it is the contracting officer's responsibility to ensure that no duplicate cost recovery has occurred. R8 should evaluate the markups and take action to recover unallowable costs.

We also determined that this task is better suited to the General Supply Fund as professional services. During our review, R8 advised that they planned to re-compete this order as a professional services task in April 2004. However, we determined that R8 instead granted an extension to the POP, keeping the task in the IT Fund until August 31, 2004. R8 should review this task for termination or transfer to the General Supply Fund.

Further, R8 has approved modifications to increase efforts beyond the scope of the original task. As stated earlier, this order is a continuation of 02RT0375 incorporated due to system migration issues. 02RT0375 included four revisions to the statement of work to add or change labor and increase the ceiling price of the task. 03RT0585 included an additional five modifications to allow revisions to the statement of work for similar reasons, increasing the total number of statement of work changes to seven. The size of the task has more than doubled since the time of award, and R8 approved an increase in the ceiling price that will increase the effort by 630%. Due to the extent of problems with this task, R8 should consult with Legal Counsel and consider termination.

We also noted unexplained POP extensions and approval of billings for labor categories not included in the proposal. R8 should evaluate the billings and take action to recover any over billings that have occurred. R8 advised that they are currently in the process of remediation for this order.

23. Order 03RT0736 is a Millennia Lite task for the Department of Defense Education Activity (DoDEA) for Quality of Life to provide employee assistance services to the military. As discussed in the body of the report, we determined that this task is inappropriate to the IT Fund, represents a "pass-through" procurement to an employee assistance firm, and was procured through an inappropriate contract vehicle that effectively resulted in exclusion of qualified vendors from participation in the bidding process. As a result of our review, R8 has reviewed the task and awarded a six-month extension to Titan and its subcontractor, Ceridian. R8 awarded two separate six-month bridge contracts through the General Supply Fund to Titan (through its MOBIS Schedule contract for project management services) and Ceridian (through its human resources Schedule contract for employee assistance services). We learned that R8 intends to use the interim six-month period to conduct market research and prepare for re-competing the effort.

We obtained further information suggesting that DoDEA intended for this task to be awarded to Titan (formerly BTG, Inc.), which further pointed to inadequate competition. After R8 received the initial bids for the task, Titan's quote was more than \$272 million greater than the second highest bid. However, in apparent disregard for the huge price differential, DoDEA submitted a recommendation to R8 to award this task to Titan. R8 subsequently made multiple adjustments to the statement of work and allowed the vendors to resubmit bids. The unsuccessful bidders claimed that the final statement of work significantly changed the requirement through the addition of 144,000 face-to-face counseling sessions. After this change, Titan's price dropped significantly while the other bidders' prices significantly increased, leaving Titan bid approximately \$200 million less than the second lowest bid. At the very least, it is evident that the bidders did not have the same understanding of the requirement. Based on our review, R8's Justification for Award did not adequately address the price realism<sup>61</sup> of the offers, and, therefore, does not adequately substantiate that the award represents the best value for the Government.

24. Order 03RT0763 is a MOBIS task providing technical consulting services including review of conservation and natural resource programs, evaluation of strategic plans, and review of action plans pertaining to project management for the Air Force. This order was funded through the General Supply Fund, which is appropriate for the technical consulting services provided. The file stated that R8 competed the work to 16 contractors through e-Buy, but did not contain adequate documentation to substantiate the e-Buy transmittal. Only one contractor submitted an offer.

We also noted that the file contained insufficient technical or price evaluation support for the statements made in the best value determination. In regard to evaluation of level of effort and labor mix, R8 advised that they worked with the client to make an evaluation. However, documentation was not sufficient to substantiate this. Although ODCs were minimal, there was also no evidence that the contracting officer established that the ODCs were fair and reasonable. R8 advised that this order is complete and is in the process of being closed out.

25. Order 03RT0772 is a Schedule order to provide IT support to the Military Satellite Communications (MILSATCOM) Advanced Extremely High Frequency (AEHF) Program for the Air Force. We determined that the contractor is billing for one employee at a higher rate than proposed. Although ODCs were minimal, there was also no evidence that the contracting officer established that the ODCs were fair and reasonable. R8 should review the billings and initiate appropriate actions to recover any over billings.

26. Order 03RT0992 is a Schedule order to provide legal research services to the Air Force. We determined that this task is not appropriate to the IT Fund. Although we had discussions with R8 personnel regarding the applicability of various components of this task to the IT Fund, we determined that the primary intent of this task is to provide legal research services, not IT services. We recommend that R8 consult with Legal Counsel to transition this task out of the IT Fund.

We also determined that R8 allowed the vendor to bill for two labor categories not proposed. The billings for the two categories constituted 47% of the total billings for labor at the time of our review. R8 also approved a 110% markup on travel costs, which is not allowable on schedule orders. R8 should evaluate all billings to determine the extent of over billings and initiate action to recover funds.

27. Order 0R00015GSA1 is a professional services task awarded to TASC, Inc. (TASC) to support the SBIRS program by maintaining the reliability and performance of fielded SBIRS weapon system components for the Air Force. As stated in the body of the report, this task is inappropriate to the IT Fund, appeared to be a directed procurement, and improperly awarded ODCs in excess of \$10 million that were not evaluated. We determined that the statement of work was too broad, allowing

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<sup>61</sup> Realism of proposed pricing relates to whether prices are compatible with the proposal scope and effect (e.g., proposed prices are related to program scope being neither excessive nor insufficient for the effort accomplishment). Proposals lacking price realism may indicate, among other things: a lack of understanding of the requirements of the solicitation and the cost implications thereof, or use of inappropriate amounts of labor and materials, which unrealistically understate proposed price.

the contractor to support nearly all, if not all, of the Air Force's SBIRS program needs, which inappropriately limits competition. R8 also failed to exercise the option, although it allowed option year costs to be funded.

We also determined that the vendor was billing for non-IT work under the premise of IT. For example, in TASC's base proposal, Harris Technical Services Corporation, a subcontractor included in the proposal, submitted their subcontractor bid with a disclaimer that advised that they remapped their labor to GSA schedule categories, and that their personnel did not necessarily meet the minimum requirements of the GSA Schedule. We also noted that a lot of the materials require installation, and it appears that the majority of the labor charges billed against this task are for performing vehicle maintenance and refurbishment. Since this order is closed, we did not recommend corrective action. However, we recommend that R8 consult with Legal Counsel regarding the vast array of subtasks included in the follow-on efforts to this project (03RT0135 and 04RT0378). By allowing this large scope task to continue for an extended period of time, R8 is fostering a non-competitive environment.

28. Order 0R00176GSA1 is a Schedule task to provide software support for the Air Force. We determined that R8 inappropriately restricted competition for this procurement by soliciting only one vendor for the award without adequate justification. FSS Ordering guidelines require the ordering office to send the requirement to at least three Schedule holders if the proposed order is estimated to exceed the micro-purchase threshold and to an appropriate number of additional contractors when the order exceeds the MOT, (0R00176GSA1 exceeds the MOT). Further, there is neither a cost evaluation, nor a technical evaluation of the proposal in the file. R8 did not evaluate labor or ODCs to ensure that prices were fair and reasonable, which is of particular concern in the absence of competitive bids. ODCs were approximately 10% of the total proposed costs and included a general and administrative fee of 17.3%. We also noted inadequate supporting documentation for ODCs included in the contractor's billings.

We also determined that R8 allowed this task to lapse twice between POP extensions. After the initial POP ended on 3/31/01, R8 allowed the task to continue without a formal POP extension until 10/3/01. The second POP ended 1/31/02, yet R8 didn't close the project until 12/3/02, allowing the task to continue 10 months longer than formally approved. This exemplifies poor task management and could result in harm to the Government in terms of contractor efficiency and/or increased costs to the task. In addition, there were no option years proposed on this task, so the task should have been re-competed when the initial POP expired.

29. Order 0R00624GSA is a Schedule task to provide technical support to the Landing Gear Repair Center users for the Air Force. In addition to the improper modifications to the scope that resulted in an 1,100% increase in cost, as discussed in the body of this report, the file contained no cost or a technical evaluation to support fair and reasonable pricing of labor or ODCs. This is of particular concern because this was a sole source award with no justification. Further, this order exceeded the MOT for the Schedule contract, but there was no evidence that R8 requested additional price concessions, as required by FSS Ordering Procedures.

We also identified labor rate billings above the contract rates, and questionable general and administrative markups on ODCs. R8 should review the billings and take action to evaluate all charges and take action to recover any overcharges.

AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER, ROCKY MOUNTAIN REGION  
REPORT NUMBER A040130/T/6/Z05010

Schedule of 2004 Task Orders Reviewed in the Rocky Mountain Region

| Order Number | Client                | Contract Type | Contractor                                      | Contract/<br>BPA Number | Task Order Value | Notes |
|--------------|-----------------------|---------------|---|-------------------------|------------------|-------|
| 04RT0364     | USDA                  | Schedule 70   | Hewlett-Packard                                 | GS-35F-4663G            | \$1,534,183      | 1     |
| 04RT0365     | Air Force             | Schedule 70   | Advanced Information Engineering Services, Inc. | GS-35F-0731J            | 831,519          | 2     |
| 04RT0392     | USDA                  | FAST 8A IDIQ  | SI International                                | GS06K97BND0697          | 1,599,798        | 3     |
| 04RT0408     | Air Force             | Schedule 70   | Riverside Research Institute                    | GS-35F-0185J            | 6,458,447        | 4     |
| 04RT0495     | Pueblo Chemical Depot | MOBIS         | Tetra Tech EM Inc.                              | GS-10F-0016K            | 2,738,610        | 5     |
| 01RT0048     | Defense               | Answer        | TASC, Inc.                                      | GS09K99BHD0008          | 11,410,742       | 6     |
| 01RT0203     | Air Force             | Answer        | TASC, Inc.                                      | GS09K99BHD0008          | 10,869,606       | 7     |
| 01RT0691     | Air Force             | Answer        | Computer Sciences Corporation                   | GS09K99BHD0003          | 5,964,960        | 8     |
| 03RT0597     | Air Force             | Schedule 70   | Analytic Designs, Inc.                          | GS-35F-0091K            | 5,590,801        | 9     |
| 03RT0616     | Air Force             | Millennia     | Lockheed Martin                                 | GS00T99ALD0205          | 28,166,910       | 10    |

## Notes for Schedule of 2004 Task Orders Reviewed

### **New Awards**

1. Order 04RT0364, awarded March 24, 2004, is a time-and-materials (T&M) task order to provide Exchange support services for the USDA. FTS solicited eight vendors for this task; however, only one vendor submitted a proposal. While there is a justification in the file for using a T&M type task, there is no ceiling amount on the purchase order, as required by FAR 16.601. Also, contrary to the FTS Commissioner's October 6, 2003 letter, the wrong acquisition checklist was prepared.
2. Order 04RT0365, awarded March 10, 2004, is a T&M task order to provide planning, development, and upgrades to the Global Positioning System Interference and Navigation Tool for the Air Force. FTS solicited twelve vendors for this task; however, only one vendor responded with a bid. Therefore, this procurement is in noncompliance with Section 803 of the National Defense Authorization Act of 2002, which requires the contracting officer to obtain three bids or document the file that no other contractors can fulfill the requirements. In addition, there is no documentation of an evaluation of the level of effort and labor mix proposed on this task. There is inadequate documentation to support statements made in the determination of best value/price analysis. In addition, there is a 13.5% G&A fee charged on all ODCs and travel. On Schedule procurements, G&A fees are not allowed on travel costs.

This \$831,500 task order exceeds the maximum order threshold (MOT) for the Schedule contract. Schedules' MOT amounts are the dollar threshold at which the ordering agency should expect and request additional discounts from schedule contract pricing. The file contained no evidence that the ITM or CO requested additional price concessions from the contractor, as required by FAR 8.405-2. In addition, the appropriate acquisition checklist required by the FTS Commissioner's October 6, 2003 letter is not in the file.

Before processing additional actions on this task, R8 needs to remediate the deficiencies described above. R8 advised that they are currently in the process of remediation for this order.

3. Order 04RT0392, awarded March 4, 2004, is a follow-on effort to task orders 03RT0368 and 04RT0223 to provide the remaining eight modules for the development of an animal/animal product tracking database. There is no evidence of an evaluation of the level of effort and labor mix on this task, and we determined that the IGE is inadequate to support that pricing is fair and reasonable.

Review of the April 16, 2004 invoice for this task indicated that the contractor is billing one labor category at a higher rate than proposed. FTS should review billings to ensure accuracy and take action to recover over billings.

While there is a justification in the file for using a T&M type task, there is no ceiling amount on the purchase order, as required by FAR 16.601.

4. Order 04RT0408, awarded April 16, 2004, is a T&M task to provide anti-tampering and software protection for the Air Force. FTS solicited eighteen vendors using e-Buy and IT Solutions; however, FTS received only one offer. Per the best value determination, FTS selected the contractor Riverside Research Institute (RRI) because: 1) RRI had past experience with the government that was very satisfactory, 2) RRI was able to meet exact specifications, and 3) RRI resulted in the lowest overall cost alternative to meet the government's needs. However, there is no documentation in the file to support these statements. The price reasonableness determination on this order for labor and ODCs is inadequate. There was no level of effort or labor mix evaluation performed and the labor rate analysis is insufficient. Further, there is a 5.01% G&A fee charged on all ODCs and travel. On Schedule procurements, G&A fees are not allowed on travel costs.

Per the Commissioner's October 1, 2003 memo, all actions that will result in the issuance of a task order under an existing vehicle in excess of \$5,000,000 require a legal review. This procurement is

estimated to be over \$6,000,000. While Legal Counsel review the acquisition plan and file documentation prior to solicitation, R8 did not present the file for Legal review prior to award, as required.

5. Order 04RT0495, awarded May 17, 2004, is a MOBIS T&M task for the Pueblo Chemical Depot for treaty compliance under the Base Realignment and Closure Program. FTS sole sourced this procurement to Tetra Tech EM, Inc. The client prepared a sole source justification and selected the vendor for the project.

Region 8 did not perform a cost or technical evaluation for this task. In addition, there is no documentation of a price analysis or evaluation of the level of effort and labor mix proposed.

Also, the file does not contain a determination and findings for using a T&M type task, and there is no ceiling amount on the purchase order, as required by FAR 16.601. Further, no acquisition checklist existed for the project, as required by the FTS Commissioner's October 6, 2003 letter.

#### ***Existing Task Orders with Contracting Actions Between March and May 2004***

6. Order 01RT0048, awarded October 10, 2000, is a T&M task order to provide system maintenance and conversion, data collection and correction, report generation and documentation to the Office of the Under Secretary for Defense related to the Comptroller Information System. This task order was also included in our FY 2003 review. As noted in Appendix A of this report, we identified numerous deficiencies over the life of this order, including inadequate support for fair and reasonable pricing and use of a T&M type task without proper justification. We selected the order for the FY 2004 review because it met critical risk factors, including large dollar value and a significant number of modifications. We focused our review on the modifications awarded since the time of the prior audit.

During the March through May 2004 time period, FTS executed two modifications, (Modifications 24 and 25) signed on April 8, 2004 and April 19, 2004, respectively. Modification 24 added \$1.8 million to the task with no evidence that R8 determined the additional costs to be fair and reasonable. Modification 25 added a labor category with no evidence that R8 evaluated that the additional effort was within the scope of the task.

Due to existing deficiencies with this order, R8 should have recognized the need for remediation before processing additional contracting actions. In doing so, R8 compounded the problem with additional improper actions that will require remediation. R8 advised that they are currently in the process of remediation for this order.

7. Order 01RT0203, awarded December 29, 2000, is a T&M task to provide development of the Virtual Production segment of the Knowledge Prepositioning System for the Air Force. During the March through May 2004 time period, R8 processed one contracting action (Modification 21), which added additional labor to the task. There have been significant deficiencies over the life of this task which R8 should have recognized and addressed before processing Modification 21. These deficiencies include inadequate support for fair and reasonable pricing at the time of award, improper funding of option years without the required evaluation and documentation required by FAR 17.207, and lack of documentation supporting the use of a T&M task (FAR 16.601). During our review, FTS R8 management stated that they are currently working with the client to re-compete this order with an anticipated award date of November 2004.
8. Order 01RT0691, awarded June 27, 2001, is a T&M task for Enterprise Information System support for Air Force. During the March through May 2004 time period, FTS increased incremental funding for the task option periods.

Because of significant deficiencies over the life of this task, including inadequate support for fair and reasonable pricing and inappropriate processing of performance period extensions, R8 should not have continued to execute contracting actions. During the review, FTS R8 management stated that this order has received legal review and is currently under remediation.

9. Order 03RT0597, awarded February 1, 2003, is a firm, fixed-price task to provide software protection management for the Air Force. During the March through May 2004 time period, R8 processed one modification to increase incremental funding for this project. Because of significant deficiencies over the life of this task, R8 should have engaged in remediation efforts before processing further contracting actions. The deficiencies include (1) lack of evidence to support that R8 made a determination that the total price was fair and reasonable, (2) addition of work beyond the original scope of work resulting in a significant cost growth (270%), and (3) improper funding of option periods. Further, because the procurement is highly classified, R8 has not had access to adequate information needed to properly administer this task. For example, our review of the May 2004 invoice indicated that labor made up only 4% of the invoiced amount for this month. Another line item on the invoice identified as "infrastructure" costs accounted for 55% of the monthly invoiced amount. The ITM was unaware of the costs being billed or the support provided for them. This situation indicates a lack of oversight, which places the government at risk for improper or irregular billings. Without the ability to obtain breakdowns of the invoiced costs, FTS is unable to ensure that the billings are related to the scope of work and that the prices are fair and reasonable.

FTS R8 management stated that they plan to re-compete this order. However, we do not believe that FTS can continue to support the project unless FTS is afforded enough information to allow for proper administration. R8 advised that they are re-competing this task and no option years or additional funds will be added to this task.

10. Order 03RT0616, awarded April 7, 2003, is a continuation of task order 01RT0289 for software upgrade and maintenance for the Defense Support Program. During the March through May 2004 time period, R8 processed 4 modifications related to the contractor's award fee, as well as to incrementally fund the project.

Because of significant deficiencies we noted over the life of the task, R8 should have initiated remediation efforts before processing additional actions on this task. The deficiencies included insufficient documentation to support that the pricing was fair and reasonable, which is of particular concern for a \$28 million order, and lack of documentation supporting the use of a T&M task. R8 must determine whether it can establish price reasonableness before moving forward with the task; if not, R8 must re-compete this task. R8 advised that they are currently in the process of remediation for this order and will re-compete this effort.



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

FROM:                   LARRYTRUJILLO, SR REGIONAL  
                              ADMINISTRATOR (8A)

SUBJECT:                Audit of Federal Technology Service's Client Support Center,  
                              Rocky Mountain Region Report Number A040130

Thank you for the opportunity to respond to the audit report entitled "Audit of Federal Technology Service's Client Support Center, Rocky Mountain Region." We take our acquisition role within GSA seriously, and RMR is taking the steps necessary to perform that role to the highest standards of customer service quality and acquisition compliance. Furthermore, we are undertaking improvements in our acquisition performance in full support of the "Get it Right" program.

We appreciate the spirit of cooperation and professionalism exhibited by the IG Team.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry E. Trujillo", written in a cursive style.

Larry E. Trujillo  
Regional Administrator  
Rocky Mountain Region

**Rocky Mountain Region  
Federal Technology Service**

**Management Response to Proposed Audit Report A040130**

**I. BACKGROUND**

RMR FTS believes that it is crucial to acknowledge that it is not just FTS, but all of Government has experienced an evolution of significant change over the last few years. This change encompasses the acquisition environment for all of Government, and for FTS in particular, and RMR FTS culture. As noted below, RMR FTS is taking positive steps to ensure the provision of quality service to our clients, and in a compliant manner in support of the "Get it Right" program.

Acquisition Environment

In FTS' acquisition evolution, we have gone from creating acquisition vehicles at the CSC level to employing established contracts to service our customers through task orders. In the transition to established contract vehicles (i.e. FSS Schedules and Government Wide Acquisition Contracts), the "rules" associated with their use have often been vague and changing.... especially with schedules. Schedules themselves evolved from that of providing products only, to the inclusion of services. There was a lag time in incorporating procedures for using schedules into the FAR and lack of consistent guidance and information available on their use. This has manifested itself in many of the acquisition issues and irregularities noted in this report. RMR FTS fully understands the need to address these problems, and embraces it in the spirit of the "Get it Right" program.

Culture

The evolution of the RMR FTS CSC, like all the CSCs throughout FTS, has also involved substantial growth in its client base. As with any organization, growth is imperative. Without it, FTS could not meet its charter to assist our Agency Clients in the performance of their mission and service to the taxpayers. However, substantial growth has its problems. One problem created by substantial and rapid growth is the shortages and voids in talent and skills. RMR FTS understands and acknowledges that it had a culture of high customer service and a strong emphasis on increasing and expanding its client base. We believe that we must continue to have a culture of customer service while "getting it right" in our acquisitions.

It is also very important to understand that the emphasis on customer service and revenues was not a conscious and absolute decision to NOT employ "proper and prudent procurement procedures." It is acknowledged by RMR FTS that a culture of high customer service did exist and still should exist, within proper bounds.

**WHAT WE ARE DOING TO CORRECT**

Again, RMR FTS acknowledges its evolution has had problems in acquisition quality and compliance. RMR FTS acknowledges that it agrees with certain finding in this report. Furthermore, RMR FTS has been aggressively addressing these issues.

An aggressive training program has been under way within RMR FTS for the last year to bring acquisition knowledge and skills to a superior level. For example, all Team Leads have been and are near conclusion of a training cycle covering all courses required for a Simplified Acquisition level warrant. While the contracting responsibilities reside with our warranted contracting officers,

Team Leads need this knowledge and skills for their vital role in acquisition quality and compliance.

To add to this, RMR FTS has a number of other initiatives to improve our acquisition quality and compliance. Project Managers are undergoing project management training leading to certification. This training includes training on contract administration which brings acquisition skills down to the operating level and, as a prime objective, will allow RMR FTS Project Managers to ensure acquisition quality and compliance from the very beginning of the task order lifecycle. RMR FTS conducts weekly Confabs with many of the training sessions focusing on understanding acquisition issues and resolving acquisition problems. An Acquisition Day off site was also conducted August 31 and September 1, 2004. This training session covered a wide range of acquisition issues and topics in a highly interactive manner.

Additional contracting officers have been hired in FY04 and we anticipate hiring additional contracting officers in FY05. We are in the process of hiring an Acquisition Director for RMR FTS to head up our acquisition efforts. Progress has been made and will continue to be made in RMR FTS' effort to achieve acquisition excellence.

RMR FTS has put in place a "Knowledge Portal" accessible to all Associates. This tool provides easy access to policies, procedures, tools, et cetera to assist Associates in the day to day performance. The Knowledge Portal template has also been shared with other regions.

Management controls have been implemented, which require reviews of acquisitions at a variety of levels. We have implemented a Contract Management Review Panel for compliance reviews and we are implementing changes to that process as we identify the need.

We have reviewed and will continue to review tasks that have been awarded to determine if there are issues that require remediation. Remediation is underway on a number of tasks. Progress on those remediation efforts is tracked and reported to RMR FTS management and to the Regional Administrator's office.

