

COMPENDIUM OF AUDITS OF
FEDERAL TECHNOLOGY SERVICE
CLIENT SUPPORT CENTER CONTROLS

JUNE 14, 2005

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U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

Date: June 14, 2005

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

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

To: Stephen A. Perry
Administrator (A)

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

This letter transmits our Compendium of audits testing the internal controls over procurement transactions processed by the Federal Technology Service's (FTS's) Client Support Centers (CSCs). This body of work was directed by Section 802(a) of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375). This provision required the Inspectors General of the General Services Administration and Department of Defense to review each CSC and determine in writing whether the CSC is compliant with defense procurement requirements. Briefings on the outcome of these reviews were provided to the Senate and House Armed Services Committees.

Since our previous review of CSC procurement activities, all Centers have implemented new internal controls governing procurement activities. Our testing at the 12 CSCs found one Center in full compliance with procurement regulations and the other 11 having made significant progress toward full compliance.

These results indicate that management efforts under the "Get It Right" Plan are being implemented and are providing greater assurance that procurement actions are carried out consistent with the Federal Acquisition Regulation.

We appreciate the courtesies and assistance provided by your staff during these audits. We will be pleased to answer any questions or discuss with you in more detail any aspect of the Compendium Report.

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COMPENDIUM OF AUDITS OF
FEDERAL TECHNOLOGY SERVICE
CLIENT SUPPORT CENTER CONTROLS

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COMPENDIUM OF AUDITS OF FEDERAL TECHNOLOGY SERVICE CLIENT SUPPORT CENTER CONTROLS

INTRODUCTION

This Compendium relates the results of the audits performed by the General Services Administration (GSA) Office of Inspector General at the Federal Technology Service's (FTS) Regional Client Support Centers (CSC) nationwide. These control reviews were conducted in response to Section 802(a) of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375), requiring the Inspectors General of the General Services Administration and the Department of Defense to review each CSC and determine in writing whether the CSC is compliant with defense procurement requirements, not compliant, or not compliant but making significant progress toward becoming compliant. Briefings on the outcome of these reviews were provided to the Senate and House Armed Services Committees; GSA Administrator; Acting FTS Commissioner; and respective Regional Administrators. We issued written reports on the outcome of each individual CSC to the Acting Commissioner, FTS and the respective Regional Administrators. The Compendium presents the combined results for all CSCs. (The Department of Defense Inspector General will be issuing a separate report on its review of specific Defense procurements with FTS and related financial issues.)

SUMMARY RESULTS

We determined 11 of the 12 regional CSCs reviewed to be "not compliant with procurement regulations but making significant progress toward becoming compliant". We found that national controls were implemented in all of the CSCs and that considerable progress is being made to overcome past procurement compliance deficiencies. None of the CSCs were identified as "not compliant", which, as specified in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, would have prohibited those CSCs from conducting procurements in excess of \$100,000 for Department of Defense agencies. We identified the European CSC (located in the Heartland Region) to be "compliant" in that we identified only minor deficiencies.

Our comprehensive assessments of each CSC were summarized in individual oral briefings and written audit reports for each Region. Written summaries of each task order review were provided to regional officials as they were completed. Regional comments, both written and oral, were considered in our final assessments. Regional briefings were also held with the Regional Administrators and Assistant Regional Administrators for the Federal Technology Service. The Acting FTS Commissioner and GSA Administrator were briefed after the regional briefings. Written audit reports were issued to the respective Regional Administrators with copies to the Acting FTS Commissioner. These regional reports, together with management responses, are included in their entirety in Sections I through XII.

In our January 2004 audit report on the Regions 4, 6, and 10 CSCs, we recommended that FTS develop a comprehensive, broad-based strategy that focuses on the structure, operations, and mission of the CSCs as well as the control environment. Based on: (i) these extensive recommendations, (ii) the GSA Administrator's agency-wide "Get It Right" initiative, and (iii) significant agency-wide progress in implementing management controls and procedures to be in compliance with Defense acquisition requirements, no further overall recommendations are deemed necessary at this time. As directed by Section 802(a) of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, the Office of Audits will be conducting another comprehensive testing of management controls in those CSCs that were not compliant but making significant progress, by March 2006.

In response to the individual regional reports, the Administrator stated that the agency is committed to ensuring it is in compliance with all applicable laws and regulations and it conducts its business with ethics and integrity to secure best value for the Government and the American taxpayer. The Administrator's response in its entirety has been included in this report. 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 XII.

ADMINISTRATOR'S RESPONSE



GSA Administrator

June 3, 2005

MEMORANDUM FOR DANIEL R. LEVINSON
INSPECTOR GENERAL (J)

FROM: STEPHEN A. PERRY
ADMINISTRATOR (A)

A handwritten signature in black ink, appearing to read "Stephen A. Perry".

SUBJECT: Review of Federal Technology Service's Client Support Centers
Controls and Testing of Controls

Thank you for the opportunity to comment on the reviews dated May 18, 2005, of the U.S. General Services Administration's (GSA) Federal Technology Service (FTS) Client Support Centers (CSCs). I appreciate the efforts of your office to review the CSCs pursuant to Section 802 of the Ronald Reagan National Defense Authority Act of FY 2005. As I indicated in my memorandum to you on December 13, 2004, we are committed to ensuring that we are in compliance with the Federal Acquisition Regulations (FAR), all applicable laws and regulations, and that we conduct our business with ethics and integrity.

I am pleased your report indicates that significant progress has been made compared to the past audit findings and the CSCs are complying with Section 803 of the National Defense Authorization Act for 2002 in ensuring that adequate competition is solicited for Department of Defense (DOD) procurements. I am especially pleased that all CSCs will continue to provide service to our Department of Defense customers. I also recognize that continued management attention is required to ensure full compliance with procurement regulations. We believe that the "Get It Right" plan provides the correct strategy and tactics to secure best value for the Government and the American taxpayer.

I look forward to the follow-up reviews of FTS CSCs this fall to further assess the effectiveness of controls and processes that GSA has implemented. I anticipate even further progress as a result of our consistent focus on getting it right, our increased emphasis on associate training, and our adherence to improved acquisition procedures and management controls. I expect that all contracting operations will be fully compliant with the entire spectrum of rules and regulations.

Please provide my thanks once again to the Office of Inspector General audit team for their diligence and spirit of cooperation as we move forward to promote GSA's excellence in acquisition and getting the best value for the American taxpayer.

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BACKGROUND

The Information Technology (IT) Solutions business line within 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 regions, 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,¹ 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 CSCs, as shown below. Fiscal Year (FY) 2004 revenues ranged from \$175 million in Region 2 to nearly \$1 billion in Region 4.

REVENUE	
REGION	FY 2004
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 ²	74,917,300
TOTAL	\$5,407,711,500

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

² Central Office.

Total CSC procurements have generally increased over the last several years: \$3.8 billion in FY 2001, \$4.7 billion in FY 2002, \$5.8 billion in FY 2003, and \$5.4 billion in FY 2004. Department of Defense (DoD) customers represent over 85 percent of the business of the CSCs, and the majority (60 percent) of CSC task and delivery orders, in terms of dollars, are issued against FSS Schedules. Tasks for services represent the majority of CSC business.

Prior CSC Audits

We performed prior audits of FTS CSC contracting practices, identifying numerous improper task order and contract awards, including improper sole-source awards, misuse of small business contracts, allowing work outside the contract scope, improper order modifications, frequent inappropriate use of time-and-materials task orders, and not enforcing contract provisions. In our January 2004 report³ on contracting practices in 3 regions, we recommended that FTS: (1) perform a detailed analysis of the factors contributing to the problems identified, including an ineffective system of internal controls; (2) based on this analysis, determine what changes are needed in the structure, operations, and mission of the CSCs; and (3) develop additional performance measures that promote competition and other sound procurement practices.