## II. GENERAL RESPONSE

**RMR FTS takes our acquisition role seriously and is taking the steps necessary to ensure that we perform that role in full compliance with all the appropriate rules and regulations. Towards that end and with the exception of those noted below, we agree with the report's findings as well as its best practices recommendations and will take actions accordingly. Those statements of findings we disagree with and those we believe warrant an explanation of extenuating circumstances are shown in italics below with our response immediately following in bold. Summary notes on each of the key findings are as follows:**

***Limited Competition:*** RMR FTS agrees that in those instances where, despite our having sought competition, only one bid was received we should employ a very thorough review of the offer received. To improve competition in our acquisitions, RMR FTS is focusing on improved market research to ensure that we are providing the right Industry Partners opportunity within an environment that encourages participation. E-Buy is being employed for schedule buys to ensure the widest field of schedule holders is being sought. Additional focus and emphasis on conducting comprehensive price analysis will strengthen our assurance of price reasonableness, especially in acquisitions where only one bid is received after seeking adequate competition.

***Lack of Support for Fair and Reasonable Pricing:*** In general, RMR FTS agrees.

***Improper and Questionable Contracting Actions:*** RMR FTS firmly embraces the GSA "Get it Right" program as an operational style. For example, RMR FTS has adjusted its invoice review process to provide the appropriate Contracting Officer involvement and a greater visibility to ensure that expenditure of government funds are compliant with the terms of the task order, policies, and regulations. Establishment of requirements are being strengthened to employ fixed price task orders vice Time & Material where possible. Further, RMR FTS is focusing on setting proper customer expectation with regard to the employment of T&M and the associated risks. The development of Acquisition Plans are being refined so they can serve as a strong acquisition foundation and guide to successful task order execution.

***Questionable use of the IT Fund:*** In general, RMR FTS agrees. RMR FTS, like many others, has had difficulty in determining the appropriateness of task orders relative to the intent of the IT Fund. There are many acknowledged "gray areas" where it is a matter of opinion whether a requirement does or does not qualify as Information Technology. Furthermore, it is important to note that clarity on this issue, for the most part, has come with time and a collaborative effort between FTS Regions and FTS Central. Management controls are in place to aggressively address this issue for task orders in excess of \$900K and controls are being further implemented for task orders between \$100K and \$900K.

***Causes of Improper Procurement Practices.*** In general, RMR FTS agrees that there were inadequate management controls at the time of execution of many of the task orders reviewed in this report. However, it is important to note that RMR FTS is developing and installing management controls. For example, RMR FTS implemented acquisition training for its Team Leads covering all required training equal to the Simplified Acquisition level for a Contracting Officer. Additionally, new controls for finding and correcting financial issues and irregularities, have been implemented.

## II. DIRECT RESPONSE TO SPECIFIC FINDINGS ***Brief***

The report states: *However, we identified some of the same issues identified in the FY03 review, including improper and questionable contracting actions, inadequate competition, insufficient documentation supporting that the Government received fair and reasonable pricing, and lack of implementation of various controls put in place by Central Office FTS. RMR FTS embraces the need for constant improvement in all areas of acquisition and as evidenced by there being no findings of misuse of the IT Fund in the second audit or any instances of split procurements in either audit is demonstrating significant progress towards full compliance.*

### **Review of 2003 Procurement Actions and Controls *Limited***

#### **Competition**

The report states: *Of the 29 orders in our sample, R8 awarded 17<sup>1</sup> (59%) without the benefit of competitive bids. While R8 did generally seek quotes from more than one contractor (e.g., GWACs require the ordering office to solicit all contractors under the GWAC vehicle), for whatever reason, oftentimes only one contractor responded with an offer. As a result, R8 had reduced assurance that it received the best value for its customers. RMR FTS agrees that in those instances where, despite our having sought competition, only one bid was received we should employ a very thorough review of the offer received.*

#### **Lack of Support for Fair and Reasonable Pricing**

The report states: This finding is of particular concern given that R8 awarded the majority of the orders in our sample without the benefit of competitive bids (See "Limited Competition" section of this report). **RMR FTS agrees and has**

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<sup>1</sup> Two orders in our sample were orders under \$3 million placed against small business contracts, which are allowed to be issued without competition per FAR 19.8.

taken strides to ensure that the "concern" is being adequately addressed. These include issuing a policy in March of 2004 requiring the use of FSS' E-Buy for all applicable schedule solicitations and has implemented training to specifically address the issues of price analysis and the need for appropriate documentation of the same. RMR FTS will also continue to monitor and implement testing of its management controls to ensure that improvement is being achieved and will adjust accordingly to ensure continued progress.

#### **Frequent Use of Time-and-Material Authority.**

The report states: *R8 frequently used time-and-materials tasks versus firm fixed-price tasks.* RMR FTS agrees that a determination and findings for time-and-materials (T&M) orders should have been documented in the file and has implemented management controls to ensure that occurs. RMR FTS is requiring contracting officers to work more closely with project managers to ensure that fixed priced task orders are employed in all cases where the nature of the work allows. However, RMR FTS believes, based upon client input and our own experience, that a significant portion of our clients' work can not be sufficiently defined to allow a fixed price task order to be used.

It should also be recognized that when and how agencies can use time-and-material contracts has been a source of controversy since the passage of the 1994 Federal Acquisition Streamlining Act (FASA). A proposed rule is being drafted to clarify when agencies can pay service contractors for time and materials as permitted by the Service Acquisition Reform Act and that should bring much more clarity to this issue.

#### **Review of 2004 Procurement Actions and Controls**

##### **Task Order Review.**

The report states: *Deficiencies noted included lack of support for fair and reasonable pricing, non-compliance with competition requirements, improper task order modifications, unsubstantiated costs, continued preference for time-and-material orders, and a task dealing with national security. Central Office Controls not fully implemented included non-compliance with internal legal review requirements, and omitted or incomplete acquisition checklists.* RMR FTS partially disagrees. In the task in question a Pre Solicitation legal review was done, but not the Pre Award legal review.



**AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
PACIFIC RIM REGION  
REPORT NUMBER A030205/T/9/Z05009  
DECEMBER 9, 2004**







U.S. GENERAL SERVICES ADMINISTRATION  
Office of Inspector General

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

Date: December 9, 2004

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

Subject: Audit of Federal Technology Service's  
Client Support Center, Pacific Rim Region  
Report Number A030205/T/9/Z05009

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

Sandra N. Bates  
Commissioner, Federal Technology Services (T)

This report presents the results of the Office of Inspector General's Audit of Federal Technology Service's (FTS) Client Support Center (CSC), Pacific Rim Region (Region 9). This Audit was conducted in response to a request from the Regional Administrator, Region 9.

The objectives of the review were the following: (1) to determine whether the CSC in Region 9 made procurements in accordance with the Federal Acquisition Regulation and the terms and conditions of the contracts utilized for task orders authorized in fiscal years 2002 and 2003; and (2) to provide information to FTS officials on recent actions the CSC has taken in implementing control improvements based on a limited review of task orders authorized from March to May, 2004.

The Regional Administrator's comments to our draft report were considered in preparing this final report and are included in their entirety as Appendix E.

We thank you and your staff for the courtesies extended during our review. Please contact me at (415) 522-2744 if you or members of your staff have any questions about the report.

PERLA CORPUS  
Audit Manager (JA-9)  
San Francisco Field Audit Office



**AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER, PACIFIC RIM REGION  
REPORT NUMBER A030205/T/9/Z05009**

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## **RESULTS OF AUDIT**

Our review of the initial sample of 32 task orders from FYs 2002 and 2003 identified several questionable contracting practices. However, our limited review of the five newly awarded task orders and five existing task orders with modifications authorized from March to May 2004 indicated that controls were implemented and administration of task orders has improved.

Of particular concern in our initial sample was the awarding of multimillion-dollar task orders without evidence of full and open competition. We also noticed improper contracting actions such as vague statements of work and work performed outside the scope of the task order. Further, the CSC made frequent use of Time-and-Materials orders without adequate written justification for not awarding the orders as firm-fixed-price, often failed to document any determination of reasonable pricing, and improperly used the IT fund and the ANSWER contract.

Our limited review of the 2004 task orders showed that management controls had been strengthened, but that further improvements are needed. For newly awarded task orders we noted that in two cases the required checklists had not been signed and in one case not completed; one task order was missing documentation to support the analysis on price reasonableness; another task order lacked adequate analysis to conclude price reasonableness; and no ceiling price was established for a time-and-materials task order. For modifications made to existing task orders, we noted that two non-IT task orders were extended to provide continuity of service while closing them out; and two unsolicited modifications were made to another task order.

Appendix A contains the results of our review for each of the 32 task orders in our initial judgmental sample; and Appendix D provides information on the review of the 2004 task orders.

### **Inadequate Competition**

Our review identified a lack of sufficient evidence to show fair competition for 18 of the 32 sample task orders. A case in point is a task order with an initial amount of \$5.8 million issued to provide IT support services for U. S. Forces, Korea for the Global Command and Control System (GCCS-K). We believe that the selection process was questionable and biased towards the winning contractor because FTS' efforts appeared to go beyond what was necessary to select Information Systems Support, Inc. (ISS) despite the Technical Evaluation Board's objective recommendation to proceed with Computer Sciences Corporation. In addition, we determined that the documents supporting the award decision did not adequately explain the reasons why FTS selected ISS over Computer Sciences Corporation.

The task order was issued to combine services provided by four vendors who had been providing services through four different task orders, which were staffed, as follows: Computer Sciences Corporation provided the client with 16 employees; Logicon with one

person; International Computers and Telecommunications, Inc with 55; and Getronics with 15.

FTS issued a request for proposal under the ANSWER contract, thereby providing fair opportunity. Proposals were received from two vendors, Computer Sciences Corporation and ISS. A technical evaluation board, comprised primarily of military officers representing the client agency reviewed and evaluated the proposals. Based on an assessment of the contractors' ability to satisfy the task order requirements, the board gave Computer Sciences Corporation a score of 420, and ISS 320. Consequently, the board recommended Computer Sciences Corporation.

On the basis of a comparative analysis that was subjective in nature and criteria that were not related to the technical evaluation factors listed on the Statement of Work, the client's selecting official disagreed with the board's recommendation. On September 7, 2001, the IT Manager in Korea advised the Contracting Officer (CO) in Oakland, California of the client's announcement. The CO subsequently asked for additional information from both contractors, re-evaluated the proposals, and on October 22, 2001, awarded the task order to ISS. However, the documents supporting the award decision did not adequately explain the reasons why FTS selected ISS over Computer Sciences Corporation.

In another instance of questionable competition, FTS awarded nine task orders, valued at over \$22 million, for the Southwest Naval Facilities Engineering Command in San Diego, California. The first task order, for the amount of \$621,081, was competed to all the ANSWER contractors and awarded in September 1999. However, the analysis used to select the successful bidder did not conform to the criteria delineated in the solicitation. FAR part 15.304(a) requires that the statement of work in a solicitation list the factors to be used in evaluating the proposals and the relative importance of those factors. The solicitation listed the factors, but did not include the relative weight to be given to each. Consequently, FTS was not compelled to apply weights in any particular proportion. From the analysis used to make the selection, it was obvious the relative weights of the factors had nothing to do with the order in which the factors were listed in the solicitation, and there was no documentation to explain why particular factors had higher weights than others. Therefore, we could not conclude that there was full and fair competition for this task order.

There were another eight task orders that FTS awarded as "follow-on" tasks to the above. For each task order the file stated that the scope was a logical follow-on to the initial task order, which was, in some cases, referred to as an "umbrella" task order. However, for each, the scope of work was sufficiently different from the scope of work of the original that additional competition should have been sought. For example, the initial task order was awarded to provide consultants in support of environmental efforts. The statement of work called for six consultants to support six teams performing environmental surveys. The scope of another was to provide an Oracle database design and implement a "Geographical Information System." Yet another task order was to provide environmental remediation for a "composite shop and a paint/strip shop."

The value of this set of task orders grew significantly. The original task order was awarded to Anteon Corporation with an authorized amount of \$621,081. By December 2003, the total authorized value of the nine task orders under the “umbrella” reached more than \$22 million.

While reviewing a task order for the support of Navy family-housing offices, we noted that competition was restricted so as to retain the incumbent vendor. The purpose of the task was to continue the modernization of a family housing information system by implementing a more current version of the system. Litton PRC was the incumbent vendor on a pre-existing ANSWER task order. ANSWER was selected as the contracting vehicle for the new task order, and a notification letter was issued to all the ANSWER contractors. However, the notification stated that Litton PRC was the incumbent for the past 3 years and that its past performance had been considered “excellent.” Only one offer was received for this solicitation. That offer was from Litton PRC. FTS awarded the task order to Litton PRC for \$1.3 million. By May 2004, the value had grown to \$25.6 million.

### **Improper Contracting Actions**

Improper contracting actions that we noted included vague statements of work (7 task orders totaling \$264.7 million) and cases where the actual work was outside the scope of work (15 task orders valued at \$147.5 million). For example, because the client could not accurately predict the total scope of effort required for GCCS-K, the statement of work was not sufficiently specific. The task, as described in the statement of work, was to provide IT support services and software engineering on existing systems. This broad scope of work facilitated the processing of inappropriate modifications, thereby, significantly increasing costs without ensuring that the government was receiving best value or adequately providing for competition.

Unsolicited modifications (i.e., proposals submitted by the contractor) were accepted for this task order with little or no analysis documented in ITSS. For example, an unsolicited modification was used to procure and install a “video wall”, which was not anticipated in the statement of work. This equipment was initially leased for 12 months, after which the lease was bought out for a total of \$2.13 million. ITSS contained no documented analysis to show that FTS had considered price reasonableness or “best value” for the video wall. According to the IT Manager, the “Commanding General saw a similar video wall at another installation...and the contractor became aware of his interest and proposed the solution.” Another unsolicited modification, which increased the task order by \$3.26 million, was offered by ISS “...to provide for a total cost reconciliation of labor and other direct costs for this task and provide recommendations for three additional positions and temporary technical support...” Again, ITSS contained no documentation to show how FTS determined that this acquisition provided the best value for the government.

We noted that in 15 instances, the actual work performed under a task order was outside of the original scope. A case in point is a task order (9T9W300D) issued for the Southwest Naval Facilities Engineering Command. The scope of work was hazardous material abatement of two shops at Naval Air Station, North Island, San Diego. The scope grew to include much more than hazardous material abatement and expanded beyond San Diego to other naval facilities located worldwide.

To provide a degree of flexibility under the ANSWER contract, modifications can be used to alter the scope of a task to a limited extent. However, if the proposed modification adds significant work, or incorporates other major changes, such work should be competed under a new task order. The modifications to the task orders described above added significant work well beyond the original scope of work, and should have been competed separately.

### **Frequent Use of Time-and-Materials Tasks**

We found that the CSC frequently used Time-and-Materials tasks versus fixed-price task orders. Of the 32 orders for services that we reviewed, 28 or 88 percent were Time-and-Materials type tasks and for 27 of those FTS did not adequately document the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). According to FAR 16.601(c)(1), a Time-and-Materials contract may be used only after the contracting officer executes a Determination and Findings that no other contract type is suitable. In addition, the FAR describes Time-and-Materials as the least favored type of award and requires documentation of the reason for using Time-and-Materials.

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 previously described.

### **Inadequate Support for Fair and Reasonable Pricing**

In addition to the problems we identified in improper contracting actions, there was no documentation supporting that the Government received fair and reasonable prices for either labor or other direct costs (ODC) for a majority of the orders that we reviewed (28 of the 32 task orders or 88 percent). The documentation did not show that independent government estimates were developed for the various costs, or that the proposed levels of effort and labor mixes were reasonable. Of particular concern were task orders issued for the Southwest Naval Facilities Engineering Command. The majority of the nine ANSWER task orders were for other than IT related services. While it might be argued that some of the skill levels employed were included in the ANSWER contract as subject matter experts and therefore, the rates were reasonable, the CSC did not document any analysis to show that the level of effort and the labor mix were appropriate. In addition, there were no documents to support that ODCs were fair and reasonable.



Generally, the task orders in our sample show a lack of independent government estimates, or other analyses to determine price reasonableness of the contractor proposals. The CSC should have documented analyses of the proposals to ensure that the levels of effort and the labor mixes were appropriate, and that the other direct costs were reasonably priced.

### **Improper Use of the IT Fund**

Of the 32 task orders selected for review, 7 or 22 percent were not IT. The seven task orders awarded, for the U. S. Navy, Facilities Engineering Command, San Diego, totaled \$19.3 million and were primarily for environmental services. For example, the first in the series of task orders was for “remediation, documentation, and analysis support” to the Environmental Specialty Support Department. Another task order was to provide environmental ergonomic technical support. Yet another dealt with environmental safety support. These seven task orders were used to procure different non-IT products and services by various commands throughout the Navy. For example, storm shutters were placed on a building in Jacksonville, Florida; handrails were designed and installed on a dry-dock in Portsmouth New Hampshire; and abatement of fall hazards was undertaken in China Lake, California.

While searching the IT Solutions Shop website, we noted 36 additional task orders that were non-IT (Appendices B and C).<sup>62</sup> About half of these tasks were for environmental services. A case in point concerns the drilling of a sample well in Utah for the Tooele Army Depot. The purpose was to specify the requirements for drilling, installing, developing, and monitoring a well to sample groundwater. Another case concerned the work required for the Environmental Chemistry Laboratory of the Navy. The objective of the task order was to provide assistance in the preparation and testing of samples for hazardous and toxic chemicals. The vendor charged the government for an IT skill level (i.e. Documentation Specialist). However, the work requirements were scientific in nature requiring chemical analysis without IT involvement.

FTS officials stated that at the time that most of these orders were issued, it was permissible to use the IT Fund if there was an IT component within the task. FTS GWACs were sometimes used as a guide to determine if an order was appropriate for the IT Fund. That is, if a GWAC listed a skill level, then an order for that skill level was allowable under the IT Fund regardless of the purpose for employing that skill. Officials further indicated that policy has since changed, and under current guidelines the IT Fund would be used only if the intrinsic nature of work is IT.

FTS officials told us in January 2004, that they would terminate approximately 45-50 task orders related to environmental services and other non-IT functions. The decision to terminate the orders was a result of a new policy defining the limits of the IT Fund and FSS making available to FTS the ability to place orders for professional services.

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<sup>62</sup>The majority of these task orders selected were less than \$1 million in value. Therefore, we did not further review the contracting practices used in administering them.

## **Misuse of Contract Vehicle**

Most of the task orders we reviewed in detail (28 of 32) were issued under the ANSWER GWAC. Seven of those task orders were used for work that was outside the scope of the base contract. Noteworthy among the seven was a task order issued on behalf of the United States Army, Pacific for an extensive installation of an emergency radio system in Alaska and Hawaii. The task order, valued at a total of \$157 million over 8 years (the base year plus seven 1-year options), was issued on December 20, 2000. Through December 2003, total expenditures had reached approximately \$26 million; of which approximately \$22 million or 85 percent were for ODCs.

ANSWER was not the correct contract vehicle for this project. The ANSWER contract is a service contract. Although ODCs are allowable under ANSWER, those costs are to be incidental to the primary requirement. According to the contract, "other direct costs (when authorized by a task order) include such items as hardware, software, training subcontractor support, travel, etc." The \$22 million (85 percent) cannot be considered incidental. The contractor received approximately \$589,000 in general and administrative fees related to the \$22 million in ODCs.

The \$22 million in ODCs represented the purchase and installation of various repeater stations, base and mobile radio equipment, antenna towers, etc. ODCs also included lease payments for radio equipment and minor repairs and alterations of various facilities to house the radio equipment.

The winning proposal showed that, for Phase I, total expenditures were expected to be \$20 million, while ODCs were expected to be \$15 million. This indicates that the CSC and the client agency were aware that this project had a significant commodity component.

Since the procurement included such large amounts for equipment leases and purchases, ANSWER was not the proper contracting vehicle. ANSWER is a service contract. It establishes ceiling labor rates and thereby provides some assurance that the rates proposed for a task order are reasonable. However, ANSWER does not establish any benchmark prices for equipment leases or purchases. Therefore, it provides no assurance about the price reasonableness for the \$22 million (85 percent of the total costs) of ODCs. We noted several instances where better pricing could have been obtained by using FSS schedules.

In addition, as provided in the ANSWER contract, the government paid general and administrative fees of 4.09 percent on the purchases. We estimate that this amounted to possible excess cost to the government of \$589,000 as of December 2003. A more appropriate approach would have been to obtain the equipment through an open-market procurement. Such an approach could have focused negotiations on obtaining a fair price for the equipment and avoiding ISS' general and administrative fees.

Open market procurement would have also enabled the primary provider of the equipment to place a bid for the project. This task order was used to provide the Army with a system produced by Motorola, and as a result much of the project was passed-through to Motorola.

This company's involvement started when it conducted studies on "Base Support Trunked Radio System" for Alaska and Hawaii. The reports that Motorola prepared were provided as attachments in the statement of work section of the ITSS, which made them available to prospective bidders. One of the prospective bidders commented in the question and answer section of the ITSS that, "It appears that Motorola is the defacto standard..." A retired ITM stated that Motorola complained to him about the task order being offered under ANSWER because Motorola would not have the opportunity to bid. This ex-official stated that he informed Motorola that it would get its share through partnering with the winning ANSWER contractor, and that Motorola then came into line. When we questioned a Motorola representative, we learned that Motorola understood from the onset that it would be involved in the project.

### **Other Issues**

We have concerns about a highly sensitive and classified task order from Combined Forces Command/U.S. Forces Korea to develop a master plan for intelligence, surveillance and reconnaissance (9T3APN006). Our primary concern is that due to the highly classified nature of the work (requiring access to "TOP SECRET/SENSITIVE COMPARTMENTED INFORMATION (SCI) material), FTS is unable to access information required to properly determine pricing and monitor deliverables. As of August 2004, the FTS associate assigned to this particular task has not yet received his top-secret security clearance. In addition, we noted that the associate's security clearance was in process since March 15, 2003.

### **Review of 2004 Task Orders and Controls**

Discussions with regional FTS officials and our review of recently executed task orders and modifications indicated that the new controls have been implemented. However, we noted that although management is continuing efforts to improve, some controls are not working effectively.

Our discussions with Regional FTS Officials indicated that the Region had developed local guidance, which was issued in August 2003. That guidance was contained in a document titled Acquisition Risk Management Initiative (ARMI). As the name implies, the purpose of the guidance was to limit the inherent risk in the acquisition process. ARMI prescribes specific procedures that are to be followed before solicitation and award to mitigate risks throughout the acquisition process. For example, ARMI coincided with the reorganization of Region 9 FTS. As part of that reorganization, a position for an Acquisition Oversight Executive was established to provide acquisition assistance and oversight to area teams and customer agencies. ARMI also prescribes various levels of reviews for procurements based on dollar amount, and requires acquisition staff to be rotated every 36 months.

Officials also indicated that the additional controls directed by Central Office had been incorporated into the December 2003 revision to the ARMI and disseminated to all Region 9 FTS associates. The only exception to the Central Office policy implementation was a memorandum from the Assistant Commissioner dated May 28, 2004, on ITS Contract/Project Closeout Guidance. Management informed us that the closeout requirements of the memorandum had been implemented as of July 1, 2004.

We selected a judgment sample of five newly awarded task orders and five pre-existing task orders with modifications issued during that period. We cannot be certain that the task orders in our sample are representative of all those processed in FY 2004.

### **Newly Awarded Task Orders**

We noted that compared to our sample from prior years, improvements in contract administration have been made. However, further improvements are needed. For example, we noted discrepancies in four of the five task orders:

- For sample 70, there was no detailed explanation for concluding that pricing was fair and reasonable;
- For sample 71, there was no documentation to support the analysis on price reasonableness;
- For sample 72, there was no established ceiling price even though a Determination and Findings was completed for this Time-and-Materials task and checklists were completed but not signed; and
- For sample 73, the required checklist was not completed.

### **Existing Task Orders with Modifications**

FTS generally complied with Central Office initiatives and Regional Directives for existing task orders with modifications except that two non-IT task orders were allowed to continue and FTS authorized unsolicited modifications.