In our December 2004 Compendium audit report⁴ on FTS CSC Contracting Practices, we reported on the results of a nationwide review requested by the GSA Administrator, to determine the nature and breadth of procurement deficiencies within the multi-billion dollar FTS CSC contracting program. The Chairman of the Senate Finance Committee had also requested that we provide continuing oversight of CSC operations to ensure that deficiencies are appropriately addressed. Our analysis of 227 task orders awarded in FY 2003 identified numerous improper contracting practices, such as inadequate competition, lack of support for fair and reasonable pricing, improper task order modifications, and unjustified time-and-materials contracts.

This review also included a limited analysis of 105 more recent task orders awarded in FY 2004. We generally found some improvement from recently enhanced management controls put in place in the CSCs, although in some regions we found several of the same issues identified in our review of 2003 procurements. Based on the comprehensive recommendations in our January 2004 report, no further overall recommendations were deemed necessary.

Management Initiatives

In response to our audit findings and report recommendations, FTS initiated, through a series of policy letters, memoranda, and other guidance, a number of improvement actions:

³ "Audit of Federal Technology Service's Client Support Centers," Audit Report Number A020144/T/5/Z04002, issued January 8, 2004.

⁴ "Compendium of Audits of the Federal Technology Service Regional Client Support Centers, dated December 14, 2004.

- Implementation of Section 803 of the National Defense Authorization Act for Fiscal Year 2002 - On March 11, 2003, FTS issued guidance for implementing Section 803, Competition Requirement for Purchase of Services Pursuant to Multiple Award Contracts, of the National Defense Authorization Act for Fiscal Year 2002 (Public Law 107-107). Each procurement in excess of \$100,000 made under a multiple award contract must be on a competitive basis unless a contracting officer of the Department of Defense waives the requirement and justifies the determination in writing.
- Preaward Legal Review of Major FTS Contract Actions - In an October 1, 2003 memorandum, FTS specified certain contractual actions that require legal review, approval, and concurrence to assure compliance with applicable laws, regulations, and policies, including Executive Orders, and that the decisions made are legally sufficient.
- FTS Acquisition Checklists - A series of acquisition checklists, intended to serve as tools to facilitate the conduct of proper acquisitions within FTS, were issued October 6, 2003. The applicable checklists are required to be completed for all FTS acquisitions.
- Client Support Center Management Plan - FTS established a national standard (FTS Action Plan) governing internal controls for task order acquisition activities, including pre-award and post-award oversight, training requirements, and management controls, on November 25, 2003. CSCs must establish individual definitive CSC Management Plans for performing self-assessments and developing management and control goals.
- ITS Contract/Project Closeout Guidance - On May 28, 2004, FTS mandated the development and implementation of written contract and project closeout procedures, including assignments of specific responsibilities to specific FTS Associates.

Further, in July 2004, the Administrator, in conjunction with DoD's Director of Defense Procurement and Acquisition Policy, launched the "Get It Right" initiative to ensure proper contracting practices, and clients and taxpayers receive the best value. The Plan reaffirms GSA's deep commitment to ensuring the proper use of GSA contracting vehicles and services. The five objectives of this initiative are: (1) secure the best value for federal agencies and American taxpayers through an efficient and effective acquisition process; (2) make acquisition policies, regulations, and procedures clear and explicit; (3) improve education/training of the federal acquisition workforce; (4) ensure compliance with federal acquisition policies, regulations, and procedures; and (5) communicate with the acquisition community and stakeholders. Specific steps to achieve the "Get It Right" objectives to foster acquisition excellence were established. Their progress is closely monitored and published on the GSA website (www.gsa.gov).

Audit Objective

The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) mandated this review. Section 802(a) directs the Inspectors General of the General Services Administration and the Department of Defense to jointly review the policies, procedures, and internal controls for each CSC, and determine in writing whether each CSC is compliant with defense procurement requirements; not compliant; or not compliant, but made significant progress during 2004 toward becoming compliant. The Act

also directs that if a CSC is determined to be “not compliant”, or “not compliant but making significant progress”, another review shall be performed, not later than March 15, 2006, to determine whether that CSC is compliant with defense procurement requirements. The Act specifies that, after March 15, 2005, Department of Defense officials may not order, purchase, or otherwise procure property or services, in an amount in excess of \$100,000, through any CSC determined to be “not compliant” with defense procurement requirements. However, for the period March 15, 2005 through March 15, 2006, CSCs determined to be “not compliant but making significant progress” can continue to process Defense orders over \$100,000.

Scope

Our review included CSCs in each GSA Region and the European Business Unit (located in the Heartland Region). We sampled CSC contracting actions occurring between August 1, 2004 and October 31, 2004, and spot-checked November and December 2004 actions. We also analyzed various funding deficiencies on contract actions referred by the DoD OIG.

We reviewed new orders as well as modifications to existing orders to determine whether the new national internal controls are being successfully integrated into the CSCs’ contracting procedures and how previously identified deficiencies on existing orders and modifications are being remediated. Though we reviewed both DoD and civilian agency procurements, the vast majority dealt with the DoD. Nationwide, we reviewed a total of 182 awards. The value of these awards, including options, is \$2,025,728,645:

Orders	No. of Task Orders	Value
New	149	\$ 477,767,498
Existing	33	\$1,547,961,147
Totals	182	\$2,025,728,645

Methodology

We reviewed a random sample of 149 new orders, with a minimum of 10 for each of the 12 CSCs.⁵ (Other orders above the minimum were randomly selected for individual CSCs according to the dollar value of new task orders processed by each CSC during our sample period.) Further, we stratified the random sample to ensure we reviewed task orders of varying dollar amounts, but weighted our sample with more task orders of higher dollar value, that represent the most financial risk. The 12 orders in our highest stratum were valued at more than \$134.5 million. We selected the strata based on internal control points that FTS has established: competition requirements for service procurements over \$100,000; requests for additional price discounts when FSS Schedule orders exceed the Maximum Order Threshold, typically \$500,000; and legal review required for procurements exceeding \$5 million.

⁵ Only 9 new orders were reviewed in Region 3 due to the limited number of higher dollar task orders processed during the review period.

Stratum	\$ Value
1	Less than \$100,000
2	\$100,001 - \$500,000
3	\$500,001 - \$5,000,000
4	\$5,000,001 and above

We also reviewed a risk-based judgmental sample of 33 existing order modifications during the audit sample period. This sample consisted of two orders per each of the CSCs (24 orders), and additional orders allocated across the CSCs according to the value of existing order modifications processed by each CSC during our sample period.

Determination of Compliance with Procurement Regulations

In developing criteria for determining whether each CSC was “compliant”, “not compliant”, or “not compliant but making significant progress”, we considered the significance and magnitude of the procurement deficiencies found in our past audits, as well as the significant management attention and efforts recently initiated to correct past problems. We recognized that with the launch of the “Get It Right” initiative only a month prior to our audit sample period, many CSCs would still be implementing improvements, and we would likely still find deficiencies. However, given the number and magnitude of contracting deficiencies we have identified in past audits, we wanted to bring all deficiencies to management’s attention as it works to ensure adequate controls.

Thus, we did not determine a CSC to be “compliant” unless it demonstrated adequate management controls were in place and proper contracting practices followed, with nothing more than minor or administrative deficiencies⁶ identified. Where controls had not been implemented and substantive deficiencies were identified, or if controls were generally implemented but deficiencies were identified with significant potential financial impact, we would have determined the CSC to be “not compliant”. Where CSCs had generally implemented controls, but substantive deficiencies were identified, although not involving significant potential financial impact, we determined the CSC to be “not compliant but making significant progress”.