We noted that although contracted services did not appear to be IT-related for 9T1Y971A (work related to environmental impact analysis) and 9T1S011FG (land acquisition project), modifications were authorized. The modifications were issued to provide continuity of service, and were considered by FTS to be in the best interest of the government. The rationale was to provide time to implement an exit strategy. In discussions with FTS associates, they indicated that these task orders should not have been authorized under the IT Fund (299X) using today's policy and guidelines. Furthermore, they were attempting to close out the tasks and re-compete under a more appropriate contract/schedule.

During the 3-month review period FTS authorized two unsolicited modifications exceeding \$100,000 for 9T0Y104A. There was no established ceiling price and no documentation to support the level of effort or price reasonableness for ODCs.

Given the exceptions noted in the sample of 2004 task orders, there is a need for management's continued attention to improving controls.

### **Conclusions**

In reviewing the sample from FYs 2002 and 2003, 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 IT Fund's legislatively authorized

purposes. The task orders reviewed from FY 2004 indicated that Region 9 is taking corrective actions to minimize the risks of improper contract procurement practices through management oversight and adherence to Central Office Initiatives. However, given the exceptions noted in the sample of 2004 task orders, there is a need for management's continued attention to improving controls. Therefore, the Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC program in FY 2005.

**Recommendations**

Based on the comprehensive recommendations contained in Audit Report Number A020144/T/5/Z04002, dated January 8, 2004, no further recommendations are deemed necessary at this time.

**Management's Comments and Office of Inspector General's Response**

The Regional Administrator acknowledged and generally agreed with the findings of the review. He noted, in particular, that his region has taken a proactive approach to minimize inherent vulnerabilities in its acquisition processes by implementing mandatory regional guidance (i.e., ARMI). ARMI requires an evaluation of task orders over \$1 million by a Contract Review Panel, and a legal review of complex acquisitions and those over \$5 million. In addition, the Regional Administrator provided clarification and editorial suggestions on several points of the report that we incorporated as appropriate.

However, the Regional Administrator took exceptions to certain sections of the report as noted below:

| <b>Report Section</b>  | <b>Management's Comments</b>  | <b>Office of Inspector General's Response</b>   |
|------------------------|---|---|
| Inadequate Competition | The Regional Administrator disagreed that the contracting officer for the task order involving U.S. Forces, Korea took extraordinary steps to justify the client's selection of a vendor. The Regional Administrator stated that the selected vendor offered the most benefits at no additional costs. He acknowledged that the documentation did not support this. | We modified the section of the report to which the Regional Administrator took exception and provided further comments that the selection process was questionable and bias.  |
| Other Issues           | Regarding a highly sensitive and classified order for intelligence, surveillance, and reconnaissance, the Regional Administrator indicated that a security clearance was unnecessary for an associate working with a particular Department of Defense order because the information needed for the associate to perform his duties was deemed unclassified.         | As stated in the report, we were unable to determine from the unclassified information the requirements of the project and the FTS associate's role in accomplishing them. We were also unable to establish, based on the Statement of Work, whether the work surrounding the project was unclassified. The Regional Administrator stated that the associate now administering the task order possesses a security clearance. We believe that the security clearance should have been required for all FTS associates affiliated with this project. |

| Report Section  | Management's Comments   | Office of Inspector General's Response  |
|---|---|---|
| <p>Inadequate Support for Fair and Reasonable Pricing</p> | <p>The Regional Administrator took exception to the wording of the section heading. He stated that the pricing analysis was conducted on vendor bids but it was inadequately reflected in the acquisition files.</p> <p>The Regional Administrator took exception to using "Inadequate Support..." to describe a finding common to several task orders.</p>   | <p>The Appendix to which these comments were addressed has been changed, however, during our review, we did not find support documents.</p> <p>During our review we were unable to find documentation showing how FTS determined that pricing was fair and reasonable (labor and/or other direct costs) or evidence that FTS negotiated better pricing for the majority of the 32 task orders selected for review.</p>  |
| <p>FY 2004 Task Orders</p>                                | <p>The Regional Administrator commented that the findings noted in the report were "lapses in the level of documentation, as opposed to more profound concerns revealed in the original audit sample."</p> <p><b>Sample 72</b> references a task order that will be completed in November 2004</p> <p><b>Sample 77</b> entails a task order in which \$21 million in other direct costs has been addressed in a memorandum for the record and uploaded into ITSS.</p> <p><b>Sample 78</b> is a FY 2000 task order that will be completed in December 2004. Documentation to support the price reasonableness of the labor and other direct costs for these modifications has been included in ITSS.</p> | <p>We disagree that the findings were mere lapses in the level of documentation. Notable contract deficiencies included: no established ceiling price for two time and material task orders as required by FAR 16.601 (c); inappropriate use of the IT fund was noted for two task orders; and for five of the ten task orders, analyses critical to determining price reasonableness was lacking. We believe that the review of the FY 2004 task orders revealed serious deficiencies not merely documentation lapses.</p> <p><b>Sample 72</b> - Regardless of whether the project is scheduled for an early completion, basic procurement requirements should have been met and documented;</p> <p><b>Sample 77</b> – The appropriateness of a large amount of Other Direct Costs (ODC) needs to be documented early in the acquisition process. The project was to provide beneficiary services and ancillary support function to field and respond to questions, concerns, and issues of department of defense beneficiaries &amp; non-beneficiaries. A significant amount of ODCs (\$20.2 million of the \$21 million) were directed towards production and postage for health care cards.</p> <p><b>Sample 78</b> - Regardless of whether the project is scheduled for an early completion, basic procurement requirements should have been met and documented;</p> |

| Report Section      | Management's Comments  | Office of Inspector General's Response  |
|---------------------|--|---|
| FY 2004 Task Orders | <p>The report also addressed concerns about the lack of a signed checklists or the use of an outdated checklist (<b>Samples 71, 72, and 75</b>). While we are in agreement with this finding, we note that the identity of the contracting officer completing the checklist may be determined from the GSA Form 300. In any event, the overall intended purpose of the checklists was achieved.</p> <p><b>Sample 70</b> - The Regional Administrator stated that FTS reviewed the file and found sufficient documentation to conclude that the contracting officer performed an acceptable price analysis.</p> <p><b>Sample 71</b> - The Regional Administrator took exception to the wording "little value added by GSA" in the procurement process. He noted that GSA value added service included financial, billing, and reconciliation support functions as well as task order management and administration.</p> | <p>Signed Checklists (<b>Samples 71, 72 &amp; 75</b>) –We believe the checklists are an important control point to ensure procurement regulations have been followed. By not signing the checklist, FTS associates are failing to take responsibility for the accuracy/adequacy of the procurement. Without the appropriate signatures, these checklists do not achieve the full-intended purpose of ensuring that FTS associates are appropriately and responsibly processing the procurement.</p> <p><b>Sample 70</b> - We disagree with the Regional Administrator's assessment that FTS reviewed the file and found sufficient documentation to conclude that the contracting officer performed an acceptable price analysis. Although the file contained an Independent Government Estimate and comparison of labor rates, there was no detailed explanation for concluding fair and reasonable pricing.</p> <p><b>Sample 71</b> – Although the client prepared the IGE, FTS conducted no on-site visits, and the client verified that the contractor was performing the work, we agree with the Regional Administrator that FTS adds value through other functions such as financial, billing, and reconciliation support. Therefore, we modified the wording for this particular sample.</p> |

See Appendix E for a copy of the Regional Administrator's response.

### **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 inadequately supported sole source awards, work outside the contract scope, misuse of the IT Fund, improper order modifications, frequent use of Time-and-Materials contracts, and not 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 procurement practices we noted.

Additionally, given the magnitude of the problems noted in our review of FYs 2002 and 2003 task orders, the control environment did not provide reasonable assurance that misapplication of customer agency funds would be prevented. Therefore, we concluded that for those years, the internal controls that were established were not always effective and did not provide assurance that Government funds were reasonably protected. Our limited review

of task orders issued from March to May 2004 indicated that although improvements were being made, further attention by management is necessary. The Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC program in FY 2005.



**AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER, PACIFIC RIM REGION  
REPORT NUMBER A030205/T/9/Z05009**

**SCHEDULE OF TASK ORDERS REVIEWED IN REGION 9**

| Sample Number | Task Order | Form 300 Date | Contractor                                   | Contract Vehicle | Total Value Of Task* | Notes |
|---------------|------------|---------------|--|------------------|----------------------|-------|
| 1             | 9T1HBP001  | 20-Dec-00     | Information Systems Support, Inc.            | GWAC             | \$157,593,700        | 1     |
| 2             | 9T2HJD053A | 28-Dec-01     | EMC Corporation                              | FSS              | 1,620,000            | 2     |
| 3             | 9T2HJD053K | 7-Nov-02      | EMC Corporation                              | FSS              | 38,380,000           | 2     |
| 4             | 9T1HLR004  | 22-Oct-01     | Information Systems Support, Inc.            | GWAC             | 40,296,911           | 3     |
| 5             | 9T3HLR001  | 21-Nov-02     | Information Systems Support, Inc.            | GWAC             | 8,588,539            | 3     |
| 6             | 9T3H006JP  | 30-Apr-03     | Information Systems Support, Inc.            | GWAC             | 8,023,844            | 3     |
| 7             | 9T3AJP001  | 5-Aug-03      | Information Systems Support, Inc.            | GWAC             | 12,100,702           | 3     |
| 8             | 9T9E034A   | 22-Oct-99     | Computer Sciences Corporation                | GWAC             | 92,240               | 4     |
| 9             | 9T9E018A   | 25-Oct-99     | Computer Sciences Corporation                | GWAC             | 451,470              | 5     |
| 10            | 9T0E044A   | 29-Dec-99     | Computer Sciences Corporation                | GWAC             | 22,864,843           | 6     |
| 11            | 9T0HBP003  | 22-Nov-00     | Computer Sciences Corporation                | GWAC             | 2,673,781            | 7     |
| 12            | 9T2HBP001  | 27-Sep-01     | Computer Sciences Corporation                | GWAC             | 6,179,682            | 8     |
| 13            | 9T2HBP010  | 3-Oct-01      | Computer Sciences Corporation                | GWAC             | 17,167,308           | 9     |
| 14            | 9T3HBP010E | 1-Oct-02      | Computer Sciences Corporation                | GWAC             | 11,370,592           | 10    |
| 15            | 9T0N414A   | 10-Jun-00     | Northrop Grumman Information Technology Inc. | GWAC             | 26,596,744           | 11    |
| 16            | 9T2HLR015  | 19-Jul-02     | Northrop Grumman Information Technology Inc. | GWAC             | 11,537,537           | 11    |
| 17            | 9T9W300A   | 10-Sep-99     | Anteon Corporation                           | GWAC             | 621,081              | 12    |
| 18            | 9T9W300B   | 24-Apr-00     | Anteon Corporation                           | GWAC             | 1,319,022            | 13    |
| 19            | 9T9W300C   | 8-Jun-00      | Anteon Corporation                           | GWAC             | 1,867,109            | 14    |
| 20            | 9T9W300D   | 21-Aug-00     | Anteon Corporation                           | GWAC             | 7,108,787            | 15    |
| 21            | 9T9W300E   | 27-Nov-00     | Anteon Corporation                           | GWAC             | 7,472,231            | 16    |
| 22            | 9T9W300F   | 7-Feb-01      | Anteon Corporation                           | GWAC             | 2,477,566            | 17    |
| 23            | 9T9W300G   | 8-Aug-01      | Anteon Corporation                           | GWAC             | 538,620              | 18    |
| 24            | 9T9W300H   | 11-Oct-01     | Anteon Corporation                           | GWAC             | 462,734              | 19    |
| 25            | 9T9W300I   | 22-Apr-02     | Anteon Corporation                           | GWAC             | 129,749              | 20    |
| 26            | 9T1S111DW  | 29-Mar-01     | Litton PRC                                   | GWAC             | 26,045,882           | 21    |
| 27            | 9T3HRE068  | 10-Dec-02     | Northrop Grumman Information Technology Inc. | GWAC             | 18,462,526           | 22    |
| 28            | 9T3HGO076  | 16-Sep-03     | Computer Sciences Corporation                | GWAC             | 8,074,425            | 23    |
| 29            | 9T3SST001A | 6-Aug-03      | Northrop Grumman Information Technology Inc. | GWAC             | 26,288,363           | 24    |
| 30            | 9T2Z250TSA | 17-Sep-02     | New Technology Mgmt, Inc.                    | GWAC             | 9,776,974            | 25    |
| 31            | 9T3HKL762  | 14-Sep-03     | IBM  | FSS              | 5,373,358            | 26    |
| 32            | 9T3APN006  | 14-Aug-03     | Information Systems Support, Inc.            | GWAC             | 3,788,876            | 27    |
|               |            |               |  | <b>Total</b>     | <b>\$485,345,196</b> |       |

\*Total Task Value represents either the greater of the Total Award Amount or Total Obligated Amount

## **NOTES:**

**1. 9T1HBP001** – Known as the PACMERS (Pacific Mobile Emergency Radio System) project, the task order, led by the U.S. Army Pacific in Honolulu, HI, involved an extensive installation of an emergency radio system in Alaska and Hawaii. The Time-and-Materials task was let under the ANSWER contract. PACMERS was valued at not to exceed \$157 million over 8 years (base year & 7 option years).

Procurement deficiencies included: **(1)** There was no support for fair and reasonable pricing for the significant amount of Other Direct Costs (ODCs) that was proposed in the contract. In the proposal, the percentage of ODCs was 76 percent of total contract costs (\$15,229,409 ODCs/\$19,974,258); Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. **(2)** There was no evidence that FTS negotiated a better price for the significant amount of ODCs and skill levels for the project; **(3)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared); **(4)** The ANSWER contract was not the correct contract vehicle for this project because ANSWER is a service contract and materials/equipment should be considered incidental to the primary task requirements. The percentage of ODCs to total costs was a significant amount (i.e. 76 percent). Based on paid invoices through December 2003 (\$22,027,714 ODCs/\$26,429,728 invoice total), actual ODCs to total costs increased to 85 percent. As a result, there may have been excessive recovery of General & Administrative (G&A) costs, as much as \$589,000; **(5)** The significant amount of ODCs was due to equipment purchases and leases. The equipment was purchased from Motorola. Price comparisons for radio equipment & accessories between the contractor and FSS schedule indicated that the government might not have received best value. In addition, we noted that the price of the equipment offered by Motorola was generally less than the contractor's list price. As a result, we question the methodology of FTS for not contracting directly with Motorola (Contract Number GS-35F-0004L) under the FSS schedules; **(6)** The Statement of Work was inadequate because the client agency issued work orders to manage work requirements under the task order. The issuance of work orders against task orders is not authorized by the ANSWER contract. In addition, "Best Practices" developed by the Office of Federal Procurement and Policy cautions agencies issuing work orders under task orders. Agencies should not award large, undefined task orders in an effort to expedite the award only issue subsequent sole source work orders; **7a)** Inadequate Documentation - The Government might not have received best value regarding the leasing of equipment. Documentation to support savings for leasing of equipment did not exist. Acquisition regulations (DFAR/FAR) require documentation such as a comparative cost or cost/benefit analysis to support or justify the decision to lease; **(7b)** Inadequate Documentation - There were 3 proposals in response to the RFQ. The Contracting Officer stated that the task order was awarded based on best value. However, no documentation was available to indicate that a market analysis was performed. We noted that the proposal with the highest overall cost was chosen. The winning proposal was approximately 48 percent greater than the losing proposals, which brings to question whether the winning quote was actually best value; **(7c)** Inadequate Documentation – There was no work description noted on several Military Interdepartmental Purchase Request (MIPR) forms or funding documents that correlated to the actual work performed (i.e. no Bona Fide need written on the MIPR); **(7d)** Inadequate Documentation - No acquisition plan was completed to ensure proper competition; and **(8)** For each skill level identified in the ANSWER contract, there were two rates. The basic rate is for on-site work. For off-site work, a premium is paid. We noted that the proposal for this particular task order included all labor at the higher off-site rate. As a result, we are questioning whether all the work was performed off-site.

**2. 9T2JD053A & 9T2JD053K** – The task order was awarded under the General Services Administration (GSA) Multiple Award Schedule as a firm-fixed-price. The project requirement was for a lease to own of IT equipment for the period from FY 2002 to FY 2005 (base Year 2002, with 3 option years) for nine Headquarter Pacific Air Force installation sites. Installation and configuration services of the IT equipment were also included as part of the project. Total value of the task order was \$40 million.

Procurement deficiencies included: **(1)** Price reductions or discounts were not offered for Special Item Number (SIN) 132-3 (Leasing of Product). The Maximum Order Threshold was exceeded for SIN132-3.

According to the Solicitation FCIS-JB-980001B, the maximum order amount was \$500,000; **(2)** FTS did not review submitted invoices for reasonableness and accuracy. As a result, these documents supporting the invoices were not available on-line. We were unable to verify whether the client agency was charged appropriately for labor (accuracy of billed rates and hours); **(3)** No documentation on the method of procurement (rationale for selecting Federal Supply Service (FSS) schedules, why a particular pool of vendors was selected to receive Request for Quotes, or how FTS and client agency happened to choose a particular set of vendors from the pool); and **(4)** The Government may not have received best value regarding the leasing of equipment. No documentation to support the savings for leasing the equipment. Acquisition regulations (Defense Federal Acquisition Regulation (DFAR) /FAR) require documentation such as a comparative cost or cost/benefit analysis to support or justify the decision to lease.

- 3. 9T1HLR004, 9T3HLR001, 9T3H006JP & 9T3AJP001**–The project provided information technology support for the United States Forces in Korea, primarily on the Global Command and Control System. The Time-and-Materials task was a combination of four existing task orders. The initial task order, 9T1HLR004 was followed by the issuance of an additional three task order numbers due to limitation of the IT Solutions System, which was not designed to accommodate more than 99 funding documents per task number (i.e. all 4 task orders were used to fund the same continuous task).

Procurement Deficiencies: **(1)** Although fair opportunity was offered under the Government-Wide Acquisition Contract (GWAC) (i.e. Application N' Support of Widely diverse EndUser Requirements (ANSWER)), the selection and subsequent award to the contractor were questionable. The client's selecting official disagreed with their Technical Evaluation Board's initial recommendation in the selection of Computer Sciences Corporation. As a result, FTS reevaluated the proposals based on other evaluation criteria to award the contract to the preferred contractor, Information Systems Support, Incorporated. **(2)** There was no support for fair and reasonable pricing for the significant amount of labor that was proposed in the contract. In the proposal, the percentage of labor was 98 percent of total contract costs. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed; **(3)** No evidence that FTS attempted to negotiate for better pricing especially for Other Direct Costs (ODCs). Although the ODCs were not a factor in the proposed contract (i.e. 2 percent or \$0.7 million of the price quote of \$33 million), actual ODCs for the project increased significantly to 62 percent (\$30.5 million of total actual cost of \$49.3 million); **(4)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(5)** The ANSWER contract was not the correct contract vehicle for this project because ANSWER should be used for services, and ODCs should be incidental to the primary requirement. As indicated previously, ODCs were unreasonably high. Of the total ODCs, \$17 million or 35 percent was for materials & equipment. As a result, there was excessive recovery of General & Administrative (G&A) costs – over \$1.5 million paid on all ODCs (G&A rate of 4.09%) (Example: \$450,000 in G&A was paid on \$11 million in Living Quarters Allowance/dependent tuition/Cost of Living Adjustment payments alone, which involves little more than processing checks to their employees); **(6)** The Statement of Work was inadequate & misleading. The task description required IT support services and software engineering on existing systems. No materials or equipment needs were identified. On the basis of this description, proposed ODCs consisted of only 2% of estimated cost. However, actual ODCs represented 62% of total costs; **(7)** Due to the significant change in ODCs from the proposed to actual costs, work was added beyond the scope of the original scope of work; **(8)** There was significant cost growth for the project that was funded to \$15 million over the original contract price, and in less than half of the time established, as summarized: Price Quote: \$33.7 million for base year (2002) & 4 option years, \$33.0 million (98%) Labor, \$0.7 million (2%) ODCs, Actual Cost: \$49.3 million as of February 2004 (26 months), \$18.8 million (38%) Labor, \$30.5 million (62%) ODCs. Primary causes of cost growth include lack of established ceiling price or not-to-exceed amount, acceptance of unsolicited modifications from the contractor, and unanticipated cost of Living Quarters Allowance and dependent's tuition; and **(9)** No acquisition plan was completed to ensure proper competition.

### **3a. 9T3HLR001– See Note 3 for Description**

Procurement Deficiency: **(1)** The Contracting Officer did not comply with FAR 17.207 provisions with respect to exercising option years.

**4. 9T9E034A** – The project was awarded under the ANSWER contract as a Time-and-Materials task. The client agency, (Department of the Navy, Commander in Chief, U.S. Pacific Fleet, (CINCPACFLT)), indicated that the task order was a precursor to another related task order, 9T0E044A (Note 6). The project required IT support in the area of Help Desk and Automated Data Processing/Networking support throughout the CINCPACFLT command. Labor services were authorized on October 22, 1999 in the amount of \$92,220.

Procurement Deficiencies: **(1)** There was no support for fair and reasonable pricing for the amount of labor that was proposed in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the various skill levels for the project; **(2)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(3)** No acquisition plan was completed to ensure proper contract competition; **(4)** The Solicitation was ambiguous regarding the evaluation/selection/award factors. FAR 15.304 requires that all factors and significant sub-factors that will affect contract award and their relative importance shall be stated clearly in the Solicitation.

**5. 9T9E018A** – The project was awarded under the ANSWER contract as a Time-and-Materials task. The client agency, (Department of the Navy, Commander in Chief, U.S. Pacific Fleet, (CINCPACFLT)) indicated that the task order was a precursor to one other task order, 9T0E044A (Note 6). Examples of IT services that the project required included: IT Help Desk, IT engineering, and systems analysis and programming, etc. Labor services were authorized on October 25, 1999 in the amount of \$451,471.

Procurement Deficiencies: **(1)** There was no support for fair and reasonable pricing for the amount of labor and Other Direct Costs that were proposed in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the various skill levels for the project; **(2)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(3)** No acquisition plan was completed to ensure proper contract competition; and **(4)** The Solicitation was ambiguous regarding the evaluation/selection/award factors. FAR 15.304 requires that all factors and significant sub-factors that will affect contract award and their relative importance shall be stated clearly in the Solicitation.

**6. 9T0E044A** – According to the client agency, (Department of the Navy, Commander in Chief, U.S. Pacific Fleet, (CINCPACFLT)), this task order was a logical follow-on to task orders 9T9E034A and 9T9E018A (Notes 4 & 5) (Time-and-Materials tasks under the ANSWER contract). Examples of on-site IT services that the incumbent contractor provided were IT Help Desk, IT engineering, and systems analysis and programming; etc. Labor services and Other Direct Costs were authorized on December 29, 1999 for \$970,398.

Procurement Deficiencies included: **(1)** The task order was determined not to be a logical follow-on because the scope of the work for this task order had changed from the original task orders, 9T9E018A and 9T9E034A (Hawaii site only). FTS approved numerous modifications authorizing IT work to be performed at additional locations in San Diego, California, Bremerton, Washington, and the Far East. The incumbent contractor was awarded the contract to continue work deemed not to be a continuation of the prior task orders. As a result, the task order was not properly competed. According to ANSWER guidelines, program officials should avoid situations where the requirements for the competed original task order are insignificant in dollar value, only to be followed by sole-source task orders that are much broader in scope and dollar value as in this case; **(2)** There was no support for fair and reasonable pricing for the significant amount of labor and Other Direct Costs that were proposed in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the various skill levels for the project; **(3)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established

ceiling price or not-to-exceed amount; **(4)** Contributing to the project's significant cost growth from \$970,398 in December 1999 to \$22.1 million through July 2002 was the additional work performed that was outside the scope of the original statement of work as mentioned previously. A substantial number of skill levels and locations were added to the project; **(5)** FTS did not adequately justify period of performance (POP) extensions; and **(6)** No acquisition plan was completed to ensure proper contract competition.