We identified contracting deficiencies as having potential financial impact when there was evidence that the Government may have paid more than it should have, such as when only 1 bid was received and there was an inadequate Best Value pricing determination, or where the Maximum Order Threshold was exceeded, but discounts were not requested or received. We considered the potential financial impact as significant if the total value of deficient orders exceeded 10 percent of the total sample contract dollars for the CSC.

⁶ We considered minor or administrative deficiencies to include missing acquisition checklists or minor documentation, and unsigned or undated Independent Government Cost Estimates, Acquisition Plans, Time and Materials Determinations and Findings, or Interagency Agreements.

We reviewed the following procurement requirements to determine whether any deficiencies existed:

- Section 803 Competition Requirements
- Legal Review
- Interagency Agreement
- Best Value Determination
- Determinations and Findings, and Ceiling Price, for Time & Materials Contracts
- Request for Discounts for Purchases Above Maximum Order Threshold
- Proposal Evaluations
- Acquisition Plan
- Scope of Work
- Quality Assurance Surveillance Plan
- Evaluation of Other Direct Costs
- Proper Use of Funds
- Modifications to Existing Orders
- Remediation of Existing Orders with Deficiencies

These audits, performed in accordance with generally accepted Government auditing standards, were conducted during the period October 2004 through March 2005.

SECTIONS

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REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER
CONTROLS AND TESTING OF CONTROLS
NEW ENGLAND REGION
REPORT NUMBER A050009/T/1/Z05014

MAY 18, 2005

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REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER
CONTROLS AND TESTING OF CONTROLS
NEW ENGLAND REGION
REPORT NUMBER A050009/T/1/Z05014

MAY 18, 2005

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U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

DATE: May 18, 2005

REPLY TO New England Region
ATTN OF: Field Audit Office (JA-1)

SUBJECT: Review of Federal Technology Service's
Client Support Center Controls and Testing of
Controls – New England Region
Report Number A050009/T/1/Z05014

TO: Dennis R. Smith
Regional Administrator (1A)

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

This report presents the results of the Office of Inspector General's audit of the Federal Technology Service (FTS) Client Support Center (CSC) in the New England Region (Region 1). The Ronald Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) directed the Inspectors General of the General Services Administration (GSA OIG) and the Department of Defense (DOD OIG) to jointly perform a review of each FTS CSC and determine whether each CSC is compliant, not compliant, or not compliant but making significant progress, with Defense procurement requirements.

Objectives, Scope and Methodology

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed between August 1, 2004 through October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders. For the New England CSC, our sample included 10 new awards and 2 existing orders, valued at \$9.7 million and \$50 million, respectively. The audit was conducted between October 2004 and March 2005, in accordance with generally accepted Government auditing standards.

Results of Audit

We determined the New England CSC to be not fully compliant but making significant progress. The New England Region has implemented national controls identified in the Administrator's *Get it Right Initiative*, and has improved its overall contracting practices, as compared to our past audit findings. For example, we did not find any instances of

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non-compliance with the competition requirements of Section 803 of the National Defense Authorization Act for fiscal year 2002. However, we did find 2 new orders that had procurement compliance deficiencies, but with limited potential financial impact; 1 new order with procurement deficiencies without potential financial impact; and on 2 existing orders, remedial action was not taken on prior deficiencies. As directed in the Ronald Reagan National Defense Authorization Act for fiscal year 2005, because the CSC is not fully compliant, we are required to perform a subsequent audit of CSC contracting practices by March 2006 to determine whether the CSC has become compliant.

Procurement Compliance Deficiencies: We identified a \$3.1 million schedule order for Defense intelligence support that did not undergo a best value determination. The CSC complied with competition requirements and received proposals, but FTS did not analyze the proposed labor mix or level of effort in its evaluation of price. We also identified that an \$81,000 order for computer hardware and software support to the users of office computer systems was awarded without a best value determination being made by the Contracting Officer.¹

Other Procurement Compliance Deficiencies: An order of \$131,000 for the purchase of software lacked an acquisition plan as required by the FAR and by the national controls outlined by FTS Central Office.

Existing Order Procurement Deficiency: We identified 2 existing orders that had prior deficiencies where measures were not taken to remediate these deficiencies:

- An original contract was awarded for \$12 million for a multi year initiative to upgrade wide area network infrastructure to support IT modernization. The file for the original award did not show that the CSC performed any pricing analysis on the original scope of work, and the procurement did not have a T&M determination of findings. The CSC modified the contract by \$3.7 million for additional work without any remedial actions on the original contract award.
- A \$37 million existing task order did not undergo a best value determination. The CSC complied with competition requirements but FTS did not analyze the proposed labor mix or level of effort in its evaluation of price. Also, there was no justification for the use of a T&M contract.

Conclusion

While not fully compliant, we found that the New England Region CSC has made significant progress in implementing controls to ensure compliance with procurement regulations. The CSC has implemented national controls identified in the Administrator's *Get It Right Initiative* and improved its overall contracting practices. However, we did find procurement compliance deficiencies in 3 new orders and

¹ This procurement was an 8(a) award and therefore did not require competition, although the best value determination should have been documented.

remediation deficiencies on 2 existing orders. As stated in our January 2004 report on the FTS CSCs, we believe that steps to remedy the CSC procurement problems require a comprehensive, broad-based strategy that focuses on the structure, operations and mission of FTS as well as the control environment. Based on the comprehensive recommendations contained in that report, no further overall recommendations are deemed necessary at this time.

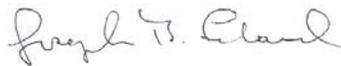
Management Comments

We obtained agency comments throughout our audit work, providing a draft written summary of our findings on each order to FTS regional officials for their written comments, which we incorporated into our analysis as appropriate. We also provided a draft of this letter report to Regional officials. In his May 10, 2005 response, the Regional Administrator outlines steps that have been taken over the last several months to improve the quality of procurement actions and documentation thereof. The Regional Administrator stated that most of the deficiencies cited in the draft report were due to lack of complete file documentation of actions that had been taken, and that the files have been amended to add the necessary details of these actions. The response indicated that for legacy tasks, deficiencies have been identified and are being remediated by the Region as the contracts expire. Management's response is included in its entirety as Attachment 1 to this report.

Internal Controls

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

If you have any questions regarding the report, please contact me at (617) 565-6800.



Joseph B. Leland
Regional Inspector General for Auditing
New England Region

Attachments

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MANAGEMENT RESPONSE

"Management Comment"

Attachment 1



GSA New England Region

May 10, 2005

MEMORANDUM FOR: JOSEPH B. LELAND
REGIONAL INSPECTOR GENERAL FOR AUDITING
NEW ENGLAND REGION (JA-1)

BARBARA L. SHELTON
ACTING COMMISSIONER, FEDERAL TECHNOLOGY
SERVICE (T)

FROM: *Dennis R. Smith*
DENNIS R. SMITH
REGIONAL ADMINISTRATOR (1A)

SUBJECT: Review of FTS Client Support Center Controls and Testing
of Controls – New England Region
Report Number A050009/T/1/Z05---

We appreciate the support and recommendations made by the Inspector General. Although we have made excellent progress in achieving our goal of 100% compliance, the report indicates we were not fully compliant, mainly due to inadequate documentation of the actions we took which complied with acquisition rules and legacy tasks that will be remediated as the contracts expire.

The Region One Federal Technology Service Client Support Center undertook a major reorganization in May 2004. New management was put in place and new management policies and procedures were developed and implemented during the April through October 2004 time period. Additional staff was hired to augment the acquisition workforce and all staff were trained in the new policies and procedures. The training of our acquisition staff is an ongoing exercise. The result of these changes is that the region is consistently improving the way it conducts acquisitions and serves client agencies.