- 7. 9T0HBP003** – The project was awarded under the ANSWER contract as a Time-and-Materials task. The client agency, (Department of the Navy, Commander in Chief, U.S. Pacific Fleet, (CINCPACFLT)), indicated that the task order was a precursor to one other task order, 9T2HBP001 (Note 8). Examples of on-site technical services that the project required included: management and fine-tuning of existing systems, network and system engineering, software and database application development, etc. Total value of the project through 16 modifications was \$2,673,781.

Procurement Deficiencies included: **(1)** There was no support for fair and reasonable pricing for the significant amount of labor that was proposed in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the various skill levels for the project. Other Direct Costs (ODCs) were not proposed in the original contract; **(2)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(3)** Contributing to the project's significant cost growth from \$300,000 on November 2000 to \$2.7 million through September 2002 was the additional work performed that was outside the scope of the original statement of work. Additional skill levels and ODCs were added to the project. The majority of ODCs involved labor services performed by a subcontractor; **(4)** FTS did not adequately justify period of performance extensions; **(5)** No acquisition plan was completed to ensure proper contract competition; and **(6)** The Solicitation was ambiguous regarding the evaluation/selection/award factors. FAR 15.304 requires that all factors and significant sub-factors that will affect contract award and their relative importance shall be stated clearly in the Solicitation.

- 8. 9T2HBP001** – According to the client agency, (Department of the Navy, Commander in Chief, U.S. Pacific Fleet, (CINCPACFLT)), this task order was a logical follow-on to task orders 9T0E044A (Note 6) and 9T0HBP003 (Note 7). As mentioned previously, both projects were Time-and-Materials tasks under the ANSWER contract. The incumbent contractor provided the following on-site technical services: IT planning, network and system engineering, database application development, & implementation of software enhancements.

Procurement Deficiencies included: **(1)** The task order was determined not to be a logical follow-on because the scope of the work for this task order had changed from task orders, 9T0E044A and 9T0HBP003. The incumbent contractor was awarded the contract to continue work deemed not to be a continuation of the prior task order. As a result, the task order was not properly competed; **(2)** There was no support for fair and reasonable pricing for the significant amount of labor that was proposed in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the various skill levels for the project; **(3)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(4)** Contributing to the project's significant cost growth from \$592,032 on September 27, 2001 to \$5.9 million through December 2003 was the additional work performed that was outside the scope of the original statement of work. A substantial number of skill levels were added to the project; **(5)** FTS did not adequately justify period of performance extensions; and **(6)** No acquisition plan was completed to ensure proper contract competition.

- 9. 9T2HBP010** – According to the client agency (Department of the Navy, Commander in Chief, U.S. Pacific Fleet, (CINCPACFLT)), this task order was a logical follow-on to task order 9T0E044A (Time-and-Materials task under the ANSWER contract). The incumbent contractor provided the following IT services: included IT Help Desk, IT engineering, and systems analysis.

Procurement Deficiencies included: **(1)** The task order was determined not to be a logical follow-on because the scope of the work for this task order had changed from the original task order, 9T0E044A (Hawaii site only). FTS approved numerous modifications authorizing IT work to be performed at additional locations in San Diego, California, Yokosuka, Japan, and Bremerton, Washington. The incumbent contractor was awarded the contract to continue work deemed not to be a continuation of the prior task order. As a result, the task order was not properly competed; **(2)** There was no support for fair and reasonable pricing for the significant amount of labor that was proposed in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the various skill levels for the project; **(3)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(4)** Contributing to the project's significant cost growth from \$3.7 million on October 2001 to \$17.2 million through October 2002 was the additional work performed that was outside the scope of the original statement of work as mentioned previously. A substantial number of skill levels and locations were added to the project; **(5)** FTS did not adequately justify period of performance extensions; and **(6)** No acquisition plan was completed to ensure proper contract competition.

10. **9T3HBP010E** – According to the client agency (Department of the Navy, Commander in Chief, U.S. Pacific Fleet, (CINCPACFLT)), this task order was a logical follow-on to the previous task order 9T2HBP010 (Time-and-Materials task under the ANSWER contract). The incumbent contractor provided a myriad of IT functions that included IT Help Desk, IT engineering, and systems analysis.

Procurement Deficiencies included: **(1)** The task order was determined not to be a logical follow-on because the scope of the work for this task order had changed from task order, 9T2HBP010 (**Note 9**). The incumbent contractor was awarded the contract to continue work deemed not to be a continuation of the prior task order. As a result, the task order was not properly competed; **(2)** There was no support for fair and reasonable pricing for the significant amount of labor that was proposed in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the various skill levels for the project; **(3)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(4)** Contributing to the project's significant cost growth from \$7.2 million on October 2002 to \$11.4 million through March 2004 was the additional work performed that was outside the scope of the original statement of work. A substantial number of skill levels were added to the project; **(5)** FTS did not adequately justify period of performance extensions; and **(6)** No acquisition plan was completed to ensure proper contract competition.

11. **9T0N414A & 9T2HLR015** – The Time-and-Materials task, awarded under the ANSWER contract, was a combination of two task orders for the U.S. Eighth Army Seoul, Korea Morale, Welfare and Recreation. Due to client concerns regarding the cost and progress of the work with the initial task (9T0N414A), the client agency and FTS agreed to convert the remaining work from a Time-and-Materials task to a firm-fixed-price proposal (9T2HLR015). The project required upgrading the current cable TV system to incorporate Internet /Telephony systems and services.

Procurement deficiencies included: **(1)** There was no support for fair and reasonable pricing for the significant amount of labor and Other Direct Costs (ODCs) that were proposed in the contract. In addition, there was no evidence that FTS negotiated a better price for the various skill levels and ODCs for the project. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no documented cost breakdown or price reasonableness support for the Firm-fixed-price portion of the project (9T2HLR015); **(2)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-

exceed amount cited on the task order; **(3)** The ANSWER contract was not the correct contract vehicle for this project because ANSWER is a service contract and materials/equipment are considered incidental to the primary task requirements which are services. According to the cost proposal for the project, the percentage of ODCs to total costs was a significant amount (i.e. 67 percent); **(4)** The Statement of Work was inadequate because the client agency issued work orders to manage work requirements under the task order. The primary reason given for the use of work orders was the client agency's inability to "forecast with accuracy what specific support it will require". The issuance of work orders against task orders is not authorized by the ANSWER contract. In addition, "Best Practices" developed by the Office of Federal Procurement and Policy cautions agencies issuing work orders under task orders. Agencies should not award large, undefined task orders in an effort to expedite the award only to issue subsequent sole source work orders; **(5)** Significant cost growth was noted for the project. A total of \$19.7 million was funded and paid on this project. While significantly less than the \$27.7 million originally proposed / estimated by the contractor, only two of the three anticipated project phases were completed as invoiced. The original proposed amount for Phase I – Design/Certification and Phase II – Upgrade/Installation was \$10.9 million, indicating a cost growth of \$8.8 million or 80% (19.7 – 10.9 / 10.9) on this project. There was no evidence noted in the ITSS files that Phase III – Support/Maintenance was done. Initial price has little or no relation to the amounts funded, and it appears that modifications are issued as needed to increase funding to cover work that has been requested by means of work orders; and **(6)** No acquisition plan was completed to ensure proper contract competition.

12. **9T9W300A** – The project was awarded under the ANSWER contract as a Time-and-Materials task. The client agency, (Southwest Naval Facilities Engineering Command in San Diego, California), indicated that the task order was a precursor to eight other related task orders, 9T9W300B – 9T9W300I (**Notes 13 - 19**). Total value of the 9 environmentally related task orders was \$21.6 million. Authorized on September 10, 1999, this particular project involved environmental remediation with labor services totaling \$621,081.

Procurement deficiencies for the original award included: **(1)** Full and fair competition was not assured since the analysis used to select the winning quote did not conform to the criteria delineated in the solicitation; **(2)** There was no support for fair and reasonable pricing for the amount of labor that was proposed in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the various skill levels for the project; **(3)** Inappropriate use of the IT fund because contracted services did not appear to be IT related (i.e. environmental remediation); **(4)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(5)** No acquisition plan was completed to ensure proper contract competition.

13. **9T9W300B** – According to the client agency, (Southwest Naval Facilities Engineering Command), this task order was a logical follow-on to task order 9T9W300A (**Note 12**) (Time-and-Materials task under the ANSWER contract). The purpose of the task order was to add funding to increase the level of effort to the remediation support that was currently provided. Authorized on April 24, 2000, the project involved environmental remediation with labor services & Other Direct Costs (ODCs) totaling \$1,319,022.

Procurement deficiencies included: **(1)** The task order was determined not to be a logical follow-on because the scope of the work for this task order had changed from the original task order, 9T9W300A (**Note 12**). An additional skill level was added to the project. The incumbent contractor was awarded the contract to continue work deemed not to be a continuation of the prior task order. As a result, the task order was not properly competed. According to ANSWER guidelines, program officials should avoid situations where the requirements for the competed original task order are insignificant in dollar value, only to be followed by sole-source task orders that are much broader in scope and dollar value as in this particular task; **(2)** There was no support for fair and reasonable pricing for ODCs and the significant amount of labor that were proposed in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for both the various skill levels and ODCs for the project; **(3)** Inappropriate use of the IT fund because contracted services did not appear to be IT related (i.e. environmental remediation); **(4)** FTS did not adequately justify the use of a Time-and-Materials contract for

the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; and **(5)** No acquisition plan was completed to ensure proper contract competition.

14. **9T9W300C** – According to the client agency, (Southwest Naval Facilities Engineering Command), this task order was a continuation of task order 9T9W300B (**Note 13**) (Time-and-Materials task under the ANSWER contract). The objective of the task order was to provide an Oracle database design and to implement a Geographical Information System (GIS) database in order to achieve the Environmental Specialty Support Department's web page requirement of task order 9T9W300B. Authorized on June 8, 2000, the project involved labor service & Other Direct Costs totaling \$67,987.

Procurement deficiencies included: **(1)** The task order was not properly competed. Apparently, the market analysis indicated that the level of effort on the existing task 9T9W300B was extended to include the GIS database under task order 9T9W300C. The incumbent contractor was then automatically awarded 9T9W300C to continue work that was totally unrelated to work required under task 9T9W300B; **(2)** There was no support for fair and reasonable pricing for Other Direct Costs (ODCs) and the significant amount of labor that were proposed in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the skill level and ODCs for the project; **(3)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(4)** Contributing to the project's significant cost growth from \$67,987 on June 8, 2000 to \$1.9 million through March 2004 was the additional work performed that was outside the scope of the original statement of work. A significant number of skill levels were added to the project; **(5)** FTS did not adequately justify period of performance extensions; and **(6)** No acquisition plan was completed to ensure proper contract competition.

15. **9T9W300D** – According to the client agency, (Southwest Naval Facilities Engineering Command), this task order was issued as a subtask under the previously competed "Umbrella" delivery order (i.e. a logical follow-on) to task order 9T9W300A (**Note 12**) (Time-and-Materials task under the ANSWER contract). According to the Statement of Work, there were (2) requirements: (1) Provide hazardous abatement support to the Environmental Safety Office; and (2) To provide hazardous material support. Authorized on August 21, 2000, the project included labor services & Other Direct Costs (ODCs) totaling \$201,748.

Procurement deficiencies included: **(1)** The task order was determined not to be a logical follow-on because the scope of the work for this task order had changed from the original task order, 9T9W300A (**Note 12**). The scope of work dramatically changed from the initial order by requiring far different skill levels for the project. The incumbent contractor was awarded the contract to continue work determined not to be a continuation of the original task order. As a result, the task order was not properly competed. According to ANSWER guidelines, program officials should avoid situations where the requirements for the competed original task order are insignificant in dollar value, only to be followed by sole-source task orders that are much broader in scope and dollar value as in this particular task; **(2)** There was no support for fair and reasonable pricing for ODCs and labor that were proposed in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the skill level and ODCs for the project; **(3)** Inappropriate use of the IT fund since contracted services did not appear to be IT related. In the Statement of Work, environmental services were needed to address hazardous abatement of 2 rooms: the Paint/Strip Shop and the Composite Shop in San Diego, California. In addition, the scope of work was significantly expanded and included projects such as assessment & engineering of fall protection and hazards, abatement of crane falls hazards, & installation of hurricane shutters to name a few; **(4)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(5)** Contributing to the project's significant cost growth from \$201,748 on August 21, 2000 to \$7.3 million through January 2004 was the additional work performed that was outside the scope of the original statement of work as mentioned previously. The number of skill levels increased significantly for



work performed throughout other naval bases in the U.S. and the world. Some examples included assessment of fall protection required at Naval Air Stations in Florida, New Hampshire, Virginia, & Iceland, and installation of hurricane storm shutters in Florida; **(6)** FTS did not adequately justify period of performance extensions; and **(7)** No acquisition plan was completed to ensure proper contract competition.

16. **9T9W300E** – According to the client agency, (Southwest Naval Facilities Engineering Command), this task order was issued as a subtask under the previously competed “Umbrella” delivery order (i.e. a logical follow-on) to task order 9T9W300A (**Note 12**) (Time-and-Materials task under the ANSWER contract). The objective of the task order was to provide environmental remediation. Authorized on November 27, 2000, the project involved environmental labor services & Other Direct Costs (ODCs) totaling \$66,735.

Procurement deficiencies included: **(1)** The task order was determined not to be a logical follow-on because the scope of the work for this task order had changed from the original task order, 9T9W300A (Note 12). The scope of work dramatically changed from the initial order by requiring different skill levels for the project. The incumbent contractor was awarded the contract to continue work determined not to be a continuation of the original task order. As a result, the task order was not properly competed. According to ANSWER guidelines, program officials should avoid situations where the requirements for the competed original task order are insignificant in dollar value, only to be followed by sole-source task orders that are much broader in scope and dollar value as in this particular task; **(2)** There was no support for fair and reasonable pricing for ODCs and labor that were proposed in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the skill level and ODCs for the project; **(3)** Inappropriate use of the IT fund since contracted services did not appear to be IT related. In the Statement of Work, environmental services were needed to address remediation, documentation, and analysis support in San Diego, California. In addition, the scope of work was significantly expanded to other U.S. naval bases that included subtasks or work orders that were added to the scope with corresponding increase in labor support; **(4)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(5)** Contributing to the project's significant cost growth from \$66,735 on November 27, 2000 to \$7.6 million through June 2004 was the additional work performed outside the scope of the original statement of work as previously mentioned. The number of skill levels increased significantly for work performed throughout other U.S. naval bases. Examples included San Clemente Island, Hunter's Point Shipyard, and El Centro, which were sites all located in California; **(6)** FTS did not adequately justify period of performance extensions; and **(7)** No acquisition plan was completed to ensure proper contract competition.

17. **9T9W300F** – According to the client agency, (Southwest Naval Facilities Engineering Command), this task order was issued as a subtask under the previously competed “Umbrella” delivery order (i.e. a logical follow-on) to task order 9T9W300A (**Note 12**) (Time-and-Materials task under the ANSWER contract). The purpose of the task order was to provide environmental ergonomic technical support and program management to the Southwest Division Naval Facilities Engineering Command. Authorized on February 7, 2001, the project involved environmental labor services & Other Direct Costs (ODCs) totaling \$145,631.

Procurement deficiencies included: **(1)** The task order was determined not to be a logical follow-on because the scope of the work for this task order had changed from the original task order, 9T9W300A (**Note 12**). The scope of work dramatically changed from the initial order by requiring different sets of skill levels for the project. The incumbent contractor was awarded the contract to continue work determined not to be a continuation of the original task order. As a result, the task order was not properly competed. According to ANSWER guidelines, program officials should avoid situations where the requirements for the competed original task order are insignificant in dollar value, only to be followed by sole-source task orders that are much broader in scope and dollar value as in this particular task; **(2)** There was no support for fair and reasonable pricing for ODCs and labor that were proposed in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the skill level and ODCs for the project; **(3)** Inappropriate use of the IT fund since the majority of contracted services did not

appear to be IT related. According to the Statement of Work, technical and consultation services were required that included researching regulations, preparing and presenting ergonomic training modules, and performing site visits. A minor portion of the contracted services appeared to be IT-related (i.e. maintain an ergonomic web page and chat room); **(4)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(5)** Contributing to the project's significant cost growth from \$145,631 on February 7, 2001 to \$2.5 million through March 2004 was the additional work performed that was outside the scope of the original statement of work. The number of skill levels had increased significantly for work performed throughout other U.S. naval bases; **(6)** FTS did not adequately justify period of performance extensions; and **(7)** No acquisition plan was completed to ensure proper contract competition.

18. **9T9W300G** – According to the client agency, (Southwest Naval Facilities Engineering Command), this task order was issued as a subtask under the previously competed “Umbrella” delivery order (i.e. a logical follow-on) to task order 9T9W300A (**Note 12**) (Time-and-Materials task under the ANSWER contract). The objective of the task order was to provide environmental safety support. Authorized on August 8, 2001, the project involved environmental labor services & Other Direct Costs (ODCs) totaling \$111,650.

Procurement deficiencies included: **(1)** The task order was determined not to be a logical follow-on because the scope of the work for this task order was quite different from the original task order, 9T9W300A (**Note 12**). The original task was for environmental remediation; whereas, this project required engineering and design support for hazard abatement. In addition, various subtasks were added to the project. The incumbent contractor was awarded the contract to continue work deemed not to be a continuation of the prior task order. As a result, the task order was not properly competed. As a result, the task order was not properly competed. According to ANSWER guidelines, program officials should avoid situations where the requirements for the competed original task order are insignificant in dollar value, only to be followed by sole-source task orders that are much broader in scope and dollar value as in this particular task; **(2)** There was no support for fair and reasonable pricing for ODCs and labor that were proposed in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the skill level and ODCs for the project; **(3)** Inappropriate use of the IT fund since the majority of contracted services did not appear to be IT related. According to the Statement of Work, technical and consultation services were required that included conceptual estimation, engineering drawings, work plan development, project tracking, securing permits, and fabrication/construction of required solutions. In addition, the Monthly Status Reports noted work accomplishments that were not IT-related (e.g. receipt of a lift table to transport heavy antennas); **(4)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(5)** Contributing to the project's cost growth from \$111,650 on August 8, 2001 to \$538,620 through December 2002 was the additional work performed that was outside the scope of the original statement of work (i.e. subtasks were added); and **(6)** No acquisition plan was completed to ensure proper contract competition.

19. **9T9W300H** – According to the client agency, (Southwest Naval Facilities Engineering Command), this task order was issued as an extension of the previous task 9T9W300A, i.e. a logical follow-on (**Note 12**) (Time-and-Materials task under the ANSWER contract). The purpose of the task order was to provide technical consulting services to the Naval Facilities Engineering Command Southwest in San Diego, California by developing an Oracle database a geographical information system (GIS) in conjunction with the development of regional data standards for environmental data. Authorized on October 11, 2001, the project involved environmental labor services totaling \$66,990.

Procurement deficiencies included: **(1)** The task order was determined not to be a logical follow-on because the scope of the work for this task order had changed from the original task order, 9T9W300A (**Note 12**). The scope of work dramatically changed from the initial order by requiring a different skill level for the project. The incumbent contractor was awarded the contract to continue work determined not to be a continuation of the original task order. As a result, the task order was not properly competed. According to

ANSWER guidelines, program officials should avoid situations where the requirements for the competed original task order are insignificant in dollar value, only to be followed by sole-source task orders that are much broader in scope and dollar value as in this particular task; **(2)** There was no support for fair and reasonable pricing for the proposed labor in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the skill level and ODCs for the project; **(3)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(4)** Contributing to the project's cost growth from \$66,990 on October 11, 2001 to \$462,734 through December 2003 was the additional work performed that was outside the scope of the original statement of work (i.e. subtasks were added); and **(5)** No acquisition plan was completed to ensure proper contract competition.

20. **9T9W300I** – According to the client agency, (Southwest Naval Facilities Engineering Command), this task order was issued as a subtask under the previously competed “Umbrella” delivery order (i.e. a logical follow-on) to task order 9T9W300A (**Note 12**) (Time-and-Materials task under the ANSWER contract). The objective of the task order was to provide to Southwest Naval Facilities Engineering Command project management assistance. Authorized on April 22, 2002, the project involved labor services & Other Direct Costs (ODCs) totaling \$79,577.

Procurement deficiencies included: **(1)** The task order was determined not to be a logical follow-on because the scope of the work for this task order had changed from the original task order, 9T9W300A (**Note 12**). The scope of work dramatically changed from the initial order by requiring a different skill level for the project. The incumbent contractor was awarded the contract to continue work determined not to be a continuation of the original task order. As a result, the task order was not properly competed. According to ANSWER guidelines, program officials should avoid situations where the requirements for the competed original task order are insignificant in dollar value, only to be followed by sole-source task orders that are much broader in scope and dollar value as in this particular task; **(2)** There was no support for fair and reasonable pricing for the proposed labor in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the skill level and ODCs for the project; **(3)** Inappropriate use of the IT fund since contracted services did not appear to be IT related. Per the Statement of Work, project management assistance involved data collection, regulation interface, and participation in brief; **(4)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(5)** FTS did not adequately justify period of performance extensions; and **(6)** No acquisition plan was completed to ensure proper contract competition.

21. **9T1S111DW** – The project was awarded under the ANSWER contract as a Time-and-Materials task. The project is to support U.S. Navy family housing offices worldwide by preparing housing management offices/activities for the migration from the legacy FAMIS system to a current version of the electronic Family Housing system. Initially awarded to Litton PRC (Litton), whose name changed to TASC, Incorporated (TASC), both Litton and TASC are wholly owned subsidiaries of Northrop Grumman Information Technology (NG).

Procurement Deficiencies included: **(1)** Inadequate competition due to one bid received. A representative of one solicited contractor who submitted a no bid (Logicon, Inc.) indicated that they did not submit a bid because of their relationship with NG and the incumbent contractor, Litton which is also a subsidiary of NG. The representative further stated that essentially they would be bidding against one other. In addition, the Notice to All ANSWER-Multiple Award Contractors was not objectively written, favoring the incumbent contractor by emphasizing that their performance for the past three years had been considered “excellent”; **(2)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared); **(3)** Contributing to the project's cost growth from \$1.3 million to \$24.6 million was the client agency adding work and providing the funding to the task; **(4a)** No acquisition plan was completed to ensure proper contract competition. **(4b)** No Independent Government Estimate

(IGE) was prepared prior to award, resulting in no means of determining or evaluating the overall project cost. Therefore, no ceiling price or not-to-exceed amount was established; and **(5)** The client agency accepted invoices even though the skill levels did not match the labor categories per the ANSWER contract, which was indicative that the client agency or FTS conducted little, if any review. For example, per the May 27, 2003 invoice, invoice amount for skill level 11D Info SYS ADMIN & Plan MGR, at \$174.65 for 494 hours (\$86,277). The labor category in the ANSWER contract was skill 11 not 11D at a ceiling rate of \$136.75. As a result, there was an overcharge of \$18,723.

22. **9T3HRE068** – The project was awarded under the ANSWER contract as a Time-and-Materials task. The project required upgrading and modernizing the classified base network (SIPRnet) at all nine main operating bases, located throughout the Asia-Pacific region, in support of the Pacific Air Forces Command and Control standardization initiative. Authorized on December 10, 2002, the project's proposed project costs totaled \$89,486.

Procurement deficiencies included: **(1)** Questionable Competition & Award Process- The initial bid/price quotes were only requested for a limited portion of the overall task (i.e., cost of conducting site surveys at only four of the nine bases) with a wide disparity in proposed prices for the project (ranging from \$57,156 to the highest bid of \$663,471). Given the wide disparity of the proposed bids for the project, FTS did not adequately document its price analysis of bid proposals and evaluation award factors. Consequently, the project was awarded based upon an initial bid of \$89,486, from which it has increased to \$13 million; **(2)** There was no support for fair and reasonable pricing for the proposed labor and Other Direct Costs in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. With no completed IGE, there was no means of determining or evaluating the overall project cost. In addition, there was no evidence that FTS negotiated a better price for the skill level and ODCs for the project; **(3)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared prior to awarding the contract). In addition, there was no established ceiling price or not-to-exceed amount. This Time-and-Materials task order was not incrementally funded, but continually increased through modifications, as new work requirements were identified and proposals submitted; **(4)** In less than one year, there was significant cost growth in the project (from the initial bid of \$89,486 on December 10, 2002 to \$13 million through September 2003) due to no ceiling price cited on the task; and **(5)** No acquisition plan was completed to ensure proper contract competition.

23. **9T3HGO076** – The project was awarded under the ANSWER contract as a Time-and-Materials task. Work was performed at the request of the Commander Navy Region in Hawaii. Examples of on-site technical services that the project required included: management and fine-tuning of existing systems, network and system engineering, software and database application development, etc. Total amount of the project through December 2003 (3rd modification) was \$3,722,027.

No significant contract procurement problems or issues were noted. The task order was properly awarded and administered; and actions and decisions were adequately documented.

24. **9T3SST001A** – The project was awarded under the ANSWER contract as a Time-and-Materials task. Work was performed to provide network support to the Space & Missile Center, Los Angeles Air Force Base. A total of six task order numbers have been issued to date, primarily due to funding restrictions imposed by the client. Authorized on August 6, 2003, the project's proposed cost was valued at \$3.4 million.

Procurement Deficiencies included: **(1)** FTS did not adequately justify the use of a Time-and-Materials contract for the project (noted that no Determination and Findings was prepared). In addition, there was no established ceiling price or not-to-exceed amount; **(2a)** Inadequate documentation - Although the original task order was competed through Fair Opportunity under the ANSWER contract, there was no documented evaluation of bids/proposals or Post-Negotiation Memorandum; and FTS was unable to provide evidence of it. In addition, no original proposal or winning price quote was either documented in the ITSS or provided by the IT Manager; **(2b)** Inadequate documentation - There were no formally-established option years, and

the period of performance was limited initially to only nine months. Although FTS has been “exercising option years” on what is considered to be a ten-year task order, no such justification has been documented in the ITSS or otherwise provided. Without an established ceiling price or period of performance, this is essentially an open-ended task order that has been funded to the extent of \$28.7 million and extended over a five-year period with no documented analysis of pricing or decisions; and **(2c)** No acquisition plan was completed to ensure proper contract competition.

25. **9T2Z250TSA** – This task order supports the U.S. Customs Service (now part of the Department of Homeland Security) in the design, implementation, testing and training of modern surveillance systems at selected Ports of Entry along the U.S./Mexican border. The project is a Firm-Fixed price task order awarded on September 17, 2002 under the GWAC (Millennia-Lite) over a span of 5 years (base year & 4 option years).

Procurement deficiencies included: **(1)** There was no support for fair and reasonable pricing for the proposed labor in the contract. FTS provided an explanation that prices compared favorably to a similar task performed by the same contractor. However, there was no documented evidence such as written crosschecks on pricing between the two tasks. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for the skill level and ODCs for the project; and **(2)** No acquisition plan was completed to ensure proper contract competition.

26. **9T3HKL762** – This task order was awarded to International Business Machines Corporation (IBM) under the Federal Supply Schedule 70. Task that provided IT management and consulting services for the Department of Navy. The firm-fixed price contract is currently active and valued at approximately \$2 million.

Procurement Deficiencies included: **(1)** There was no support for fair and reasonable pricing for the proposed labor in the contract. Although not required, the Independent Government Estimate (IGE) is a tool to establish price reasonableness. However, an IGE was not completed. In addition, there was no evidence that FTS negotiated a better price for labor services that was required for the project; **(2)** No acquisition plan was completed to ensure proper contract competition; and **(3)** Although the contract was firm-fixed price, the labor rates incorporated in the award exceeded the Schedule 70 contract rates. Individual proposed rates were not compared to the maximum rates prior to award.

27. **9T3APN006** – The task order was awarded under the ANSWER contract as a firm-fixed price. The project requirement was the development of an intelligence, surveillance and reconnaissance master plan in support of the Combined Forces Command/United States Forces in Korea. Task order valued at approximately \$1.5 million as of August 2003.

Procurement Deficiencies included: **(1)** No acquisition plan was completed to ensure proper contract competition; **(2)** Designation of the Contracting Officer Representative was not on file; and **(3)** Due to the highly sensitive and classified nature of the task order (requiring Top Secret clearance), information may have been limited that precluded FTS from properly performing its contracting duties. As a result, FTS was unable to ensure itself that the work was actually performed.



**SCHEDULE OF ENVIRONMENTAL TASK ORDERS**  
**PACIFIC RIM REGION**

| Sample Number | Task Order | Form 300 Date | Contractor                                     | Contract Vehicle | Total Value Of Task | Notes |
|---------------|------------|---------------|--|------------------|---------------------|-------|
| 33            | 9T1Y970A   | 30-Aug-00     | URS Group, Inc.                                | FSS              | \$4,587,795         | 28    |
| 34            | 9T0W280A   | 17-Jul-00     | Anteon Corporation                             | GWAC             | 551,524             | 29    |
| 35            | 9T0R124A   | 13-Jun-00     | Anteon Corporation                             | GWAC             | 547,787             | 30    |
| 36            | 9T1N091PG  | 31-Aug-01     | Science Applications International Corporation | FSS              | 441,397             | 31    |
| 37            | 9T1S025LS  | 30-Jul-01     | Tetra Tech, Inc.                               | FSS              | 405,565             | 32    |
| 38            | 9T0H003GO  | 7-Sep-00      | High Technology Solutions, Inc.                | FAST 8 (a)       | 348,578             | 33    |
| 39            | 9T1N081PG  | 18-Jul-01     | Peer Consultants, P.C.                         | FSS              | 258,870             | 34    |
| 40            | 9T3SDS007  | 1-Oct-02      | Sullivan Environmental Solutions LLC           | FSS              | 220,721             | 35    |
| 41            | 9T3SFG014  | 1-Apr-03      | Tetra Tech, Inc.                               | FSS              | 185,899             | 36    |
| 42            | 9T3SFG015  | 17-Apr-03     | Tetra Tech, Inc.                               | FSS              | 170,592             | 37    |
| 43            | 9T1N023CM  | 1-Oct-01      | Kleinfelder, Inc.                              | FSS              | 114,309             | 38    |
| 44            | 9T1N064PG  | 17-Jan-03     | Montgomery Watson Americas, Inc.               | FSS              | 113,246             | 39    |
| 45            | 9T3SDS008  | 30-Sep-02     | Sullivan Environmental Solutions LLC           | 8(a) IDIQ        | 80,538              | 40    |
| 46            | 9T2N048DW  | 19-Feb-03     | Booz-Allen & Hamilton, Inc.                    | GWAC             | 65,897              | 41    |
| 47            | 9T3SCK003  | 10-Feb-03     | Science Applications International Corporation | GWAC             | 56,580              | 42    |
|               |            |               |  | <b>Total</b>     | <b>\$ 8,149,298</b> |       |

**NOTES:**

- 28. Environmentally related task order that required responsive air quality support
- 29. Environmentally related task order that required water quality protection support
- 30. Task order that involved testing of hazardous and toxic chemicals
- 31. Task order that was an environmental investigation and feasibility study
- 32. Task order that was an environmental remediation and feasibility study
- 33. Environmentally related task order that involved management of hazardous waste materials
- 34. Task order that was an environmental remediation and feasibility study
- 35. Environmentally-related task order that required environmental services
- 36. Task order that was an environmental remediation and feasibility study
- 37. Task order that was an environmental remediation project
- 38. Environmentally-related task order that involved drilling, installing, & monitoring groundwater
- 39. Environmentally-related task order that involved site assessment to determine soil & water contamination
- 40. Environmentally related task order that involved solid waste characterizations and assessments
- 41. Environmental related task order that involved scoping wild and scenic river assessment & inventory of selected timber stands
- 42. Environmentally-related task order that required an air quality compliance audit





**SCHEDULE OF NON-IT TASK ORDERS**  
**PACIFIC RIM REGION**

| Sample Number | Task Order | Form 300 Date | Contractor                                   | Contract Vehicle | Total Value Of Task | Notes     |
|---------------|------------|---------------|--|------------------|---------------------|-----------|
| 48            | 9T2HKL713  | 14-May-02     | Gregory Edeson, PA Government Services, Inc. | FSS              | \$2,208,460         | <b>43</b> |
| 49            | 9T2HKL695  | 25-Jan-00     | Gregory Edeson, PA Government Services, Inc. | FSS              | 819,933             | <b>44</b> |
| 50            | 9T0B209A   | 30-Jun-00     | SMF Systems                                  | FAST 8 (a)       | 698,557             | <b>45</b> |
| 51            | 9T9E011A   | 18-Aug-99     | Information Systems Support, Inc.            | GWAC             | 601,439             | <b>46</b> |
| 52            | 9T2HG0052  | 16-Sep-02     | Information Systems Support, Inc.            | GWAC             | 474,887             | <b>47</b> |
| 53            | 9T1H660RW  | 27-Aug-01     | Information Systems Support, Inc.            | FAST 8 (a)       | 436,249             | <b>48</b> |
| 54            | 9T2S038FG  | 25-Sep-02     | Information Systems Support, Inc.            | GWAC             | 371,780             | <b>49</b> |
| 55            | 9T3SBB004  | 19-Sep-02     | Information Systems Support, Inc.            | GWAC             | 293,627             | <b>50</b> |
| 56            | 9TS2DS033  | 17-Apr-02     | Sullivan Consulting Group                    | 8(a) IDIQ        | 267,520             | <b>51</b> |
| 57            | 9T3N068AB  | 3-Oct-02      | Onan Corporation                             | FSS              | 226,314             | <b>52</b> |
| 58            | 9T3HG0056  | 11-Sep-02     | Information Systems Support, Inc.            | GWAC             | 157,033             | <b>53</b> |
| 59            | 9T1HJD059A | 29-May-01     | Computer Sciences Corporation                | FSS              | 149,000             | <b>54</b> |
| 60            | 9T1HJD146A | 1-Oct-01      | Herman Miller                                | FSS              | 116,433             | <b>55</b> |
| 61            | 9T1HBP199A | 2-Oct-01      | SMF Systems Corporation                      | FSS              | 107,133             | <b>56</b> |
| 62            | 9T2N002CM  | 29-Jan-02     | Information Systems Support, Inc.            | GWAC             | 103,114             | <b>57</b> |
| 63            | 9T3H003JP  | 14-Apr-03     | Information Systems Support, Inc.            | GWAC             | 102,010             | <b>58</b> |
| 64            | 9T2N041KF  | 14-Jun-02     | Anteon Corporation                           | GWAC             | 66,571              | <b>59</b> |
| 65            | 9T3SSS580  | 16-Apr-03     | Herman Miller                                | FSS              | 62,927              | <b>60</b> |
| 66            | 9T3SBB020  | 27-Mar-03     | Information Systems Support, Inc.            | GWAC             | 50,156              | <b>61</b> |
| 67            | 9T1S034DS  | 26-Sept-01    | Gray Systems, Inc.                           | 8(a) IDIQ        | 31,519              | <b>62</b> |
| 68            | 9T2N007SH  | 24-Jun-02     | Information Systems Support, Inc.            | GWAC             | 17,505              | <b>63</b> |
|               |            |               |  | <b>Total</b>     | <b>\$7,362,167</b>  |           |

**NOTES:**

- 43. Task order that required a study for utilities privatization efforts
- 44. Task order that required a study for utilities privatization efforts
- 45. Task order that required room renovation & expansion
- 46. Task order that required the hiring of a Budget Analysis
- 47. Task order that required theater level exercise planning support for the military branch
- 48. Task order that required the hiring of a nurse practitioner, an administrator, and an ophthalmology imaging technician
- 49. Task order that required the hiring of a community development management planner
- 50. Task order that required electronic input of data from various source documents
- 51. Per invoice review, reimbursement of costs involved structure improvements for a hazardous waste storage facility
- 52. Task order that involved the purchase of diesel generators and related components
- 53. Task order that required the coordination of telecommunication, transportation, and emergency service calls for the Navy
- 54. Task order that required room renovation
- 55. Task order that involved the purchase of office furniture

56. Task order that involved the purchase of office furniture
57. Task order that required hiring of an employee to perform mailroom functions (sorting, metering, delivering, etc.)
58. Task order that required the hiring of a management analyst
59. Based on the Statement of Work, the scope of work involved arranging for travel and conference meetings
60. Task order that involved the purchase of ergonomic office chairs for IT workstations
61. Task order that required the hiring of a document destruction officer
62. Task order that involved the purchase of a refurbished modular unit
63. Task order involved the hiring of a civil engineer

**SCHEDULE OF REVIEWED FY 2004 TASK ORDERS**

| Sample Number                                  | Task Order   | Form 300 Date | Contractor                             | Contract Vehicle         | Total Value Of Task  | Notes |
|--|--------------|---------------|--|--------------------------|----------------------|-------|
| <b>Newly Awarded Task Orders</b>               |              |               |  |                          |                      |       |
| 69   | 9T4ZJKIS276  | 14-Apr-04     | Science Applications Int'l Corporation | GWAC                     | \$18,563,152         | 64    |
| 70   | 9T4ZJKIS277  | 29-Apr-04     | Prologic, Inc.                         | FAST 8(a)                | 2,584,817            | 65    |
| 71   | 9T3NML225    | 19-Mar-04     | Exponent, Inc.                         | Professional Engineering | 3,544,672            | 66    |
| 72   | 9T4SBGIS007A | 28-May-04     | Computer Sciences Corporation          | GWAC                     | 1,857,234            | 67    |
| 73   | 9T4TJSIS393  | 29-Mar-04     | Digital Consulting Services            | FAST 8(a)                | 693,000              | 68    |
| <b>Existing Task Orders with Modifications</b> |              |               |  |                          |                      |       |
| 74   | 9T1Z280TSA   | 28-Sept-01    | New Technology Management, Inc.        | GWAC                     | \$46,618,320         | 69    |
| 75   | 9T1Y971A     | 25-Jul-00     | SRS Technologies                       | FSS                      | 13,682,383           | 70    |
| 76   | 9T1S011FG    | 5-Jan-01      | ITS Corporation                        | GWAC                     | 8,301,193            | 71    |
| 77   | 9T3NML210    | 14-Jan-03     | Electronic Data Systems, Corp.         | FSS                      | 58,018,949           | 72    |
| 78   | 9T0Y104A     | 5-May-00      | Anteon Corporation                     | GWAC                     | 3,673,964            | 73    |
| <b>TOTAL</b>                                   |              |               |  |                          | <b>\$157,537,684</b> |       |

\*Total Task Value represents either the greater of the Total Award Amount or Total Obligated Amount

**NOTES:****Newly Awarded Task Orders**

64. No deficiencies were noted in the administration of this task order.
65. Deficiencies included: No explanation for conclusion that price was fair and reasonable.
66. Deficiencies included: Missing Negotiation Memorandum; No documentation to support price reasonableness; Acquisition Plan deficient; and Quality control checklists on file, but no evidence of required signatures.
67. Deficiencies included: No established ceiling price for Time-and-Materials task; & quality control checklists on file, but no evidence of required signatures.
68. Deficiencies included: 8(a) Pre-Solicitation Checklist was not completed, no evidence of evaluating labor mix/level of effort, & the market evaluation/analysis was inaccurate due to use of incorrect information.

**Existing Task Orders with Modifications**

69. No deficiencies were noted in the administration of Modification 8 dated 4/29/04 - A **no cost modification** was issued in 2004, therefore, no checklist required.
70. Deficiencies noted in review of modifications 14 (value of \$90,690), 15 (\$97,087), & 16 (\$91,610) dated 04/23/04, 04/29/04, & 05/26/04, respectively, included: Work was predominately non-IT in nature, & the period of performance was extended beyond the initial period of performance without option years included in the initial award. A non-current Checklist was completed instead of the current version.
71. Deficiencies noted in review of **no cost modifications** 19, 20, & 21 dated 03/02/04, 4/23/04, & 5/25/04, respectively, included: Work was predominately non-IT in nature, the period of performance was extended beyond the initial period of performance without option years included in the initial award. Modification 21 added a new labor category. However, there was no documentation to support cost evaluation for the added labor.
72. Deficiencies noted in review of modification 7 for \$49,020, dated 3/10/04 –In May 2004, the Contract Review Panel cited “need to expand & strengthen SOW to indicate that the majority of the work is in the database support.” In addition, the CRP cited the need to address questions on open market \$21 million in other direct costs.
73. Deficiencies noted in review of modifications 36 (\$147,140), 37 (\$47,465), & 38 (\$370,142) dated 03/30/04, 04/29/04, & 5/21/04, respectively, included: FTS authorized two unsolicited modifications exceeding \$100,000. There was no established ceiling price and no documentation to support the level of effort or price reasonableness for other direct costs.





## GSA Pacific Rim Region

October 7, 2004

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

A handwritten signature in black ink that reads "Peter G. Stamison".

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

SUBJECT: Draft Report: Review of Client Support Center, Region 9  
Federal Technology Service (FTS) Assignment Number A030205

This memorandum is in response to the subject FTS, Region 9, Client Support Center (CSC) Draft Audit Report.

The first portion of the report entails a review of 68 task orders, some which were traced back to FY99 although the majority of task orders were awarded in FY00 and FY01. It is emphasized that more than 85% of these task orders have been completed or have articulated exit strategies. We acknowledge the overall findings delineated in the draft audit; however, there are areas in the report, which the FTS organization believes require additional explanation and comment to enhance its overall clarity. These comments are provided in the attachment to this memorandum.

FTS has taken a proactive approach to minimize the inherent vulnerabilities in its acquisition processes. FTS has infused quality and compliance with regulations relative to its acquisitions. In addition to FTS mandated measures, the Pacific Rim Region implemented the Acquisition Risk Mitigation Initiative (ARMI) in August 2003, specifically for the purpose of reducing acquisition risk. ARMI prescribes specific procedures that are to be followed before solicitation and award to mitigate risks throughout the acquisition process. A critical aspect of the ARMI is the required Contract Review Panel process where a senior level group reviews all contract actions over \$1 million. In addition, a legal review is conducted for complex acquisitions and all acquisitions over \$5 million. ARMI is an evolving document and is currently undergoing its third iteration.

U.S. General Services Administration  
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San Francisco, CA 94102-3434  
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The second section of the report reviewed 10 task orders dated from March to May 2004. The main focus of this reply is to provide contextual clarification in response to the findings from the review of the 2004 task orders. It is our position that the findings for the 2004 sample are of a nature which can be considered primarily lapses in the level of documentation, as opposed to the more profound concerns revealed in the initial audit sample. Management has taken steps to strengthen documentation of award decisions and emphasized proper documentation to support each acquisition.

Thank you again for the opportunity to garner valuable information as a result of the audit. Should you have further questions, please contact Mr. Paul Galassi of my staff at 415-436-8202.

Attachment

PACIFIC RIM REGION  
FTS RESPONSE TO AUDIT REPORT NUMBER A030205

The following comments, clarifications, and recommendations are provided as responses to the subject draft audit report.

- Pages 6 – Inadequate Competition

FTS Response: The observation of the audit report is duly noted. FTS has emphasized the importance of documenting and filing acquisition information to provide sufficient evidence of fair competition for all procurements. In August 2003, FTS Pacific Rim Region implemented surveillance and oversight procedures through Acquisition Risk Mitigation Initiative (ARMI) to improve the quality of documentation supporting its fair competition practices.

With regard to the two projects identified in this section to illustrate instances of inadequate competition, we would like to provide the following points of clarification. First, our review did not support the audit finding that the contracting officer took “extraordinary steps” to justify the client’s selection to provide IT Services for U.S. Forces Korea for the Global Command and Control System. The contracting officer indicated that the award could have been made to either vendor, CSC or ISS. ISS was selected because they offered the most benefits at no additional costs as delineated in their proposal; however, we recognize that the documents supporting the award decision did not adequately capture this point.

In the second example, the report noted that the task order notification letter to support Navy family-housing offices stated that Litton PRC was the incumbent contractor for the past three years on the project and its past performance was excellent. This information was a statement of fact; however the incumbent’s level of performance should not have been disclosed. The requirement was solicited amongst all the ANSWER vendors, and it is common practice to specify the incumbent contractor in the RFQ letter since it is a frequently asked question whenever a requirement is solicited. Furthermore, the ordering guide for ANSWER recommends that incumbent information be included in solicitations to permit contractors to make informed decisions about proposing and/or developing teaming arrangement on requirements.

- Page 8 – Improper Contracting Actions

FTS Response: FTS acknowledges the importance of remaining within the scope of the original task orders. Proper documentation of acquisition files has been emphasized and implemented through instituted FTS and regional management controls.

- Page 8 – Frequent Use of Time and Material Tasks

FTS Response: Management understands that Time and Materials (T&M) is the least preferred contracting method and acknowledges the requirement to properly document the use of T&M task orders. To that end, it has taken steps to ensure that in such instances the Determination and Findings necessary to justify T&M task orders are properly documented in the acquisition file. FTS has put in place a structure that addresses this issue through the implementation of management controls as prescribed by the regional ARMI document.

- Page 9 – Inadequate Support for Fair and Reasonable Pricing

FTS Response: FTS concurs that the fair and reasonable determinations were not sufficiently documented in the acquisition files. To ensure compliance with this acquisition requirement, FTS has implemented management controls and processes to monitor the fair and reasonable analysis and to ensure that the process is properly documented in the acquisition file.

- Page 9 – Improper Use of the IT Fund

FTS Response: FTS has developed and distributed policy and guidelines outlining what constitute Information Technology (IT) and the proper use of the IT Fund. Discussions on a task order by task order basis are now presented to management in cases where an IT opportunity may be in question. Task orders that were outside of current guidelines have been terminated or have a planned exit strategy. IT scope will remain a major area of review by managers and contracting officers alike.

- Page 10- Misuse of Contract Vehicle

FTS Response: FTS has an increased emphasis in acquisition planning in light of the issuance of the GSA Order OGP 2800.1 dated January 1, 2004. The Acquisition Plan documents the rationale and decision process used to determine the type of contract vehicle best suited for each procurement. Through surveillance procedures outlined in ARMI, the acquisition strategy and contracting vehicle are evaluated as part of a sound and viable acquisition plan.

- Page 12 – Other Issues

FTS Response: This section addressed concerns about highly sensitive and classified support services for a USFK intelligence organization in Korea. The concern was whether an FTS associate without a Top Secret, Sensitive Compartmented Information security clearance could access information required to properly determine pricing and monitor deliverables. FTS is aware of the critical nature of our national security clients and the importance of properly administering acquisitions in a secure environment. For the task order in question, scope, pricing, skill levels, performance criteria, and task order management information are unclassified. It should be noted that the associate currently assigned to administer this task order (since October 2003) possesses a Top Secret (SCI) clearance. The associate originally initiating the task order currently is pending a Top Secret clearance.