The report cites a \$3.1 million schedule order in which the CSC did not analyze the proposed labor mix or level of effort in its evaluation of price. The Price Negotiation Memorandum (JFCOM-J2 PNM.doc) contained in the file (filed on 9/29/04) has a section which addresses price reasonableness along with appropriate mix of labor categories. This document is not signed, but the practice at the time the document was created did not require a "wet" signature. The CSC has since made it a practice to sign all documentation and scan documents intended to be saved electronically. As identified in the audit report dated August 16, 2004, only one proposal was received, but the CSC complied with Section 803 by competing the requirement using eBuy. The RFQ went out to the following five companies:

Science Applications International Corporation
American Systems Corporation

U.S. General Services Administration
Thomas P. O'Neill, Jr. Federal Building
10 Causeway Street
Boston, MA 02222
www.gsa.gov

MANAGEMENT RESPONSE

"Management Comment"

Attachment 1

General Dynamics Network Systems
Systematic Solutions Inc.
ACS Defense Inc.

2 of 3

This task is scheduled to expire in September 2005. Current regional CSC policy requires the task be reviewed for appropriateness 90 days before expiration. The policy was implemented because the volume of legacy tasks which require remediation was more than the acquisition staff could efficiently handle. This task will be reviewed in July and remediation efforts will be undertaken.

The report cites an \$81,000 order that was awarded without a best value determination being made by the Contracting Officer. The Contracting Officer's thoughtful decision was to make a sole source award to an 8a/HUBZone company. Since it was a sole source, we do not need a "best value" determination. Best value determinations are made in a competitive acquisition where one contractor's proposal is traded off against another contractor's proposal, price and other factors considered. The audit report dated August 16, 2004 indicated that the file contained "a well thought-out IGE that supported the pricing awarded. This is basically a documentation issue." The CSC corrected this by including in the file a Price Reasonableness Determination document (R1WH-1400-0402 Price Reasonableness Determination 2005-01-28.doc, filed on 1/28/05).

The report cites an order of \$131,000 for the purchase of software that lacked an acquisition plan. In this case the CSC client requested a sole source award to [REDACTED] for the purchase of [REDACTED]. The CAM discussed the acquisition with the CO and her supervisor. The best approach to satisfying the requirement was determined to be a competitive acquisition using e-Buy. This discussion constituted an oral plan. Region One policy for commodity buys at that time allowed for the use of the CASD form to serve as the documentation of acquisition planning. GSA Order 2800.1 does not distinguish between planning requirements for services and commodities. Region One policy has been updated to be in compliance with GSA Order 2800.1. After the task was awarded the approach and the outcome of the acquisition was documented in a memo to the file. Using e-Buy, the Government received [REDACTED] quotes. The proposed prices ranged between a high of [REDACTED] and a low of [REDACTED]. The IGCE for the task was [REDACTED] and the quote from [REDACTED] (the client preferred vendor) was [REDACTED]. The low bidder (GTSI) was awarded the order saving the Government [REDACTED] from the IGCE and [REDACTED] from the [REDACTED] quote. Although there was no written plan, the acquisition plan provided the Government and the US taxpayer with the best value for this software. The file has been updated with a memo for record explaining the acquisition planning that took place.

The report cites a \$12 million award, stating that the "original award did not show that the CSC performed any pricing analysis of the additional work or the original scope of work. In addition, the procurement did not have a T&M determination. The CSC modified the contract by \$3.7 million without remedial actions on the original contract award." A D&F for T&M has been completed and is now located in the file. This task has been identified by Region One management as a task which needs remediation. The task is scheduled to expire in December 2005. FTS Management has analyzed the deficiencies that have been identified, proposed a solution and has Counsel support for our solution.

Note: Sensitive vendor data was redacted.

MANAGEMENT RESPONSE

"Management Comment"

Attachment 1

The report cites a \$37 million award, stating that the "existing task order did not undergo a best value determination. The CSC complied with competition requirements but FTS did not analyze the proposed labor mix or level of effort in its evaluation of price. Also, there was no justification for the use of a T&M contract." A D&F for T&M is being prepared for the file. The task has been identified by Region One management as a task which needs remediation. The task is scheduled to expire in December 2005. FTS Management has analyzed the deficiencies that have been identified, proposed a solution and has Counsel support for our solution.

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REVIEW OF
FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER CONTROLS
AND TESTING OF CONTROLS
NORTHEAST AND CARIBBEAN REGION
REPORT NUMBER A050009/T/2/Z05024

MAY 18, 2005

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REVIEW OF
FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER CONTROLS
AND TESTING OF CONTROLS
NORTHEAST AND CARIBBEAN REGION
REPORT NUMBER A050009/T/2/Z05024

MAY 18, 2005

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



Date: May 18, 2005

Reply to
Attn of : Northeast and Caribbean Region Field Audit Office (JA-2)

Subject: Review of Federal Technology Service's
Client Support Center Controls and Testing of Controls
Northeast and Caribbean Region
Report Number A050009/T/2/Z05024

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

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

This report presents the results of the Office of Inspector General's audit of the Federal Technology Service (FTS) Client Support Center (CSC) in the Northeast and Caribbean Region (Region 2). The Ronald Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) directed the Inspectors General of the General Services Administration (GSA OIG) and the Department of Defense (DOD OIG) to jointly perform a review of each FTS CSC and determine whether each CSC is compliant, not compliant, or not compliant but making significant progress, with Defense procurement requirements.

Objectives, Scope and Methodology

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed between August 1, 2004 through October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders. For the Northeast and Caribbean CSC, our sample included 10 new awards and 2 existing orders, valued at \$39.6 million and \$214.0 million, respectively. The audit was conducted between December 2004 and March 2005, in accordance with generally accepted Government auditing standards.

Results of Audit

We determined the Region 2 CSC to not be fully compliant but making significant progress. The Region has implemented national controls identified in the Administrator's "Get it Right" Plan, and has enhanced regional controls, while improving its overall contracting practices compared with our past audit findings. For example, we did not find any instances of non-compliance with the competition requirements of Section 803 of the National Defense Authorization Act for Fiscal Year 2002. However, we did find 2 new orders that had procurement compliance deficiencies, although there was no identified potential financial impact. In our review of 2 existing orders, we found that both had prior deficiencies that had inadequate remediation progress.

As directed in the Ronald Reagan National Defense Authorization Act for Fiscal Year 2005, because the CSC is not fully compliant, we are required to perform a subsequent audit of CSC contracting practices by March 2006 to determine whether the CSC has become compliant.

Procurement Compliance Deficiencies with No Identified Potential Financial Impact. The CSC awarded a \$48,000 open market order for the purchase of 6 Antenna Low Noise Amplifier retrofit kits, on a sole-source basis, to a contractor that retained proprietary rights to both the drawing designs and an interoperable part. The Justification for Award (JFA) incorporated the client's Independent Government Cost Estimate (IGCE), which compared the sole-source quote to open market pricing for two other vendors, one of whom had prepared the original drawings for the kits and the other had been the ship-to party on a previous order for the kits. The task order file did not include supporting documentation for these quotes, and we found it improbable that the other two vendors could have provided the retrofit kits. Although the Contracting Officer's price reasonableness determination was also based on previous procurements by another CSC, we were concerned that the IGCE was reflective of our past audit finding that the CSC frequently incorporated client estimates into the JFA for large services task orders, without establishing the validity of the amounts. The CSC recently took a positive step toward improvement by issuing an ICGE Guidance Procurement Bulletin.

Under an Indefinite Delivery, Indefinite Quantity contract, the CSC awarded an order for shipping support, fielding support and system engineering and training support needed to maintain Single Shelter Switches, Joint Network Nodes and Base Band Nodes. The order was awarded at a \$536,585 Not To Exceed price proposed by the contractor, subject to renegotiation after the CSC provides a more detailed and defined scope of work with a Request for Proposal. The order document, dated September 10, 2004, stated that the contractor would submit a proposal no later than October 26, 2004, at which time the NTE cost would be renegotiated. As of March 22, 2005, this still had not occurred.

Inadequate Remediation Progress Concerning Existing Orders With Prior Deficiencies

While discussions had been underway between the client agency, CSC officials and Regional Counsel, no firm remediation plan was in place to address audit findings covering an existing order related to the relocation of the client from leased space. One finding involved the CSC's use of an incorrect IGCE to determine the price reasonableness of a \$32 million Video Conferencing Seat Management contract line item. After the conclusion of fieldwork, the CSC issued a modification to extend the period of performance until June 15, 2005, with the intention of turning future contract actions over to the client agency from that date on forward.

We determined that the CSC had not yet incorporated revised invoicing provisions into an existing order for a Secure Wireless LAN project. We reviewed recent invoices and found that they still lacked basic information needed to evaluate billed charges.

Conclusion

While not fully compliant, we found that the Northeast and Caribbean Region CSC has made significant progress in implementing controls to ensure compliance with procurement regulations. The CSC has implemented national controls identified in the Administrator's "Get It Right" Plan and has enhanced regional controls, while improving its overall contracting practices. However, we did find procurement compliance deficiencies in 2 new orders, with no identified potential financial impact, and 2 existing orders, with prior deficiencies, had inadequate remediation progress. As stated in the January 2004 report on the FTS CSCs, we believe that steps to remedy the CSC procurement problems require a comprehensive, broad-based strategy that focuses on the structure, operations and mission of FTS, as well as the control environment. Based on the comprehensive recommendations contained in that report, no further overall recommendations are deemed necessary at this time.

Management Comments

We obtained agency comments throughout our audit work, providing a draft written summary of our findings on each order to FTS Regional officials for their written comments, which we incorporated into our analysis as appropriate. We also provided a draft of this letter report to Regional officials. In her May 5, 2005 response, included as an Attachment to this report, the Regional Administrator generally agreed with the audit findings, with the exception of Task Order 02FM214555. The Region was not in complete agreement with our concern that the IGCE for that order was reflective of past audit findings that the CSC frequently incorporated client estimates into the JFA, without establishing the validity of the amounts. The response stated that the Contracting Officer did not solely rely on the client submitted quotes and used other price analysis techniques for purposes of determining price reasonableness. The audit report had acknowledged that the Contracting Officer's price reasonableness determination took into consideration similar procurements by another CSC. Our concern over the IGCE

was of a cautionary nature, in view of past-observed practices. We also recognized the Region's effort to strengthen controls in this area through the issuance of a Procurement Bulletin.

Internal Controls

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

To help us improve our customer service, please ask the primary user of the report to complete the attached customer satisfaction survey and return it in the enclosed envelope to the Office of Audits' Operations Staff (JAO).

If you have any questions regarding the report, please contact me at (212) 264-8620.



HOWARD R. SCHENKER
Audit Manager
Northeast and Caribbean Region

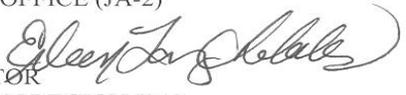
Attachments

MANAGEMENT RESPONSE

GSA Northeast & Caribbean Region

MAY 05 2005

MEMORANDUM FOR: HOWARD SCHENKER
OFFICE OF THE INSPECTOR GENERAL
NEW YORK FIELD AUDIT OFFICE (JA-2)

FROM: EILEEN LONG-CHELALES 
REGIONAL ADMINISTRATOR
NORTHEAST & CARIBBEAN REGION (2A)

SUBJECT: Review of FTS Client Support Center Controls and Testing of
Controls – Northeast and Caribbean Region
Report Number A050009

Thank you for your memorandum of April 21, 2005 subject as above, wherein you provided the final results from your recent audit of the Regional FTS Client Support Center (CSC).

Your determination that the CSC is not fully compliant but making significant progress is based on the findings of procurement compliance deficiencies in 2 new task orders, with no identified potential financial impact, and that 2 existing task orders with prior deficiencies had inadequate remediation progress. Our comments/updates relating to the audit findings for these 4 task orders are below.

Procurement Compliance Deficiencies With No Identified Potential Financial Impact:

1. Regarding Task Order 02FM214555, valued at \$48,240, and covering a sole-source open market purchase of Light Weight High Gain X-Band Antenna Low Noise Amplifier (LHGXA LNA) Retrofit and associated equipment: We are not in complete agreement with the audit concern that the IGCE was reflective of your past audit finding that the CSC frequently incorporated client estimates into the JFA for large services task orders without establishing the validity of the amounts. The Contracting Officer did not rely only on the client obtained/submitted quotations in determining the reasonableness of proposed prices, and used other price analysis techniques for that purpose (i.e., compared proposed prices to previous award prices for same item in similar quantities).
2. We agree with the audit finding for Task Order 02FM214814, valued at \$536,585. (ID/IQ contract with General Dynamics, providing for support services for Shipping Support; Field Support, System Training and Engineering Support needed to maintain Single Shelter Switches, Joint Network Nodes, and Base band Node Systems used by the Department of Army). After several requests by the Contracting Officer, the contractor still has not provided a proposal to definitize its Not-to-Exceed contract price. The Contracting Officer is considering available options, including the issuance of a final decision with a unilateral price adjustment based on an audit of the contractor's actual costs.

U.S. General Services Administration
26 Federal Plaza
New York, NY 10278
www.gsa.gov

MANAGEMENT RESPONSE**Inadequate Remediation Progress Concerning Existing Orders With Prior Deficiencies:**

1. Task Order 02FM213631 - Seat Management, Army Materiel Command (AMC), Ft. Belvoir, VA: Because of discussions that occurred between GSA management/legal and AMC management/legal concerning potential remedial actions to be taken under the task order, a firm remediation plan was not in place at the time of the audit. The Period of Performance for the CLINS under this task have been extended until June 15, 2005 after which, GSA will allow the task order to expire and AMC will proceed to contract for the necessary services.

2. Task Order 02FM211081, Secure Wireless LAN Project (SWLAN): Modification AA49, issued on March 24, 2005 incorporated revised invoice submission requirements, and addresses the finding that the CSC had not yet incorporated revised invoicing provisions into the existing order. A copy of this modification is attached for your files.

I appreciate the opportunity to respond to the final audit report. Should you have any questions concerning this matter, or require additional information, please contact me at (212) 264-2600, or you may contact Ashley Cohen at (212) 264-4039.

REVIEW OF
FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER CONTROLS
AND TESTING OF CONTROLS
MID-ATLANTIC REGION
REPORT NUMBER A050009/T/3/Z05016

MAY 18, 2005

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REVIEW OF
FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER CONTROLS
AND TESTING OF CONTROLS
MID-ATLANTIC REGION
REPORT NUMBER A050009/T/3/Z05016

MAY 18, 2005

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DATE: May 18, 2005

REPLY TO

ATTN OF: Mid-Atlantic Region Field Audit Office (JA-3)

SUBJECT: Review of Federal Technology Service's Client Support Center
Controls and Testing of Controls – Mid-Atlantic Region
Report Number A050009/T/3/Z05016

TO: Jon R. Kvistad
Acting Regional Administrator (3A)
Barbara L. Shelton
Acting Commissioner, Federal Technology Service (T)

This report presents the results of the Office of Inspector General's review of the Federal Technology Service (FTS) Client Support Center (CSC) in the Mid-Atlantic Region (Region 3). The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) directed the Inspectors General of the General Services Administration (GSA OIG) and the Department of Defense (DOD OIG) to jointly perform a review of each FTS CSC and determine whether each CSC is compliant, not compliant, or not compliant but making significant progress, with Defense procurement requirements.