- Page A-1 – Appendix A: Schedule of Orders Reviewed in Region 9  
Section: “Inadequate Support for Fair/Reasonable Pricing”

FTS Response: The section entitled “Inadequate Support for Fair/Reasonable Pricing” and its subsection “No Attempt to Negotiate Better Pricing” may be misconstrued in that it incorrectly implies that a fair and reasonable pricing analysis for labor and material was not conducted in the reviewed task orders. Based upon inquiries from operational managers and contracting officers, a price analysis is conducted on vendor bids as part of the award process. Our assessment confirmed that the acquisition files inadequately reflected our process and findings. FTS has instituted management controls and a review structure to ensure that fair and reasonable pricing is documented in the acquisition file. We request these titles be changed to: “Inadequate Documented Support for Fair/Reasonable Pricing” and “Negotiated Better Pricing” respectively.

- Page D-1 – Appendix D: Schedule of Reviewed 2004 Task Orders  
A subsequent evaluation was performed by FTS with regard to the audited items delineated in Appendix D, entitled, “Schedule of Reviewed 2004 Task Orders.” We note that 2 of the 10 task orders possessed no deficiencies. We are in general agreement with the audit findings enumerated for the task order samples with the following clarifications and exceptions:

General response:

- **Sample 72** references a task order that will be completed in November 2004.
- **Samples 75 and 76** are FY01 task orders, which have exit strategies and have expiration dates of September and October 2004 respectively. While the samples contain a significant IT component, we acknowledge that professional services would be more in consonance with the requirements.
- **Sample 77** entails a task order in which \$21 million in other direct costs has been addressed in a memorandum for the record and uploaded into ITSS.
- **Sample 78** is an FY00 task order will be completed in December 2004. Documentation to support the price reasonableness of the labor and other direct costs for these modifications has been included in ITSS.
- The report also addressed concerns about the lack of a signed checklists or the use of an outdated checklist (**Samples 71, 72, and 75**). While we are in agreement with this finding, we note that the identity of the contracting officer completing the checklist may be determined from the GSA Form 300. In any event, the overall intended purpose of the checklists was achieved.

Specific response:

- **Sample 70**

FTS Response: The analysis provided by the Contracting Officer (CO) was performed in accordance with FAR 19.806 (b) and sufficiently determined that the price is fair and reasonable relative to the existing market price conditions.

Pursuant to FAR Part 15.402, the CO made the determination that certified cost and pricing data were not required. The prime contractor's general and administrative (G&A) expenses on the subcontractor's total cost, including the subcontractor's G&A, are allowable and allocable.

From our assessment of the documentation, the CO performed an acceptable price analysis; and his/her determination as to the level of detail necessary relative to specific elements of cost and price to justify award was sufficient.

- **Sample 71**

FTS Response: The price negotiation memorandum was incorrectly titled, but was located in ITSS, under the Market Analysis. The CO made a determination that the final price was fair and reasonable. The acquisition plan was updated and inserted into ITSS. The audit report did not provide specific information to support the phrase "little value added by GSA in the procurement process." It should be noted that a part of the GSA value added service includes financial, billing, and reconciliation support functions in addition to task order management and administration. Therefore we request that this statement be deleted from the report.

- **Table of Reviewed 2004 Task Orders**

FTS Response: We recommend that a column be inserted adjacent to the Total Value of Task, which would be titled, "Dollar Value of Modification." The table does not include the dollar amount of the task orders modifications under review. The information, as provided, can be misleading, for example, Sample 76 shows the task dollar value at \$8.3M, yet the task order's modifications being reviewed consisted of "no cost" mods necessary to exercise the exit strategy on this FY01 task order; and Sample 75, terminated in September 2004, shows the task dollar value at \$13.7M, yet the task order's modifications necessary to complete this FY01 task were less than \$100K each.

**AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
NORTHWEST/ARCTIC REGION  
REPORT NUMBER A040191/T/9/Z05008  
DECEMBER 9, 2004**



**AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
NORTHWEST/ARCTIC REGION  
REPORT NUMBER A040191/T/9/Z05008  
DECEMBER 9, 2004**

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U.S. GENERAL SERVICES ADMINISTRATION  
Office of Inspector General

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

Date: December 9, 2004

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

Subject: Audit of Federal Technology Service  
Client Support Center, Northwest/Arctic Region  
Report Number A040191/T/9/Z05008

To: Jon R. Kvistad  
Regional Administrator (10A)

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

The San Francisco Field Audit Office has completed an audit of task orders awarded by the Federal Technology Service's (FTS) Client Support Center (CSC) located in the Northwest/Arctic Region (Region 10). This report addresses the results of our review.

### **INTRODUCTION**

The Administrator requested the Office of Inspector General (OIG) to determine if improvements over the administration of Information Technology (IT) procurements had been made since the issuance of an OIG report that disclosed significant control weaknesses in Regions 4, 6, and 10 (Report Number A020144/T/5/Z04002, dated January 8, 2004). That report noted that improvements in controls were needed to ensure that procurements are made in accordance with the Federal Acquisition Regulation (FAR) and the terms and conditions of the contracts utilized.

In response to the OIG report, the Commissioner of FTS, issued a number of directives addressing the controls over task and delivery orders. These directives included the implementation of Section 803 of the National Defense Authorization Act (Section 803) for fiscal year 2002; requirements for legal review of contractual matters; the mandatory use of acquisition checklists; establishment of a procurement management review program; requirement for a CSC Management Plan; and guidance on contract/project closeout.

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## **Objective, Scope, and Methodology**

The objective of this review was to provide information to FTS officials on recent actions the CSC has taken in implementing control improvements. We performed a limited review of a judgmental sample of ten task orders (five newly authorized task orders and five modifications to existing task orders) authorized from March to May 2004. We did not perform all of the audit steps for this review that were completed in our prior audit, such as the contract procurement administration for pre-existing task orders. Instead, we:

- Discussed the implementation of Central Office Initiatives and locally mandated controls with Regional FTS officials; and
- Performed limited tests of contract administration for the ten task orders to determine compliance with the new initiatives and directives.

This review was conducted from June to August 2004 in accordance with generally accepted Government auditing standards.



## **RESULTS OF AUDIT**

Our review indicated that the Central Office Initiatives, as well as Regional Directives have been implemented, and administration of task orders has improved. However, we noted instances of noncompliance with the mandatory initiatives and exceptions in the contract administration for the newly awarded task orders. As a result, continued management oversight is needed to ensure adherence to the initiatives and to minimize the risks of improper contract procurement practices.

Regional Directives were initiated to enhance controls over contract procurement. In October 2003, acquisition officials established a Contract Review Board for the purpose of creating an internal review process to ensure that IT acquisitions and administration are in compliance with FAR and terms and conditions of the contracts. In addition, to ensure that three quotes are obtained for Department of Defense acquisitions in excess of \$100,000 as required by Section 803, FTS associates are required to post any requests for quotations on the agency's electronic quote system (E-Buy), whereas, Central Office guidance merely suggests this option. Region 10 also requires FTS associates to obtain three bids electronically for civilian clients.

FTS management, including the Assistant Regional Administrator, have initiated quarterly reviews of sample task orders to provide further assurance that contract award and administration are proper and that Central Office Initiatives are followed.

Although the initiatives appear to have led to improvements since our prior audit, the required pre-solicitation checklist was not completed for any of the five newly awarded task orders. For four of the five task orders, the Independent Government Estimate was inadequate. In addition, for two of these four task orders (those valued in excess of \$5 million each), we noted no evidence that the required review for legal sufficiency was performed; and there was no formal designation of the contracting officer's representative.

For the five modifications to pre-existing task orders, FTS generally complied with Central Office Initiatives and Regional Directives. However, we noted areas of concern that did not affect the modification under review but was disclosed to FTS (See Notes 6 – 9, Appendix A).

Appendix A provides information on the results of review of the ten task orders.

## **Conclusions**

The task orders reviewed from 2004 indicated that the Northwest/Arctic Region is taking corrective actions to minimize the risks of improper contract procurement practices through management oversight and adherence to Central Office Initiatives. Our limited review of task orders issued from March to May 2004 indicated that improvements were being made, but we identified some of the same issues as found in our January 2004 audit report. Given the exceptions noted in the sample of 2004 task orders, there is a

need for management's continued attention to improving controls. The Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC program in FY 2005.

### **Recommendations**

Based on the comprehensive recommendations contained in Audit Report Number A020144/T/5/Z04002, dated January 8, 2004, no further recommendations are deemed necessary at this time.

### **Management's Comments**

The Regional Administrator concurred with the results as presented in this report, but stated the Statement on Internal Controls was somewhat confusing and unclear. We have reworded this section to clarify that we will be performing a more comprehensive analysis in FY 2005 (See Appendix B for Management's Comments).

### **Internal Controls**

We assessed the internal controls relevant to the CSC procurements to assure that they were made in accordance with the FAR and the terms and conditions of the contracts utilized. In our prior review of the Northwest/Arctic Region, we identified improper procurement practices such as the inappropriate use of the IT Fund, improper contracting actions such as sole source procurements and split procurements, and non-compliance of acquisition regulations. We believe that an effective internal control structure, with the on-going endorsement of management, would have identified and prohibited many of the inappropriate procurement practices we noted.

Our limited review of contracting actions from March to May 2004 did not identify any significant issues that would indicate that the procurements were not in accordance with the FAR and terms and conditions of contracts utilized. Although the Region has taken action to strengthen controls over procurements in order to minimize the risks of improper contracting practices, we found instances in which controls were not followed. Consequently, the Region must maintain vigilance and continue to improve controls over CSC procurements to ensure that risks over improper contracting actions are minimized. The Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC program in FY 2005.

We wish to thank regional FTS associates for the courtesies extended to the auditor during this review. Should you or members of your staff have any further questions concerning this review, please contact me at (415) 522-2744.

A handwritten signature in black ink that reads "Perla Corpus". The signature is written in a cursive style with a large initial "P".

PERLA CORPUS  
Audit Manager (JA-9)  
San Francisco Field Audit Office



**SCHEDULE OF REVIEWED TASK ORDERS  
IN THE NORTHWEST/ARCTIC REGION**

| Sample Number/<br>Notes                        | Task Order  | Form 300<br>Date | Contractor  | Contract Vehicle <sup>63</sup> | Total Value<br>Of Task* |
|--|-------------|------------------|---|--------------------------------|-------------------------|
| <b>Newly Awarded Task Orders</b>               |             |                  |   |                                |                         |
| 1  | A4S17B0286  | 07-Apr-04        | Northrop Grumman Information Technology, Incorporated | MOBIS                          | \$190,452               |
| 2  | A4S17S0187  | 31-Mar-04        | Total Resource Management                             | FSS – IT                       | 5,957,553               |
| 3  | A4S17S0187A | 31-Mar-04        | Technology Associates International Corporation       | FSS – IT                       | 7,971,984               |
| 4  | A4S47B0262  | 23-Mar-04        | 3H Technology, LLC                                    | FSS – IT                       | 602,092                 |
| 5  | A4S47B0326  | 03-May-04        | Soza & Company Ltd.                                   | FSS - IT                       | 286,162                 |
| <b>Existing Task Orders with Modifications</b> |             |                  |   |                                |                         |
| 6  | A1S97B0181  | 27-Jul- 01       | Anteon Corporation                                    | FSS - IT                       | \$3,053,198             |
| 7  | A3S17B0317  | 27-Mar-03        | Anteon Corporation                                    | PES                            | 1,464,154               |
| 8  | A3S68E0280  | 03-Dec-02        | Information Systems Support, Incorporated             | FAST 8(a)                      | 1,062,775               |
| 9  | A3S69S0420  | 13-Feb-03        | LEXISNEXIS Group                                      | FSS - IT                       | 1,951,465               |
| 10   | A3S97B0376  | 02-Apr-03        | Grey Hawk Systems, Incorporated                       | FSS - IT                       | 45,794,732              |
|  |             |                  |   | <b>Total</b>                   | <b>\$68,334,567</b>     |

\*Total task order value represents (1) initial established price including all options; plus (2) any funding increases due to added scope requirements or period of performance extensions (i.e., cost growth)

**NOTES:**

**Newly Awarded Task Orders**

1. The pre-solicitation checklist was not completed as required.
2. The acquisition, which was in excess of \$5 million, was not reviewed for legal sufficiency as required. The Independent Government Estimate prepared by the client was inadequate because it did not address the same requirements or period of performance as the contractor's proposal. The pre-solicitation checklist was not completed as required. And the duties of the contracting officer's technical representative were performed by the client with no formal (written) delegation.
3. The acquisition, which was in excess of \$5 million, was not reviewed for legal sufficiency as required. The Independent Government Estimate prepared by the client was inadequate because it did not address the same requirements or period of performance as the contractor's proposal. The pre-solicitation checklist was not completed as required. And the duties of the contracting officer's technical representative were performed by the client with no formal (written) delegation.
4. The Independent Government Estimate prepared by the client was inadequate; it was identical to the contractor's proposal. In addition, the pre-solicitation checklist was not completed as required.
5. The Independent Government Estimate prepared by the client was inadequate; it consisted of lump sum (firm-fixed price) amounts, and not in sufficient detail to be useful in evaluating the contractor's proposal. In addition, the pre-solicitation checklist was not completed as required.

<sup>63</sup> Legend

MOBIS (Management, Organization, and Business Improvement Services) – Federal Supply Schedule 874

FSS-IT - General Purpose Commercial Information Technology Equipment, Software, and Services – Federal Supply Schedule 70

PES (Professional Engineering Services) – Federal Supply Schedule 871

FAST 8(a) (Federal Acquisition Services for Technology) – A Multiple Award Indefinite Delivery/Indefinite Quantity contract Schedule for small, disadvantaged businesses

### **Existing Task Orders with Modifications**

6. Modification 5 dated March 31, 2004, was issued to de-obligate funds and initiate closeout, 21 months after the task expired on June 30, 2002.
7. Modification 1 dated April 7, 2004, was issued to add incremental funds to the task order, after the period of performance for the base year expired on March 30, 2004 (i.e. the task order was no longer in force after March 30, 2004). The first option year was not exercised, and the task order is being closed-out.
8. Modifications 9 and 10 were dated March 31, 2004 and May 19, 2004, respectively. Modification 10 was issued to extend the period of performance to "cover" a lapsed period of 19 days. The task order was initially awarded under a FAST 8(a) contract for a one-year term, and extended numerous times for additional 6-month periods. It was inadvertently allowed to lapse on April 30, 2004 and is in the process of being closed-out.
9. Modification 3 dated March 12, 2004 was a no cost modification to extend the period of performance for 30 days. FTS is currently in the process of initiating closeout procedures.
10. No deficiencies were noted in the administration of Modification 5 dated March 31, 2004.



GSA Northwest/Arctic Region

September 27, 2004

MEMORANDUM FOR JOSEPH J. BREWSTER  
REGIONAL INSPECTOR GENERAL FOR AUDITING (JA-9)

FROM: JON KVISTAD  
REGIONAL ADMINISTRATOR (10A)

SUBJECT: RESPONSE TO DRAFT REPORT:  
Review of Client Support Center  
Northwest/Arctic Region  
Federal Technology Service  
Assignment Number A040191

We have reviewed the subject draft audit report and take no exception to the findings or presentation of the report, with the exception of the paragraph entitled "Internal Controls." We appreciate the feedback and view the relationship with the OIG as a partnership whose goal is to improve the service we provide for our clients and the taxpayers at large.

Numerous exchanges took place during the conduct of the audit between FTS Region 10 and the OIG staff conducting the audit. These exchanges served: (1) to educate the OIG staff in the new processes and procedures being implemented by FTS Region 10 and obtain immediate feedback from the OIG on methods to improve our processes; (2) to clarify how the contracting writing and tracking system employed by FTS impacted the presentation of contract documentation; and, (3) discuss the changing roles of FTS Region 10 personnel as the ratio of Contracting Officers to Project Managers is increased to a more effective value to ensure FTS Region 10 has the right personnel, in the right place, to perform the right duties in an efficient and compliant manner. Discussions also included the status of processes and procedures. We were very candid with the OIG auditors in their assertion that sufficient time has not been afforded to completely normalize all of the processes and procedures that have been implemented to date. Further, it was made clear that FTS Region 10 felt there were still more policies and procedures that would be developed, as the need for such was identified. I believe these discussions were fully considered and reflected in the report submitted by the OIG.

U.S. General Services Administration  
400 15th Street SW  
Auburn, WA 98001-6599  
www.gsa.gov

The paragraph entitled "Internal Controls," page 3 of the draft report, is somewhat confusing in the presentation and the intended message is unclear. The paragraph discusses past findings and indicates that, based upon their limited review, improvements are being made. The last sentence appears to be a disclaimer that the limited review did not serve as an adequate test of FTS Region 10's internal control process. Is the message – keep going, it appears you are on the right track? Or, is the message – It appears they are ok, but we can't positively affirm that based upon our limited review? Are there any immediate actions that FTS Region 10 should take?

The areas of weakness noted by the OIG, mainly failure to include prescribed acquisition checklists, failure to obtain legal reviews and inadequate independent government estimates, are areas that have been or will be the subject of internal training initiatives, and are areas that will be focused upon during FTS Region 10 internal management reviews of contract actions. FTS Region 10 management will add legal reviews as an item on the Internal Management Review checklist as an added means of assessing whether contract actions are being executed according to established policies and procedures. Inclusion of acquisition checklists is already addressed during the internal management reviews. Training on the development of Independent Government Estimates (to include checklists, samples and templates) is scheduled to be provided during 1<sup>st</sup> Quarter of FY 2005.

We believe we have made significant progress and have implemented prudent corrective actions to preclude the reoccurrence of improper contracting practices identified in prior audits. It is our collective objective to provide the very best support to our clients. We will continue to take the necessary steps to ensure our actions remain compliant with all statutes, regulations, policies, procedures and sound business practices.



**AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
NATIONAL CAPITAL REGION  
REPORT NUMBER A040102/T/W/Z05004  
DECEMBER 9, 2004**





**U.S. GENERAL SERVICES ADMINISTRATION**  
**Office of Inspector General**

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**Date:** December 9, 2004

**Reply To** Regional Inspector General for Auditing  
**Attn. Of:** Washington Field Audit Office

**Subject:** Audit of Federal Technology Service's  
Client Support Center, National Capital Region  
Report Number A040102/T/W/Z05004

**To:** Donald C. Williams  
Regional Administrator  
National Capital Region

This report presents the results of our audit of Federal Technology Service's Client Support Center in the National Capital Region. Our audit objective was to determine if the Client Support Center made and administered procurements in accordance with the Federal Acquisition Regulation (FAR) and the terms and conditions of the contracts utilized. We found a number of task orders with deficiencies in: use of the Information Technology Fund, period of performance extensions, working within the scope of the base contract, and fair and reasonable pricing.

This report contains no recommendations, instead service-wide recommendations were presented to the Federal Technology Service in Audit Report Number A020144/T/5/Z04002, Audit of Federal Technology Services Client Support Centers dated 8 January 2004.

If you have any questions regarding this report, please contact myself or Paul J. Malatino, Regional Inspector General for Auditing at (202) 708-5340.

A handwritten signature in black ink that reads "Keith A. Amacher".

Keith A. Amacher  
Audit Manager  
Washington Field Audit Office (JA-W)



**AUDIT OF FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER  
NATIONAL CAPITAL REGION  
REPORT NUMBER A040102/T/W/Z05004  
DECEMBER 9, 2004**

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## RESULTS OF REVIEW

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Our sample of 30 task orders identifies significant, but relatively isolated instances of procurement irregularities. All task orders examined were deficient with respect to documentation. Other irregularities included inappropriate use of the IT Fund, excessive period of performance extensions, work performed outside the scope of the base contract, and inadequate price analysis. These irregularities were confined to four unique requirements, one of which, for the State Department, is the common source for five of the task orders included in our sample.

Several factors contributed to the problems we identified. One is a tendency to accept client-driven solutions. Client drivers, such as expediency, flexibility and the ability to deal with a known source can at times be at odds with the tenets of good procurement design. Another is the absence of formal review procedures, which over time leads to a degradation of procurement quality as omissions and shortcuts develop into the standard practice. Finally, we observed a tendency to relegate procurement design to a rote administrative action; contracting officers were not routinely party to the initial acquisition planning process. Taken as whole, the control environment within the CSC's was in need of improvement, because it permitted and did not detect the procurement lapses identified in this review. However, we found nothing inherent to that environment that discouraged good procurement practices by conscientious contracting officers.

The region has instituted significant control enhancements, which began to take effect approximately March 2004. At the Administrator's request, we attempted to assess the impact of these changes and include that assessment in this report. As of the close of fieldwork, there were too few examples on which to base a conclusion. See Appendix C for a detailed discussion of this aspect of our review.

### ***Inappropriate Use of the IT Fund***

In 23%, or seven out of thirty of the task order awards we reviewed, the CSC 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.

Task Order Number 11LWM212049 (FY03, #28) in the amount of \$555,275 was issued on 2 July 2002 to Cameron Consulting Group, Inc. for the National Guard. The main purpose of this task order, the production of a youth symposium on emotional intelligence, is clearly not IT related. The task order was closed at its completion.

Six task orders in our sample were issued to Advanced Resource Technologies. Five of the task orders were for the State Department, Bureau of Diplomatic Security. The SOW for these task orders include such items as firearms instructors, medical technicians, warehouse personnel, etc. Additional details and problems regarding these task orders are shown in the next section. The sixth is Task Order 11BJG6930001 (FY03, #20) for \$3,339,096 for the Department of Transportation, Federal Highway Administration. This

SOW included a Logistics Coordinator, Records Aides, and Librarian. None of the services procured through any of these task orders were IT related. Upon completion of its own internal review, the CSC opted to extend the task orders for the State Department through 30 September 2004, to allow the client time to find another contract vehicle. The task order for the Department of Transportation was also in the closeout process and will be re-competed.

### ***Extending the Task Performance Period Without Justification***

The five task orders issued to Advanced Resource Technologies, Inc. for the State Department, Bureau of Diplomatic Security, have included numerous periods of performance extensions. There is no documented justification for these extensions explaining why the additional effort was/is required, nor was the contracting officer able to provide one. There were no option periods included in the Statement of Work or Proposals. The same statement of work was used for all five task orders. We attempted to contact the client, but were unable to do so. These extensions resulted in significant cost growth. They are summarized as follows:

| <b>Task Order Number</b> | <b>Original Period of Performance</b> | <b>Current Period of Performance</b> | <b>Original \$</b>        | <b>Current \$</b>         | <b>% Growth</b> |
|--------------------------|---------------------------------------|--------------------------------------|---------------------------|---------------------------|-----------------|
| 11LDF0010                | 5/26/1999-4/11/2000                   | 12/31/2004                           | \$14,514                  | \$909,990                 | 6170%           |
| 11LDF0011                | 5/26/1999-4/11/2001                   | 1/15/2004                            | 436,402                   | 2,999,952                 | 587%            |
| 11LWM191002              | 8/31/2001-12/31/2001                  | 9/15/2004                            | 191,280                   | 2,121,341                 | 1009%           |
| 11LWM191003              | 9/24/2001-7/5/2002                    | 7/31/2004                            | 598,955                   | 2,999,968                 | 401%            |
| 11LWM192022              | 8/15/2002-7/31/2003                   | 9/15/2004                            | 84,468                    | 545,814                   | 546%            |
| <b>Total</b>             |                                       |                                      | <b><u>\$1,325,619</u></b> | <b><u>\$9,577,065</u></b> |                 |

Both Acquisition Solutions and the National Capital Region's in-house review panel examined these task orders. As a result, the CSC has decided to close them out by 30 September 2004, allowing the State Department time to find an alternate contract vehicle.

### ***Work Performed Outside Scope of Base Contract***

Advanced Resource Technologies had an 8(a) contract for IT services against which six task orders in our sample were awarded. However, none of the job categories on the task order were IT related. The task orders include services for firearms instructors, medical technicians, warehouse personnel, etc. These task orders are neither IT related or within the scope of their 8(a) contract. These task orders totaled \$12,916,161 (\$9,577,065 plus Task Order 11BJG693001 (FY03, #20) for \$3,339,096).