Objectives, Scope and Methodology

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed between August 1, 2004 through October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders. For the Mid-Atlantic CSC, our sample included nine new awards and two existing orders, valued at \$4.7 million and \$40.5 million, respectively. The audit was conducted between October 2004 and March 2005, in accordance with generally accepted Government auditing standards.



Results of Audit

We determined the Region 3 CSC to be not compliant but making significant progress. The Region has implemented national controls identified in the Administrator's "Get it Right" Plan, and has improved its overall contracting practices, compared with our past audit findings. For example, we found all orders to be in compliance with the requirements of Section 803 of the National Defense Authorization Act for Fiscal Year 2002. However, we did find that the nine new orders had a common procurement compliance deficiency that does not represent a potential financial impact. We also identified one order that involved a non-Information Technology (IT) procurement through the IT fund. Lastly, in our review of existing orders, we found the remediation progress inadequate to address deficiencies found in our prior review. As directed in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, because the CSC is not fully compliant, we are required to perform a subsequent audit of CSC contracting practices by March 2006 to determine whether the CSC has become compliant.

Procurement Compliance Deficiency with No Potential Financial Impact. Our review of the nine new orders determined that none contained an Interagency Agreement. This situation resulted from guidance contained in a memo issued by the FTS Central Office and the GSA Chief Financial Officer that may not have provided sufficient clarification regarding what was required. This conflict was recognized and taken into consideration when evaluating these orders. The Mid-Atlantic CSC's position is that it complied with the guidance via the use of the customer agency's funding document combined with FTS' acceptance of that funding. However, while this documentation represents a validly recorded obligation, it does not meet the requirements of a reimbursable agreement as outlined in the FTS Central Office guidance. Reimbursable agreements must include a clear, concise statement identifying the requesting agency's specific need and clearly establishing the financial arrangements between the requesting agency and FTS. The reimbursable agreement provides written documentation to ensure there is a formal offer and acceptance between the federal agency and FTS.

Other Procurement Compliance Deficiency. We identified one order, valued at approximately \$295,000, which involved the use of the IT fund for the procurement of tow banners (used in target practice for fighter pilots). We determined that these banners were not IT-related. Therefore, the IT fund should not have been used for the funding of this procurement.

Inadequate Remediation Progress for Existing Orders. Our review of two existing orders, which were cited for deficiencies in our initial report, found the remediation actions to be inadequate.

- A \$17 million schedule order for operations support, in our initial report, was cited for the lack of (1) an Acquisition Plan and (2) FTS oversight of contractor billings. Our review determined no additional analysis was conducted to ensure the appropriateness of the procurement, in light of the absence of an Acquisition

Plan. Additionally, while the Region 3 CSC is currently involved in developing a process for ensuring the accuracy of contractor billings, no process has yet been implemented. CSC officials stated that this task order is due to terminate as of April 30, 2005.

- A \$24 million order to provide life-cycle support for an information system, in our initial report, was cited for the lack of (1) a Determinations and Findings document and (2) FTS oversight of contractor billings. While the Region 3 CSC is currently involved in developing a process for ensuring the accuracy of contractor billings, we determined that no formal process has yet been implemented. CSC officials stated that this task order is due to terminate as of April 30, 2005.

Conclusion

While not fully compliant, we found that the Mid-Atlantic Region CSC has made significant progress in implementing controls to ensure compliance with procurement regulations. The CSC has implemented national controls identified in the Administrator's "Get It Right" Plan and improved its overall contracting practices. However, we did find procurement compliance deficiencies in nine new orders. We also identified one order that utilized the IT Fund for the procurement of a non-IT commodity. Lastly, we determined the remediation actions on two existing orders were inadequate. As stated in our January 2004 report on the FTS CSCs, we believe that steps to remedy the CSC procurement problems require a comprehensive, broad-based strategy that focuses on the structure, operations and mission of FTS as well as the control environment. Based on the comprehensive recommendations contained in that report, no further overall recommendations are deemed necessary at this time.

Management Comments

In his response, the Acting Regional Administrator acknowledged the issues raised in the draft report and submitted some remedial actions taken by the FTS Mid-Atlantic Region designed to address those issues. Management's response is included in its entirety as Attachment 1 to this report.

Internal Controls

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

If you have any questions regarding the report, please contact Stephen J. Ehinger, or me, at (215) 446-4840.

A handwritten signature in blue ink that reads "James M. Corcoran". The signature is written in a cursive style with a large initial "J" and "C".

James M. Corcoran
Audit Manager
Mid-Atlantic Region

Attachments

MANAGEMENT RESPONSE

May 2, 2005



GSA Mid-Atlantic Region

MEMORANDUM FOR GLENN D. MERSKI
REGIONAL INSPECTOR GENERAL FOR
AUDITING (JA-3)

FROM: JON R. KVISTAD *[Signature]*
for ACTING REGIONAL ADMINISTRATOR (3A)

SUBJECT: Draft Report: Review of FTS Client Support Center Controls and
Testing of Controls – Mid-Atlantic Region Report Number
A050009

After reviewing the subject draft report, I submit the following comments.

1. "Procurement Compliance Deficiency with No Financial Impact"

All nine of the cited task orders were documented in reliance upon particular CFO guidance of June 7, 2004, which states, "As another form of reimbursable agreement, FTS accepts the requesting agency's funding document which identifies the requirements in either the funding document or a referenced attachment". FTS Mid-Atlantic Region management concluded the nine orders identified the agency's specific need and clearly established the financial arrangements consistent with that guidance. As you noted, the CFO guidance may not have provided sufficient clarity on what was required. In an ongoing effort to conform to appropriate guidance and information, FTS Mid-Atlantic Region associates will employ reimbursable agreements that include a clear, concise statement of the requesting agency's need, clearly establish the financial arrangements between GSA and the requesting agency, and incorporate financing and supporting data.

2. "Other Procurement Compliance Deficiency"

The auditors have determined the procurement of tow banners for fighter pilot training were not IT related. In reliance upon a previous definition of IT by the FTS Solutions Development Center and FTS Central Office, FTS Mid-Atlantic Region management made a judgment that the tow banners were properly IT related. Consistent with advice provided at the April 25, 2005 "Get It Right" session, our contracting officers will manage risk by using available guidance and information, the FTS chain of command and legal counsel. FTS Mid-Atlantic Region associates endeavored to use such a risk management process in their determination that the tow banners were IT related.

MANAGEMENT RESPONSE3. "Inadequate Remediation Progress for Existing Orders"

The auditors found the remediation to be inadequate for two task orders. The two task orders in question were due to expire on April 30, 2005. The task orders were appropriately awarded. We are engaged in an ongoing effort to take appropriate remediation on existing task orders. Appropriate acquisition plans and determination-and-finding documents are now being prepared on all new actions, when required.

Regarding oversight of contractor billings, FTS Mid-Atlantic Region has used a disciplined approach to arrive at the most efficient and effective process of reviewing contractor billings. They performed a statistical analysis of past billings to help them design a process that would not waste taxpayer dollars. FTS Mid-Atlantic Region identified four options and is currently implementing the most efficient option.

If you have any questions, please contact Mr. Paul McDermott of my staff at 215-446-5831.

REVIEW OF
FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER
CONTROLS AND TESTING OF CONTROLS
SOUTHEAST SUNBELT REGION
REPORT NUMBER A050009/T/5/Z05021

MAY 18, 2005

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REVIEW OF
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CLIENT SUPPORT CENTER
CONTROLS AND TESTING OF CONTROLS
SOUTHEAST SUNBELT REGION
REPORT NUMBER A050009/T/5/Z05021

MAY 18, 2005

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U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

DATE: May 18, 2005

REPLY TO
ATTN OF: Great Lakes Region Field Audit Office (JA-5)

SUBJECT: Review of Federal Technology Service's Client Support Center
Controls and Testing of Controls – Southeast Sunbelt Region
Report Number A050009/T/5/Z05021

TO: Jimmy H. Brigeman
Acting Regional Administrator (4A)

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

This report presents the results of the Office of Inspector General's audit of the Federal Technology Service (FTS) Client Support Center (CSC) in the Southeast Sunbelt Region (Region 4). The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) directed the Inspectors General of the General Services Administration (GSA OIG) and the Department of Defense (DOD OIG) to jointly perform a review of each FTS CSC and determine whether each CSC is compliant, not compliant, or not compliant but making significant progress, with Defense procurement requirements.

Objectives, Scope and Methodology

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed between August 1, 2004 and October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders. For the Southeast Sunbelt Region, our sample included 17 new awards and five existing orders, valued at \$147 million and \$258 million, respectively. The audit was conducted between October 2004 and March 2005, in accordance with generally accepted Government auditing standards.

Results of Audit

We determined the Region 4 CSC to be not compliant but making significant progress. The Region has implemented national controls identified in the Administrator's "Get it

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compliance deficiencies, including one with potential financial impact. In our review of existing orders, we found that three orders had prior deficiencies and inadequate remediation progress. As directed in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, because the CSC is not fully compliant, we are required to perform a subsequent audit of CSC contracting practices by March 2006 to determine whether the CSC has become compliant.

Procurement Compliance Deficiency with Potential Financial Impact. We identified a \$4.3 million schedule order for services that was negotiated as a time and materials (T&M) contract. Federal Acquisition Regulation (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.” The order also included four option years which showed that estimated labor classifications and labor hours remained consistent from year to year. Repetitive or redundant contract requirements should be awarded under a firm fixed price type of contract, which is preferred by the FAR. Also, the interagency agreement for this task order was prepared after the award.

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

- Two commodity orders for \$217,000 and \$270,000 did not have Interagency Agreements.
- Three service orders for \$5.3 million, \$919,000 and \$387,000 did not have quality assurance surveillance plans (QASP’s). FAR 37.602-2 states that “Agencies shall develop quality assurance surveillance plans when acquiring services.” QASP’s define the contractor oversight functions performed by the Government.

Existing Order Procurement Deficiencies. We identified three existing orders that had deficiencies. A remediation plan for the orders was not prepared.

- A \$46.1 million task order for services had inadequate documentation in support of the best value determination for equipment purchased. In addition, the order did not have a ceiling amount as required by FAR 16.6. There were additional file documentation issues and a QASP was not available for this order.
- A \$20.5 million task order for services was awarded with inadequate competition and a lack of support for the best value determination. The task order was procured sole source as a logical follow-on to a prior sole source contract. However, FTS could not provide documentation supporting the original sole source procurement. The contractor proposed a firm fixed price, however, FTS awarded a T&M order. The task order also exhibited large cost growth (\$1.5 million to \$20 million) and there was no QASP.

- A \$131.6 million task order for services was awarded on a T&M basis. However, the labor costs remained fairly consistent from year to year. Repetitive type contract requirements are conducive to the more favorable firm fixed price type of contracting. Although the task order called for significant labor expenditures, a QASP was not available. We also determined that some of the contractor's billing rates were not found in the underlying Schedule contract.

Conclusion

While not fully compliant, we found that the Southeast Sunbelt Region CSC has made significant progress in implementing controls to ensure compliance with procurement regulations. The CSC has implemented national controls identified in the Administrator's "Get It Right" Plan and improved its overall contracting practices. We found that all orders reviewed were awarded in accordance with Section 803 of the National Defense Authorization Act for Fiscal Year 2002. However, we did find procurement compliance deficiencies in six new orders, including one with potential financial impact, and three existing orders that had prior deficiencies with inadequate remediation. As stated in our January 2004, report on the FTS CSCs, we believe that steps to remedy the CSC procurement problems require a comprehensive, broad-based strategy that focuses on the structure, operations and mission of FTS as well as the control environment. Based on the comprehensive recommendations contained in that report, no further overall recommendations are deemed necessary at this time.

Management Comments

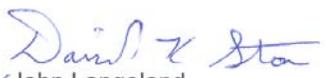
We obtained agency comments throughout our audit work, providing a draft written summary of our findings on each order to FTS regional officials for their written comments, which we incorporated into our analysis, as appropriate. We also provided a draft of this letter report to regional officials. In his response, the Acting Regional Administrator acknowledged the issues raised in the draft report and submitted a remediation plan of action. Management's response is included in its entirety as Attachment 1 to this report.

Internal Controls

We assessed the internal controls relevant to the CSC's procurements to assure that the procurements were made in accordance with the FAR and the terms and conditions of the contracts utilized. While we have seen substantial improvements in internal controls, FTS will need to continue their commitment to the "Get It Right" Plan and to

implementation of effective controls over procurement processes to ensure full compliance by March 2006.

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

for 
John Langeland
Audit Manager
Great Lakes Region

Attachments

MANAGEMENT RESPONSE

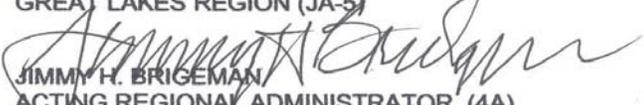
GSA Southeast Sunbelt Region

May 2, 2005

MEMORANDUM FOR

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

FROM:


JIMMY H. BRIGEMAN
ACTING REGIONAL ADMINISTRATOR, (4A)

SUBJECT:

Review of FTS Client Support Center Controls and
Testing of Controls – Southeast Sunbelt Region
Report Number A050009

Thank you for the opportunity to review and provide supporting comments on the draft audit report. The results of the audit affirm that we have implemented national controls identified in the "Get it Right" Plan, and continue to improve our overall contracting practices.

In line with the "Get It Right" Plan, we remain committed to ensure that management controls and tests of controls are adequate to provide assurances that procurements are conducted in accordance with Federal Acquisition Regulations (FAR), policies, and contract terms and conditions. Accordingly, we present the attached supporting remediation corrective plan of action on each task order identified in the audit report to be included as an appendix to the report.

Maintaining our focus with the "Get it Right", we have recently delineated pre and post award functions within our Client Support Center (CSC). Formal training was provided locally April 11-13, 2005 to the associates primarily performing pre award duties. During February 28, 2005 through March 3, 2005, formal training was provided locally to the associates primarily performing post award duties. As a result, there is significant structure to our procurement process to ensure compliance with appropriate laws, regulations, policies and procedures.

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MANAGEMENT RESPONSE

- 2 -

We developed an automated workflow process/tool called the "e-Approval" to manage the review and approval process of contract and task order actions. The e-Approval application automates the pre and post-award documentation review and approval processes. It is simple and fast and gives the organization complete management control and oversight. Other GSA regions have implemented and modeled our best practice.

We have implemented immediate application of the below "Get it Right" Plan objectives throughout the SESB including the CSC. Non-compliance is unacceptable!

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.
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, Office of Management and Budget (OMB), Congress, and other stakeholders, regarding the use of GSA contracting vehicles and services.

Again, we appreciate the opportunity to review this important audit and extend our appreciation to members of the audit team for their efforts and open dialogues during the audit. Their effort and work indeed represent an important contribution to our commitment of the "Get it Right" Plan and in improving our management controls and test of those controls.