### ***File Documentation - Time and Material Type Tasks***

We found that the CSCs frequently used time-and-materials type task orders (T&M). Of the 30 orders for services that we reviewed from a judgmental sample, 24, or 80 percent were T&M. A T&M contract provides for acquiring services on the basis of direct labor



hours at fixed hourly rates and materials at cost. These task orders have documentation requirements specified in FAR 16.601:

*“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 the amount of any subsequent change in the ceiling price.”*

Of the 24 T&M orders in our sample, none of the order files included documented determination and findings (justification for their use) or defined a contract ceiling amount (not to exceed amount).

### ***File Documentation - Other***

There were considerable documentation deficiencies with Task Order 11DL10045 (FY03, #3). The CSC issued this task order to OAO Corporation on 30 June 2000 in the amount of \$2,464,204, followed by multiple modifications to extend the period of performance. The original task order was to be completed by 30 December 2000. As of the end of our fieldwork, OAO was working under modification number 29, scheduled to end on 15 July 2004. The aggregate value of the task order has increased from \$2.4M to \$16.1M.

The history of this procurement as viewed from the official contract file gives the appearance of a procurement that had substantially outgrown its initial scope, both in terms of the specific work to be performed as well as the period of performance. However, information attained from a client interview suggests there is adequate justification for multiple period-of-performance extensions and related cost growth: the extensive modifications resulted from unanticipated technical difficulties that delayed both the integration project that was the core of this task, as well as a related but separate task to replace the Integrated Task Order Management System (ITOMS). Further, because the OAO task was awarded as a time and materials type order, all performance risk factors are borne by the client. Accordingly, after differentiating project issues from procurement issues, we have classified our findings primarily as a failure to document pertinent information. We comment further on the issue of price reasonableness as it relates to cost growth in the following section.

ITOMS is a custom application used to manage order funding that had been developed and supported by Lockheed Martin, formerly OAO, for several years. ITOMS was originally developed by OAO. The current task order administered by NCR supports (1) operations and maintenance of the legacy standalone, (2) the major reengineering effort underway to integrate ITOMS with ITSS via the Common Oracle Data Base (CODB) to improve data reliability that was a recurring issue with the stand-alone ITOMS and ITSS, and (3) for ongoing operations of the integrated ITOMS since the regional deployment was incremental. Planned implementation was early 2001. As explained below, implementation was delayed, as is implementation of a system slated to replace ITOMS

(referred to below as “3GS” and/or “GSA Preferred”). As such, ITOMS support remains an essential task for a currently indeterminate future period.

As explained by the client:

“This effort ran into technical challenges both from the applications integration perspective and data conversion perspective and took longer than planned. This development was completed in the Spring of 2002 and the Deployment (to include extensive data conversion efforts) was started in the Summer of 2002 and completed in Summer of 2003. It made no sense during this time to re-compete since it would have jeopardized a critical complex initiative at the worst possible time. After integrated ITOMS development and deployment was completed, it was six months until the 3GS was to have been fully deployed. Since ITOMS was to be retired after 3GS was fully deployed, it did not make sense to re-compete a contract for a short period especially since resources were being phased out to ramp down support of the legacy system. The incremental funding approach was a conscious one in order to periodically review resources to see what could be further transitioned off the project.

NCR has started activities to re-compete ITOMS support. It is uncertain at this point when ITOMS will be completely retired since it may be needed on a very small scale for reference and research even after all regions cut over to GSA-Preferred.”

Our understanding is that dialog between the client and CSC was ongoing but not formally documented or integrated into the procurement files. The discussion appears to have bypassed the contracting officer, as the files did not support, nor was the contracting officer able to explain the basis for his actions.

#### ***Lack of Support for Fair and Reasonable Pricing***

For six of the orders for IT services that we reviewed, there was insufficient documentation to support that the Government received a fair and reasonable price. According to FAR 15.402, Contracting Officers must purchase supplies and services from responsible sources at fair and reasonable prices. If this cannot be determined through competition, an analysis of the contractor’s proposal should be performed on the cost elements. The technical element of this analysis is discussed in FAR 15.404-1(e)(2) which states, “At a minimum, the technical analysis should examine the types and quantities of material proposed and the need for the types and quantities of labor hours and the labor mix. Any other data that may be pertinent to an assessment of the offeror's ability to accomplish the technical requirements or to the cost or price analysis of the service or product being proposed should also be included in the analysis.”

The following six task orders contained no evidence that anyone evaluated the level of effort and labor mix to ensure that the labor categories and hours proposed were necessary:

- 11DL10045 (FY03, #3) to OAO Corporation (FSS MAS Contract)
- 11BJG693001 (FY03, #20) to Advanced Resource Technologies, Inc. (Fast 8(a))
- 11LWM191002 (FY03, #23) to Advanced Resource Technologies, Inc. (Fast 8(a))
- 11LWM191003 (FY03, #24) to Advanced Resource Technologies, Inc. (Fast 8(a))
- 11LWM192022 (FY03, #25) to Advanced Resource Technologies, Inc. (Fast 8(a))
- 11VAM0026 (FY03, #26) to Seta Corporation (Fast 8(a))

In addition, there is no documentation to support an evaluation of Other Direct Costs on task orders 11DL10045 (FY03, #3) to OAO Corporation and 11BJG693001 (FY03, #20) to Advanced Resource Technologies, Inc. The details of these task orders are provided in previous sections.

### ***Causes of Improper Procurement Practices***

Several factors contributed to the problems we identified. One is to some extent a cultural phenomenon, and that is an FTS tendency to prioritize client satisfaction, on the surface a very positive thing. In some cases though, this may lead FTS to accept client-driven solutions arrived at without due consideration to the procurement requirement itself. The client comes to FTS for its procurement and technical expertise, motivated more by expediency, flexibility and in some cases a desire to deal with a known or proven source of services. Unfortunately, the client's goals may be at odds with the tenets of good procurement design. It is not the case that good procurement design and customer satisfaction are naturally at odds, but in the extreme there can be conflict. A balance must be achieved. Customer satisfaction is a relevant concept only if it occurs within the boundaries of the procurement regulations.

Another identified cause is the absence of formal review procedures or a meaningful oversight function. Shortcuts or omissions never detected, such as the contracting officer's failure to execute a required determination and finding, become standard practice through repetition. We found for example the same type of deficiencies repeated by the same contracting officer on different procurements.

Finally, we observed a tendency to relegate procurement design to a rote administrative action; contracting officers were not routinely party to the initial acquisition planning process. Contracting Officers did not become involved until late in the procurement process, usually after the ITM had already made some of the more significant procurement decisions such as selecting the vendor, or deciding which contract vehicle to use. However, the ITM's do not have the same level of training and experience as the Contracting Officers. The late involvement often left the CO with an incomplete picture of the acquisition (having to rely primarily on the information in ITSS) and limited timeframes in which to perform their functions.

Taken as a whole, the control environment within the CSC must be considered deficient to the extent that it permitted and did not detect the procurement lapses identified in this review. However, we found nothing inherent to that environment that discouraged good

procurement practices by conscientious contracting officers. To address these internal control weaknesses the National Capital Region revised its procedures for awarding and administrating task orders. The region established acquisition teams made up of contracting officers, ITM's, management officials, and legal representation in the second quarter of FY04. The team works through procurement issues including whether to use the Information Technology or General Supply Fund, what is the appropriate type of contract vehicle, and what is an appropriate timeline for the acquisition. The CO does now have a major role as part of the acquisition teams from the beginning of the procurement. The Contracting Officer assigned to the task order and the acquisition team makes decisions jointly. All acquisitions undergo legal review if they exceed \$100,000. Also, CO's are encouraged to present the advantages of competition to their clients, unless the requirement is unique. At this point, it is too soon to evaluate the effectiveness of the changes, but based on very limited observations, we are encouraged. Please refer to Appendix C for details of our efforts to assess the efficacy of the control enhancements.

### ***Conclusion***

We found that the NCR Client Support Center did not make and administer procurements in accordance with some significant aspects of the Federal Acquisition Regulation (FAR) or the terms and conditions of the contracts utilized. The practice does not appear to be widespread in this region. There were instances of inappropriate use of the IT Fund, excessive period of performance extensions, work performed outside the scope of the base contract, and inadequate price analysis. Task order documentation, however, was uniformly deficient.

As a result, the clients that depend on the CSC for its procurement expertise may not have received the level of service, assurances of regulatory compliance and fund stewardship to which they were entitled. The factors contributing to these circumstances were several weak aspects of internal control, a procurement process that minimized the contracting officer's involvement at the critical project planning phase and a tendency to over-accommodate client preferences even at the cost of good procurement practice.

Prior OIG audit work completed in other regions<sup>64</sup> has identified a solution that entails a comprehensive strategy focused on the structure, operations and mission of the CSC as well as the control environment. Recommendations from that report target the global aspects of FTS' CSC program. Each region, however, operates with a great deal of autonomy. In NCR, FTS has taken the initiative to identify procurement vulnerabilities and has modified its procedures accordingly. As of the cutoff point for fieldwork under this review, it is premature to assess the impact of these changes. In fact, only one task order in our FY04 sample (see Appendix C) is truly representative of a wholly new procurement action executed under the revised procedures. That single example was well documented and exhibited no procurement irregularities.

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<sup>64</sup> GSA Office of Inspector General; Audit of Federal Technology Service's Client Support Centers; issued January 8, 2004; report number A020144/T/5/Z04002.

### ***Recommendations***

Based on the comprehensive recommendations contained in Audit Report Number A020144/T/5/Z04002, dated 8 January 2004, no further recommendations are necessary at this time.

### ***Management's Comments***

Management concurred with our findings and conclusions. In Appendix A they discuss the actions they have taken to improve operations in the CSC including reengineering work flow to leverage associates' specialized expertise, enhanced internal controls, more associate training, and developing a tool using ITSS, Pegasys and NEAR to control procurements.

### ***Internal Control***

Our review provided the basis for a limited assessment of internal control relevant to the CSC's procurements made in accordance with the FAR and the terms and conditions of the contracts utilized. In light of the findings presented above, we question the efficacy of the overall control environment as it failed to bring these items to the attention of management. We believe that an effective internal control structure, which has the on-going endorsement of management, would have identified and prohibited or at least served to deter the inappropriate procurement practices we noted. The Office of Audits will conduct a more comprehensive testing of internal controls throughout the CSC program during fiscal year 2005.



## APPENDIX A

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### *Management's Response To Draft Report*



GSA National Capital Region

September 30, 2004

MEMORANDUM FOR PAUL J. MALATINO  
REGIONAL INSPECTOR GENERAL-AUDITING  
NATIONAL CAPITAL REGION (JA-W)

FROM: DONALD C. WILLIAMS   
REGIONAL ADMINISTRATOR  
NATIONAL CAPITAL REGION (WA)

SUBJECT: Comments on Draft Audit Report A040102/TW/Z04###

Thank you for the opportunity to review the referenced Draft Audit Report of the Federal Technology Service's Client Support Center, National Capital Region. We appreciate the courtesy and cooperation you and your staff provided to us during the course of this audit.

We have reviewed your findings and conclusions and, generally, we concur. As you are aware, we commissioned an independent review of our regional Federal Technology Service (FTS) contracting operations by an outside consultant in October 2003, and the findings set forth in the Draft Audit generally are consistent with several of the findings in the consultant's March 2004 final report.

As you note in your report, the National Capital Region has undertaken significant steps to improve its service delivery process. In Fiscal Year 2004, FTS realigned its entire operation into a multi-disciplined, matrix management approach with reengineered work flow processes. All roles and responsibilities of individual associates and the various centers in the new organization have been documented. The key feature of the multidisciplinary approach is the ability to effectively and efficiently evaluate customer requirements including, but not limited to, acquisition strategies appropriate to the requirement. Contracting officers are now integral players in screening and qualifying customer requests, and in establishing and reviewing business and acquisition strategies with other centers across the organization.

We have, in addition, taken specific actions to improve contracting and fiscal practices. Not only have we implemented the FTS headquarters' guidance including the "checklists" and the June 7, 2004 memorandum on the IT Fund, we have taken actions tailored to address identified weaknesses in our contracting operations including:

U.S. General Services Administration  
301 7th Street, SW  
Washington, DC 20407-0001  
[www.gsa.gov](http://www.gsa.gov)

## APPENDIX A

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### *Management's Response To Draft Report*

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mandatory legal review for all contracting actions over \$100,000  
peer reviews of certain contracts  
a Contract Review Panel for review of tasks that are sensitive or involve high dollar thresholds and  
a formal contracting officer delegation process for contracting officer's technical representatives.

In order to enhance our associates' skills, in the third quarter 2004, we initiated a series of training sessions, in partnership with Office of Regional Counsel, "Blueprints to Success," focusing on areas such as:

- Regulatory environment
- Fiscal law principles including a review of the June 7, 2004 fiscal guidance memorandum
- Performance based contracting
- Contract pricing arrangements including time and materials contracting
- Competition including FAR Part 8, 13, and 16 ordering procedures
- Source selection
- Acquisition planning
- Contract award including price analysis
- Contract administration including options and modifications

We are developing a tool that uses data from ITSS, Pegasys and NEAR to manage and track procurements. Reporting capabilities include tracking opportunities/new business; contract expiration dates; option years; and funding and invoices. Finally, we are documenting and developing acquisition processes and procedures to ensure standard operations for all associates when processing procurements. We will provide the process information in a tutorial that will include: processes and procedures; templates, forms, checklists and tools; regulations; roles and responsibilities; reference library and inputs/outputs.

Taken together, the realignment of FTS/NCR and the specific improvements we have made and are making in the contracting operations will not only strengthen management controls and oversight within the organization, but will increase individual associate accountability to "get it right." We will incorporate your specific findings in our on-going initiatives.

Again, thank you for the opportunity to comment.

cc: Sandra N. Bates, Commissioner, FTS



**APPENDIX B**

**Schedule of FY03 Task Order Sample with Notes**

| Sample #       | Contractor Name     | Customer           | Contracting Officer | Original Order Date | Date of Latest Mod | Years       | Initial Order Value   | Final Order Value Recorded | Growth in Value | MAS        | FAST 8(a)  | Other GWAC |
|----------------|---------------------|--------------------|---------------------|---------------------|--------------------|-------------|-----------------------|----------------------------|-----------------|------------|------------|------------|
| 1              | Andersen Consulting | State Dept         | CO#7                | Jun-00              | Apr-03             | 2.8         | \$ 18,508,396         | \$ 18,508,396              | 0%              | X          |            |            |
| 2              | Anteon              | FEMA               | CO#1                | Dec-99              | Jun-03             | 3.5         | \$ 1,424,994          | \$ 28,473,908              | 1898%           | X          |            |            |
| 3              | OAO                 | GSA                | CO#3                | Jun-00              | Apr-04             | 3.8         | \$ 2,464,204          | \$ 16,101,290              | 553%            | X          |            |            |
| 4              | Anteon              | Army               | CO#3                | Sep-00              | Oct-02             | 2.1         | \$ 9,269,123          | \$ 9,604,380               | 4%              | X          |            |            |
| 5              | Next Generation     | State Dept         | CO#7                | Nov-00              | Sep-03             | 2.9         | \$ 18,200,034         | \$ 18,200,034              | 0%              | X          |            |            |
| 6              | BearingPoint        | HUD                | CO#6                | Dec-01              | Jul-04             | 2.6         | \$ 15,676,885         | \$ 16,917,411              | 8%              | X          |            |            |
| 7              | SNVC L.C.           | Army               | CO#3                | Sep-02              | Feb-04             | 1.4         | \$ 27,810,576         | \$ 27,810,576              | 0%              | X          |            |            |
| 8              | Dynamics Research   | Air National Guard | CO#5                | Sep-02              | Sep-03             | 1.0         | \$ 36,602,927         | \$ 36,961,327              | 1%              | X          |            |            |
| 9              | NGIT                | DHS                | CO#6                | Mar-03              | Oct-03             | 0.6         | \$ 12,690,672         | \$ 21,558,628              | 70%             | X          |            |            |
| 10             | NGIT                | DHS                | CO#6                | Sep-03              | Nov-03             | 0.2         | \$ 413,757            | \$ 413,757                 | 0%              | X          |            |            |
| 11             | PEC Solutions       | NAVY Litigation    | CO#1                | Sep-03              | Apr-04             | 0.6         | \$ 12,072,867         | \$ 12,162,278              | 1%              | X          |            |            |
| 12             | Technology TEAM     | DOT Maritime       | CO#1                | Sep-03              | Apr-04             | 0.5         | \$ 849,950            | \$ 681,123                 | -20%            | X          |            |            |
| 13             | FCN                 | USA Community      | CO#3                | Sep-03              | N/A                | N/A         | \$ 132,541            | \$ 132,541                 | 0%              | X          |            |            |
| 14             | CACI                | Army               | CO#4                | Jan-01              | May-04             | 3.4         | \$3,329,416           | \$ 13,286,605              | 299%            |            |            | X          |
| 15             | ACS                 | Labor              | CO#7                | Jun-02              | Feb-04             | 1.7         | \$ 4,958,795          | \$ 19,019,266              | 284%            |            |            | X          |
| 16             | CACI                | Navy               | CO#1                | Oct-00              | May-03             | 2.6         | \$ 143,064,634        | \$ 143,064,634             | 0%              |            |            | X          |
| 17             | Sterling Software   | Naval CIS          | CO#1                | May-01              | Jan-04             | 2.6         | \$ 9,028,666          | \$ 7,826,334               | -13%            |            |            | X          |
| 18             | Anteon              | Walter Reed        | CO#3                | Jul-03              | Jan-04             | 0.6         | \$ 599,539            | \$ 599,539                 | 0%              |            |            | X          |
| 19             | Abacus Technology   | DOT - RSPA         | CO#3                | Sep-03              | Mar-04             | 0.6         | \$ 178,310            | \$ 178,310                 | 0%              |            |            | X          |
| 20             | ARTI                | FHA                | CO#2                | Feb-03              | Apr-04             | 1.2         | \$ 3,339,096          | \$ 3,339,096               | 0%              |            | X          |            |
| 21             | ARTI                | State Dept         | CO#1                | May-99              | Jul-04             | 5.2         | \$ 14,514             | \$ 909,990                 | 6170%           |            | X          |            |
| 22             | ARTI                | State Dept         | CO#1                | May-99              | May-03             | 4.0         | \$ 436,402            | \$ 2,999,952               | 587%            |            | X          |            |
| 23             | ARTI                | State Dept         | CO#3                | Aug-01              | May-04             | 2.7         | \$ 191,280            | \$ 2,121,341               | 1009%           |            | X          |            |
| 24             | ARTI                | State Dept         | CO#3                | Sep-01              | May-04             | 2.7         | \$ 598,955            | \$ 2,999,968               | 401%            |            | X          |            |
| 25             | ARTI                | State Dept         | CO#3                | Aug-02              | May-04             | 1.8         | \$ 84,468             | \$ 545,814                 | 546%            |            | X          |            |
| 26             | SETA                | USAID              | CO#1                | Jun-00              | Jul-03             | 3.1         | \$ 400,000            | \$ 742,308                 | 86%             |            | X          |            |
| 27             | SETA                | USAID              | CO#1                | Feb-01              | Feb-04             | 3.0         | \$47,244,530          | \$ 47,244,530              | 0%              |            | X          |            |
| 28             | Cameron Consulting  | National Guard     | CO#3                | Jul-02              | Sep-02             | 0.2         | \$ 555,275            | \$ 528,604                 | -5%             |            | X          |            |
| 29             | Cameron Consulting  | National Guard     | CO#3                | Mar-03              | Sep-03             | 0.5         | \$ 320,964            | \$ 850,096                 | 165%            |            | X          |            |
| 30             | Cameron Consulting  | National Guard     | CO#3                | Mar-03              | Sep-03             | 0.5         | \$2,500,000           | \$ 1,146,369               | -54%            |            | X          |            |
| <b>Total</b>   |                     |                    |                     |                     |                    |             | <b>\$ 372,961,769</b> | <b>\$ 454,928,404</b>      | <b>22%</b>      | <b>13</b>  | <b>11</b>  | <b>6</b>   |
| <b>Average</b> |                     |                    |                     |                     |                    | <b>2.06</b> | <b>\$ 12,432,059</b>  | <b>\$ 15,164,280</b>       | <b>22%</b>      | <b>43%</b> | <b>37%</b> | <b>20%</b> |

## APPENDIX B

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### Schedule of FY03 Task Order Sample with Notes

#### *General Notes to Matrix:*

The matrix lists the task order included in our FY03 sample. It identifies the sample ID number and corresponds to summary by sample number given below, along with the associated prime contractor and client name. A number identifies each FTS contracting officer. The initial order date and date of the latest mod available at the time of our fieldwork is provided, along with a measure of how long the procurement has been in effect to date. The “final” order value is also a value to date, and the growth in value measures the change from the initial order value. The last three columns identify the contract vehicle.

#### *Federal Supply Schedule Orders:*

*FY03 Sample Number 1* Task Order 11BEC0126 is a Time and Materials (T&M) type contract for the State Department for the Global Employment Management Systems’ operation and maintenance. This task order was awarded to Anderson Consulting. Only one bid was received, but adequate competition was attempted. The documentation for 11BEC0126 does not record an adequate justification for being a T&M type contract, a ceiling was not determined, nor was an acquisition plan prepared. The proposal was over the Maximum Order Threshold (MOT) and additional discounts were not negotiated.

*FY03 Sample Number 2* Task Order 11HVS0135 is a T&M type contract for the Federal Emergency Management Agency for the design, development, test, and integration of the National Emergency Management Information System (NEMIS) and support of existing software. This task was awarded to the Anteon Corporation. Only one bid was received, but adequate competition was attempted. The documentation for 11HVS0135 does not record an adequate justification for being a T&M type contract, a ceiling was not determined, nor was an acquisition plan prepared, and there was no attempt to negotiate better pricing. The proposal for this task order was over the MOT and additional discounts were not negotiated.

*FY03 Sample Number 3* Task Order 11DL10045 is a T&M type contract for the General Services Administration (Region 9) for the migration of the Access version of the Integrated Task Order Management System to a Common Oracle Database. This task order was awarded to the OAO Corporation. The documentation for 11DL10045 does not record an adequate justification for being a T&M type contract, a ceiling was not determined, nor was an acquisition plan prepared. The task order is considered a logical follow-on contract with adequate justification. The proposal was over the MOT and additional discounts were negotiated. Additional information regarding issues surrounding this task order is available in the body of this report.

## APPENDIX B

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### Schedule of FY03 Task Order Sample with Notes

*FY03 Sample Number 4* Task order 11HVS0008 is a T&M type contract for the United States Army for providing technical support for the Tactical Management Information Systems. This task was awarded to the Anteon Corporation. Only one bid was received, but adequate competition was attempted. The documentation for 11HVS0008 does not record an adequate justification for being a T&M type contract, a ceiling was not determined, nor was an acquisition plan prepared. The proposal was over the MOT and additional discounts were negotiated.

*FY03 Sample Number 5* Task Order 11BEC0153 is a T&M type contract for the State Department in support of the Integrated Personnel Management Systems. This task was awarded to Next Generation Consulting. Only one bid was received, but adequate competition was attempted. The documentation for 11BEC0153 does not record an adequate justification for being a T&M type contract, a ceiling was not determined, nor was an acquisition plan prepared. The proposal was over the MOT and additional discounts were not negotiated.

*FY03 Sample Number 6* Task Order 11BEC861003 was a Firm Fixed Price (FFP) Award Term Task Order for IT support for the Department of Housing and Urban Development (HUD) to perform funds control and implement the FHA Subsidiary Ledger. This task was issued to BearingPoint, Inc. Five proposals were received with regards to this task order and adequate competition was attempted. An acquisition plan was not prepared for this task order. The proposal was over the MOT and additional discounts were not negotiated.

*FY03 Sample Number 7* Task Order 11DDW212024 is a T&M type contract for the U.S Army Material Command (AMC) providing project management, planning, and technical support for the AMC Chief Information Officer's Public Key Enabling Program. This task was issued to SNVC L.C. Although only one bid was received, adequate competition was attempted. The documentation for 11DDW212024 does not record an adequate justification for being a T&M type contract, a ceiling was not determined, nor was an acquisition plan prepared. The proposal was over the MOT and additional discounts were not negotiated.

*FY03 Sample Number 8* Task Order 11RNS572054 is a FFP type contract for the Air National Guard (ANG) to provide the GUARDIAN Program Office with information technology and systems design, development, maintenance and sustainment expertise to allow the ANG to achieve its primary objectives. This task was awarded to Dynamics Research Corporation. Requests For Quote went out to four contractors, yet only one bid was received. Adequate competition was attempted. The proposal was over the MOT and additional discounts were not negotiated.

## APPENDIX B

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### Schedule of FY03 Task Order Sample with Notes

FY03 Sample Numbers 9 and 10 Task Orders 11DL1153002 and 11DL1153002H represent two Contract Line Item Numbers (CLINs) issued under the same Blanket Purchase Agreement (BPA) GS00TO2ACA2582. This BPA was awarded, after adequate competition, to Northrup Grumman Information Technologies (NGIT) for the Department of Homeland Security. Task Order 11DL1153002 is for the Sustainment of Integrated Help Desk/Network Operations Center and Task Order 11DL153002H is for Information Technology Training. The documentation for 11DL1123002 and 11DL1123002H do not record an adequate justification for being a T&M type contract, a ceiling was not determined, nor was an acquisition plan prepared. Both task orders are over the MOT for Federal Supply Schedule contracts.

FY03 Sample Number 11 Task order 11MSB171046 is a T&M type contract for the Navy Litigation Office for Iran Litigation Management Support. This task was awarded to PEC Solutions, Inc. This task is governed by Section 803 of the National Defense Authorization Act of 2002. This Act states that all task orders issued for the Department of Defense (DOD) are required by law to receive a minimum of three offers. However, the Act allows Contracting Officers to make a determination to accept only one offer if sufficient attempts have been made to obtain three. Multiple vendors were solicited for 11MSB171046, yet only one response was received. File documentation disclosed that nine of the vendors who did not respond were called and asked why they chose not to bid on this task order. Most cited time constraints or inadequate personnel to perform the work. Due to Legal obligations and timeframes that could not be changed, the Contracting Officer for 11MSB171046 made the decision to go with the only offer received. This offer was evaluated and determined to be technically responsive. A T&M task was issued with a justification and ceiling. An acquisition plan was not prepared 11MSB171046. This task order is over the MOT and additional discounts were not negotiated.

FY03 Sample Number 12 Task order 11DJB6903321 is FFP type contract for the Department of Transportation's Maritime Administration for the implementation and maintenance of an Information Technology Program Management Office that supports the Maritime Administration Enterprise Architecture Office of Ship Operations. This task was awarded to Technology Team Inc. An acquisition plan was not prepared for 11DJB6903321. This task order is over the MOT and additional discounts were not negotiated.

FY03 Sample Number 13 Task order 11CAE2130203 is a commodity order for the U.S. Army Community and Family Support Center. This task was awarded to FCN, Inc. An acquisition plan was not prepared for 11CAE2130203. This task order is also over the MOT and additional discounts were not negotiated.

## APPENDIX B

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### Schedule of FY03 Task Order Sample with Notes

#### *Government Wide Acquisition Contract Orders:*

*FY03 Sample Number 14* Task Order 11DL12111 is a T&M type contract for the U.S. Army Material Command (AMC) for enhancing and maintaining the AMC Resource Management Online System. This task was awarded to CACI, Inc. 11DL12111 was competed among Millennia Lite contract holders (Functional Area 4). Only one bid was received, but adequate competition was attempted. The documentation for 11DL12111 does not record an adequate justification for being a T&M type contract, a ceiling was not determined and an acquisition plan was not prepared.

*FY03 Sample Number 15* Task Order 11MES162040 is a T&M type contract for the Department of Labor, Office of Workman's Compensation for medical bill processing. This task was awarded to ACS Government Services, Inc. 11MES162040 was competed among Millennia Lite contract holders (Functional Area 3). Only one bid was received, but adequate competition was attempted. The documentation for 11MES162040 does not record an adequate justification for being a T&M type contract, a ceiling was not determined, an acquisition plan was not prepared, nor were any attempts made at negotiating lower rates.

*FY03 Sample Number 16* Task order 11SLM0002 is a T&M type contract for the Navy, Military Sealift Command (MSC) for specific technical support requirements for the Configuration Data Management Program support for the MSC Program Managers, MSC Headquarters Logistics Directorate, MSC field activities, MSC ships and other activities as directed. This task was awarded to CACI, Inc. 11SLM0002 was competed among Millennia Lite contract holders (Functional Area 4). Only one bid was received, but adequate competition was attempted. The documentation for 11MSLM0002 does not record an adequate justification for being a T&M type contract, a ceiling was not determined, an acquisition plan was not prepared, nor were any attempts made at negotiating lower rates.

*FY03 Sample Number 17* Task order 11SLM171002 is a T&M type contract for the Naval Criminal Investigative Services for support for the Defense Counterintelligence Information Systems. This task order was awarded to Sterling Software (now Northrup Grumman Information Technologies). 11SLM171002 was competed among Millennia Lite contract holders (Functional Area 4). Only one bid was received, but adequate competition was achieved. The documentation for 11SLM171002 does not record an adequate justification for being a T&M type contract, a ceiling was not determined, an acquisition plan was not prepared, nor were any attempts made at negotiating lower rates.

## APPENDIX B

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### Schedule of FY03 Task Order Sample with Notes

FY03 Sample Number 18 Task order 11REL213007 is a T&M type contract for the Walter Reed Army Institute of Research in support of the LAMBS database. This task was awarded to the Anteon Corporation. The documentation for 11REL213007 does not record an adequate justification for being a T&M type contract, a ceiling was not determined, an acquisition plan was not prepared, nor were any attempts made at negotiating lower rates. This task order was completed properly with nine Requests for Quote, and two bids received and evaluated.

FY03 Sample Number 19 Task order 11SLC693003 is T&M type contract for the Dept. of Transportation, Research and Special Programs Administration for the development of their IT Strategic Plan. The task was awarded to the Abacus Technology Corporation. The documentation for 11SLC693003 does not record an adequate justification for being a T&M type contract, a ceiling was not determined, an acquisition plan was not prepared, nor were any attempts made at negotiating lower rates. Competition was adequate for this task order, with six Requests for Quote and two bids received and evaluated.

#### *FAST 8(a) Orders:*

FY03 Sample Number 20 Task order 11BJG6930001 is T&M type contract for Dept of Transportation, Federal Highway Administration for specific support services in the operation of the Research Development and Technology Products distribution center. This task was awarded to Advanced Resource Technologies, Inc. The documentation for 11BJG693001 does not record an adequate justification for being a T&M type contract, a ceiling was not determined, an acquisition plan was not prepared, nor were any attempts made at negotiating lower rates. 11BJG693001 is a Directed Buy with a client-selected vendor with a FAST 8(a) contract. This task order is not for IT-related work, and consequently the Federal Technology Service (FTS) has developed an exit strategy. Currently FTS has prepared an action plan to complete a final modification for 11BJG693001, then “close-out” the task order, and re-compete it. Additional information regarding issues surrounding this task order is available in the body of this report.

FY03 Sample Numbers 20 through 25 Task Orders 11LDF0010, 11LDF0010, 11LWM191002, 11LWM191003, and 11LWM192022 are all T&M type contracts for the Department of State, Bureau of Diplomatic Security for providing security-related and application support. This task was awarded to Advanced Resource Technologies, Inc. The documentation for these task orders do not record an adequate justification for being T&M type contracts, ceilings were not determined, acquisition plans were not prepared, nor were any attempts made at negotiating lower rates. They are all Directed Buys with a client-selected vendor

## APPENDIX B

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### Schedule of FY03 Task Order Sample with Notes

with a FAST 8(a) contract. Additional information on these task orders is discussed in the body of this report.

FY03 Sample Number 26 Task order 11VAM0026 is a T&M type contract for the US Agency for International Development for the design and implementation of a data communication strategy for the Republic of Georgia's nationwide tax registration and administration system. This task was awarded to the SETA Corporation. The documentation for 11VAM0026 does not record an adequate justification for being a T&M type contract, a ceiling was not determined, an acquisition plan was not prepared, nor was any attempt made at negotiating lower rates. It is a Directed Buy with a client-selected vendor with a FAST 8(a) contract. Additional information regarding issues surrounding this task order is available in the body of this report.

FY03 Sample Number 27 Task order 11VAM0067 is a T&M type contract for the United States Agency for International Development. This task was awarded to the SETA Corporation. The documentation for 11VAM0027 does not record an adequate justification for being a T&M type contract and a ceiling was not determined.

FY03 Sample Numbers 28 through 30 Task Orders 11LWM212049 (FFP), 11LWM213018 (FFP), and 11LWM213019 (T&M) are contracts for the National Guard Bureau. These task orders were awarded to Cameron Consulting. The documentation for 11LWM213019 does not record an adequate justification for being a T&M type contract and a ceiling was not determined. All of the contracts in question were Directed Buys with a client-selected vendor with an 8(a) contract. No attempts were made at negotiating lower rates for Task Orders 11LWM212049, 11LWM213018, and 11LWM213019. Additional information regarding issues surrounding these task orders is available in the body of this report.





## APPENDIX C

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### Schedule of FY04 Task Order Sample with Notes

#### *Objectives, Scope and Methodology Specific to FY04 Sample Task Order*

Based on past audit work, congressional concerns, and proposed restrictions on DOD procurements, the Administrator asked the Office of the Inspector General (OIG) to review recent task orders processed by the CSCs to evaluate the impact from recent CSC control improvements.

The sample consisted of ten task orders with a procurement action of record during the approximately three-month period ended May 31, 2004. This relevant date range is narrow because the new controls were not in effect prior to March and our fieldwork cutoff necessitated the May end date. The national audit control point drew the FY04 sample selections for each regional audit. The sample methodology is judgmental, based on the application of known procurement risk factors that can be identified within the FTS automated procurement system: ITSS. This is the same methodology used to derive the FY03 task order sample. A shortcoming of this methodology is that while it is effective at identifying problematic procurements, it fails to exclude actions for which the substantive award activity predates the relevant date range. (The CSC procurements tend to be rather long-lived and subject to modification, much of which is of an administrative nature and therefore not germane to our purpose at hand.)

The orders utilized the following contract vehicles:

- 2 task orders Fast 8(a)
- 5 task orders FSS multiple award schedule contracts (IT Services)
- 1 task order FSS multiple award schedule contract (MOBIS<sup>65</sup>)
- 2 task orders Other GWACs

Eight of the ten are time and material type task orders.

Our review methodology was to essentially replicate the audit tests applied to the FY03 sample, but only for that aspect of the task order that falls within the relevant date range. Any improvement would be ascribed to the control revisions. This is not a substitute for a review of internal controls, but it can be an effective means of obtaining preliminary feedback.

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<sup>65</sup> Management, Organizational and Business Improvement Services (MOBIS) is designed to provide agencies with expert advice in all areas of management and management improvement. FSS advises that when tasking under MOBIS, “agencies shall not use this vehicle for the acquisition of supplies other than that integral to the task and incidental to its central role of management improvement. Typical examples of services that are not appropriate for purchase under a MOBIS task include...IT systems integration, network services, volume purchase of IT hardware, software or software development, data base planning....”

## APPENDIX C

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### Schedule of FY04 Task Order Sample with Notes

#### *Results of Review Specific to FY04 Sample Task Orders*

Only one task order in our sample contained a true procurement action that fell completely in the relevant date range of this review. For various reasons, none of the other task orders served as means to evaluate the effectiveness of the revised controls. One was a procurement action but was substantially completed just prior to the control changes. The CSC issued two of the sampled task orders as a replacement for two task orders that had been closed because they incorrectly used the IT Fund instead of the General Supply Fund. Two task orders were issued against previously established BPAs. One task order simply extended the period of performance at no additional cost, two were simply funding increases, and the last was a modification that exercised an option.

Our review did identify two task orders where the contracting officers incompletely documented their justification for some of the contracting actions:

- Task order number 11CFS214001 (FY04, #1) in the amount of \$1,842,559 was awarded to Thorpe International, Inc. for the United States Army Center of Military History on 25 February 2004 for digital archiving. As a DOD component, Section 803 applies requiring a minimum of 3 proposals. However, the contracting officer only received two. While there is a provision for the CO to accept fewer than three, there has to be adequate documented justification. There was no justification documented in the file and the CO could not provide one to us. We note that, since this task order was awarded in February 2004, the actions taken by the contracting officer would have occurred prior to the time frame (March through May) the new internal controls were to be evaluated.
- Task Order 11LWM693001 (FY04, #9) was awarded to Maden Tech Consulting for the Federal Railroad Administration for Help Desk and LAN support services. We evaluated this task order for Modification number two only. We noted that the modification under review exercised an option but did not include a Determination and Findings. A D&F is required stating that exercising the option is in the best interest of the government (FAR 17.207(d)). The option for the period ending July 31, 2004, was priced and evaluated at the time of the initial contract award.

Documentation was adequate for the balance, but as stated above, our review was limited to just that aspect of the task order completed during the relevant date range.

## APPENDIX C

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### Schedule of FY04 Task Order Sample with Notes

#### *Conclusion*

In our opinion, while we were unable to assess the impact of the new internal controls based on our review of the ten 2004 task orders, we believe that the NCR is taking the necessary steps to implement the controls developed by FTS for nationwide implementation. We note that some of the controls NCR established are stricter than the controls promulgated by FTS nationwide. All task orders greater than \$100,000 undergo legal review; a materially lower threshold than the \$5M the FTS established. Additionally, *all* task orders issued in Fiscal Year 2003 were reviewed and corrective actions taken, as evidenced by the two task orders in our sample which corrected the funding from the IT Fund to the General Supply Fund. The Procurement Board has been set up and meets regularly. NCR also has a procurement team with a representative from Regional Counsel that meets twice a week to review new actions.

**APPENDIX C**

**Schedule of FY04 Task Order Sample with Notes**

| ID# | Contractor Name   | Customer                                 | Contracting Officer | Original Order Date | Date of Latest Mod | Years | Initial Order Value | Final Order Value Recorded | Growth in Value | FSS MAS (IT Services) | FSS MAS (Other) | FAST 8(a) | Other GWAC |
|-----|-------------------|--|---------------------|---------------------|--------------------|-------|---------------------|----------------------------|-----------------|-----------------------|-----------------|-----------|------------|
| 1   | Thorpe            | US Army Center of Military History       | CO#3                | Feb-04              | N/A                | N/A   | \$ 1,842,559        | \$ 1,842,559               | 0%              | X                     |                 |           |            |
| 2   | OAD               | GSA                                      | CO#3                | Jun-00              | Apr-04             | 3.8   | \$ 2,464,204        | \$ 16,101,290              | 553%            | X                     |                 |           |            |
| 3   | SAIC              | National Guard Bureau                    | CO#3                | Sep-03              | Mar-04             | 0.5   | \$ 2,847,207        | \$ 7,266,169               | 155%            | X                     |                 |           |            |
| 4   | NGIT              | Homeland Security                        | CO#6                | Nov-03              | Aug-04             | 0.7   | \$ 24,558,404       | \$ 42,886,769              | 75%             | X                     |                 |           |            |
| 5   | Encore Mngmt      | Administration for Children and Families | CO#4                | Apr-04              | Aug-04             | 0.3   | \$ 4,914,494        | \$ 4,914,494               | 0%              |                       | X               |           |            |
| 6   | Anteon            | Homeland Security                        | CO#4                | Mar-04              | Jul-04             | 0.4   | \$ 11,249,235       | \$ 11,249,235              | 0%              |                       |                 |           | X          |
| 7   | SAIC              | Office of Naval Intelligence             | CO#1                | Dec-01              | Apr-04             | 2.3   | \$ 15,037,179       | \$ 15,037,179              | 0%              |                       |                 |           | X          |
| 8   | Columbia Services | DC Public Schools                        | CO#1                | May-04              | Jul-04             | 0.2   | \$ 1,012,949        | \$ 1,012,949               | 0%              |                       |                 | X         |            |
| 9   | Maden Tech        | Federal Railroad Administration          | CO#3                | Feb-03              | Aug-04             | 1.5   | \$ 2,049,870        | \$ 2,049,870               | 0%              |                       | X               |           |            |
| 10  | SAIC              | Office of Social Work/Family Advocacy    | CO#4                | May-04              | N/A                | N/A   | \$ 752,003          | \$ 752,003                 | 0%              |                       | X               |           |            |

**Total** \$ 66,728,103 \$ 103,112,517 55% 4 2 2 2  
**Average** 1.22 \$ 6,672,810 \$ 10,311,252 55% 40% 20% 20% 20%

*Federal Supply Schedule Orders:*

FY04 Sample Number 1 Task Order 11CFS214001 is a Firm Fixed Price (FFP) type task order for the United States Army Center of Military History for digital archiving. This task has been awarded to Thorpe International Incorporated. This order is a Department of Defense (DOD) order, requiring a minimum of three offers. However, only two offers were received, and the Contracting Officer could not explain, and did not document his justification for awarding without three offers. The documentation for 11CFS214001 did not include an acquisition plan. This task order was awarded on 2/25/04, which is prior to the time frame the new internal controls were to be evaluated.

FY04 Sample Number 2 Task Order 11DL10045 is a Time and Materials (T&M) type contract for the General Services Administration (Region 9) for the

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### Schedule of FY04 Task Order Sample with Notes

migration of the Access version of the Integrated Task Order Management System to a Common Oracle Database. This task order was awarded to the OAO Corporation. We evaluated this task order for Modification Number 28 only. Modification Number 28 extends the Period of Performance through 30 April 2004 at no additional cost to the government. This modification does not increase task value and does not exercise an option. Because this modification was only to extend the Period of Performance at no additional cost to the government, we are unable to draw a conclusion regarding the implementation of improved internal controls as it applies to this task order.

FY04 Sample Number 3 Task Order 11DDW213011 is a T&M type contract for the National Guard Bureau for the provision of products and services, and gives the National Guard Bureau the ability to acquire a Distributive Technology Training Project and Information Technology (IT) Support. This task order was awarded to Science Applications International Corporation (SAIC). We evaluated this task order for Modification Number 4 only. Task Order 11DDW213011 is part of a Blanket Purchase Agreement (BPA) that was the result of a competitive award. Modification Number 4 executes the Bill of Materials for 32 State Polycom Multipoint Conferencing Units for video teleconferencing. This modification does not exercise an option, nor does it extend contract period of performance, therefore we are unable to draw a conclusion regarding the implementation of the improved internal controls as it applies to this task order.

FY04 Sample Number 4 Task Order 11DL1704001B represents a Contract Line Item Number (CLIN) issued under BPA GS00TO2ACA2582. This BPA was awarded, after adequate competition, to Northrop Grumman Information Technologies for the Department of Homeland Security for Deskside Server Support. We have evaluated this task order for Modification Number 2 only. This modification does not exercise an option, nor does it extend contract period of performance. Modification Number 2 only served to add incremental funding to the task order. Therefore, we are unable to draw a conclusion regarding the implementation of improved internal controls as it applies to this task order.

FY04 Sample Number 5 Task Order NP7500036049 is a T&M type task order for the Administration for Children and Families for administrative and clerical support. This task was awarded as a directed buy to Encore. Competition was accomplished under task order 11JBJ752264. The purpose of this new task is to align the professional services provided under the correct fund code, General Supply Fund 295X. Prior to this, the professional services provided were incorrectly charged to the IT Fund 299X. The schedule used for this task order was not one of the professional services contracts that the Federal Technology Service (FTS) was authorized to use. Therefore, a one-time waiver was requested for authorization for FTS to use this professional services schedule. This waiver was

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### Schedule of FY04 Task Order Sample with Notes

obtained from the Assistant Commissioner, Office of Professional Services, on March 8, 2004. The waiver allows for the use of the schedule in order to transition the customer to another contract vehicle. We evaluated this task order for Modification Number 2 only. This modification fully funds the task order until its completion on March 31, 2005. Because the purpose of this task was simply to transition an existing task order from the IT Fund to the General Supply Fund until its completion, we are unable to draw a conclusion regarding the implementation of improved internal controls as it applies to this task order.

#### *Government Wide Acquisition Contract Orders:*

*FY04 Sample Number 6* Task Order 11HVS704005 is a T&M type contract for the Department of Homeland Security for the design, development, integration, fielding and maintenance of the National Emergency Management Agency's Disaster Assistance Systems. This task has been awarded to the Anteon Corporation. We evaluated this task order for Modification Number 1 only. Modification Number 1 funds this task order through 30 June 2004 and attaches Anteon's work proposal for 1 April through 30 June 2004, considered work directive 01. This modification does not increase task value, it does not exercise an option, nor does it extend contract period of performance, therefore we are unable to draw a conclusion regarding the implementation of improved internal controls as it applies to this task order.

*FY04 Sample Number 7* Task Order 11GAP172015 is T&M type contract for the Office of Naval (ONI) Intelligence for support systems analysis, software development, and integration of ONI's end-to-end process of acoustic intelligence production from data acquisition through publication and dissemination of products. This task has been awarded to SAIC. We evaluated this task order for Modification Number 18 only. The documentation (Determination and Findings) does contain adequate justification for it being a T&M type contract and the contract ceiling is clearly stated. The purpose of Modification Number 18 was to add funding to the task order that fully funded the task through the end of the period of performance, and attached a statement of work. This modification does not increase task value, it does not exercise an option, nor does it extend contract period of performance, therefore we are unable to draw a conclusion regarding the implementation of improved internal controls as it applies to this task order.

#### *FAST 8(a) Orders:*

*FY04 Sample Number 8* Task Order NI9908040020 is a T&M type task order for the District of Columbia Public Schools for a Systems integrator to provide

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### Schedule of FY04 Task Order Sample with Notes

ongoing management acquisition, installation, and maintenance support for identified District of Columbia Public School facilities. This task was awarded to the Columbia Services Group, Inc. The documentation includes an acquisition plan, rationale for the contract vehicle used, and an agreed-upon Period of Performance. The Determination and Findings for this task order includes a justification for being T&M, and the purchase order details a Not to Exceed amount. This task order serves as evidence that improved internal controls have been implemented. All required documentation was completed and was included in ITSS.

FY04 Sample Number 9 Task Order 11LWM693001 is a FFP type task order for the Federal Railroad Administration for Help Desk and LAN support services. This task was awarded to Maden Tech Consulting. We evaluated this task order for Modification Number 2 only. This Modification provides additional funding and exercises a six-month option. The option period was priced and evaluated at the time of the initial award. A Determination and Findings was not prepared prior to exercising this option.

#### *Management Organizational and Business Improvement Services Orders:*

FY04 Sample Number 10 Task Order NP210004HVS0 is a T&M type task order for the United States Army Office of Social Work/ Family Advocacy Consultant for providing qualified psychotherapists trained in marriage and family therapy to augment social work services within the Army's European Theatre of operations. This task was awarded to SAIC. NP210004HVS0 provides the transition of an existing order (K1100BJ3064) from the IT Fund to the Professional Services, General Supply fund. This is a Management Organizational and Business Improvement Services (MOBIS) order and is not IT Related. FTS was improperly using the IT Fund for this order. Because the purpose of this task was simply to transition an existing task order from the IT Fund to the General Supply Fund until its completion, we are unable to draw a conclusion regarding the implementation of improved internal controls as it applies to this task order.