MANAGEMENT RESPONSE

SESB, GSA, FTS
 GSA/DOD IG Audit Findings
 Remediation Plan

Task Order	IG Finding	Remediation Action
4TWP21047855	T&M Order with 4 options with estimated labor classifications/hours consistent from year to year, and IA prepared after award	<p>Pursuant to FAR 16.601, a written determination was completed prior to award and contained the supporting basis that T&M is the most appropriate type for this project. Prior to exercising any options, the contracting officer will make a determination pursuant to FAR17.207 requirements. Region 4 FTS Policy requires the option to be accompanied by the determination and submitted via e-Approval for review and approval. According to the FTS Commissioner's 6/7/04 Financial Guidance, a reimbursable agreement is formalized in a number of ways such as an Interagency Agreement (IA), a Memorandum of Agreement (MOA), or a Memorandum of Understanding (MOU) with an accompanying customer funding document and FTS acceptance.</p> <p>Remediation Action: During 11/04, e-Approval was modified to require option to be submitted via e-Approval with a determination. Appropriate review and approval are required for an option including the determination. During 3/05, e-Approval was modified to require a MOU for all Pre RFQ requests. As a result, a MOU must be in place prior to task order award.</p>

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MANAGEMENT RESPONSE

SESB, GSA, FTS
 GSA/DOD IG Audit Findings
 Remediation Plan

4TFHF21057016	No IA	<p>The MOU was completed 9/1/04 and copy posted to the official file in ITSS. According to the FTS Commissioner's 6/7/04 Financial Guidance, a reimbursable agreement is formalized in a number of ways such as an Interagency Agreement (IA), a Memorandum of Agreement (MOA), or a Memorandum of Understanding (MOU) with an accompanying customer funding document and FTS acceptance. Remediation Action: During 3/05, e-Approval was modified to require a MOU for all Pre RFQ requests. As a result, a MOU must be in place prior to task order award.</p>
4THG21046388	No IA	<p>Task Order ended 10/28/04. According to the FTS Commissioner's 6/7/04 Financial Guidance, a reimbursable agreement is formalized in a number of ways such as an Interagency Agreement (IA), a Memorandum of Agreement (MOA), or a Memorandum of Understanding (MOU) with an accompanying customer funding document and FTS acceptance. Remediation Action: During 3/05, e-Approval was modified to require a MOU for all Pre RFQ requests. As a result, a MOU must be in place prior to task order award.</p>
4TNG17042020	No QASP	<p>Remediation Action: The QASP was completed 4/22/05 and added to the official file in ITSS. Region 4 FTS provided training to associates 2/28/05 -3/2/05 and 4/1/05 thru 4/13/05, and implemented policy for QASPs to be developed in accordance with FAR 37.602-2 for PBSOW and FAR 46.401(a) for non-PBSOW. During 4/05, e-Approval was modified to require a QASP for all Pre Award requests.</p>

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MANAGEMENT RESPONSE

SESB, GSA, FTS
GSA/DOD IG Audit Findings
Remediation Plan

4TEP21052446	No QASP	<p>Remediation Action: The QASP was completed 4/27/05 and added to the official file in ITSS. Region 4 FTS provided training to associates 2/28/05 -3/2/05 and 4/11/05 thru 4/13/05, and implemented policy for QASPs to be developed in accordance with FAR 37.602-2 for PBSOW and FAR 46.401(a) for non-PBSOW. During 4/05, e-Approval was modified to require a QASP for all Pre Award requests.</p>
4TCG75044047	No QASP	<p>The QASP was being finalized during the audit review and was completed 1/31/2005 and added to the official file in ITSS. Remediation Action: Region 4 FTS provided training to associates during 2/28/05 - 3/2/05 and 4/11/05 - 4/13/05, and implemented policy for QASPs to be developed in accordance with FAR 37.602-2 for PBSOW and FAR 46.401(a) for non-PBSOW. During 4/05, e-Approval was modified to require a QASP for all Pre Award requests.</p>
4TEB21032533	Inadequate documentation in support of best value determination for equipment, no ceiling amount, file documentation issues, and no QASP	<p>The ceiling price was not initially annotated on the task order initial award document (Form 300). But it was discovered by the CO prior to the task order review by the IG audit and was correctly documented on the modifications document (Form 30s) pursuant to FAR 16. Remediation Action: Additional ODC purchases have been drastically reduced for this task order. The QASP was completed 4/8/2005 and added to the official file in ITSS. Region 4 FTS provided training to associates April 11 -13, 2005 on adequate documentation in support of best value determination, T&M ceiling amount on award document and QASP. During 4/05, e-Approval was modified to require a QASP for all Pre Award requests.</p>

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MANAGEMENT RESPONSE

SESB, GSA, FTS
 GSAD/DOD IG Audit Findings
 Remediation Plan

4TEG21037007	<p>Inadequate competition and lack of support for best value determination, no documentation supporting original sole source order, large cost growth, and no QASP.</p>	<p>Task order ended 3/31/05. The original Sole Source Justification has been obtained from the Army agency. Remediation Action: Region 4 FTS provided training to associates 2/28/05 -3/2/05 and 4/1/05 thru 4/13/05 on competition requirements, best value determinations, sole source orders, scope changes/cost growth and QASPs. Region 4 FTS Policy requires these actions and documentation to be submitted via e-Approval for review and approval. Region 4 FTS implemented policy for QASPs to be developed in accordance with FAR 37.602-2 for PBSOW and FAR 46.401(a) for non-PBSOW. During 4/05, e-Approval was modified to require a QASP for all Pre Award requests.</p>
4TWMG21023134	<p>T&M order with labor costs fairly consistent from year to year, no QASP, and some of the billing rates were not found on the Schedule contract</p>	<p>Pursuant to FAR 16.601, a written determination was completed prior to award and contained the supporting basis that T&M is the most appropriate type for this project. Prior to exercising any options, the contracting officer will make a determination pursuant to FAR17.207 requirements. Remediation Action: The QASP was completed 3/30/2005 and added to the task order official file in ITSS. Region 4 FTS has implemented policy for QASPs to be developed in accordance with FAR 37.602-2 for PBSOW and FAR 46.401(a) for non-PBSOW. During 4/05, e-Approval was modified to require a QASP for all Pre Award requests. Region 4 FTS provided training to associates 2/28/05 -3/2/05 and 4/1/05 thru 4/13/05 on QASPs and the regional process on performing verification of contractor billing costs and labor rates against its schedule contract.</p>

4/29/2005 11:57 AM

REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER
CONTROLS AND TESTING OF CONTROLS
GREAT LAKES REGION
REPORT NUMBER A050009/T/5/Z05023

MAY 18, 2005

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REVIEW OF
FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER CONTROLS
AND TESTING OF CONTROLS
GREAT LAKES REGION
REPORT NUMBER A050009/T/5/Z05023

MAY 18, 2005

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U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

DATE: May 18, 2005

REPLY TO
ATTN OF: Great Lakes Region Field Audit Office (JA-5)

SUBJECT: Review of Federal Technology Service's Client Support Center
Controls and Testing of Controls – Great Lakes Region
Report Number A050009/T/5/Z05023

TO: James C. Handley
Regional Administrator (5A)

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

This report presents the results of the Office of Inspector General's audit of the Federal Technology Service (FTS) Client Support Center (CSC) in the Great Lakes Region (Region 5). The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) directed the Inspectors General of the General Services Administration and the Department of Defense to jointly perform a review of each FTS CSC and determine whether each CSC is compliant, not compliant, or not compliant but making significant progress, with Defense procurement requirements.

Objectives, Scope and Methodology

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed between August 1, 2004 and October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders. For the Great Lakes Region, our sample included ten new awards and three existing orders, valued at \$6.1 million and \$75.8 million, respectively. The audit was conducted between November 2004 and March 2005, in accordance with generally accepted Government auditing standards.

Results of Audit

We determined the Region 5 CSC to be not compliant but making significant progress. The Region has implemented national controls identified in the Administrator's "Get it Right" Plan, and has improved its overall contracting practices, compared with our past audit findings. For example, we found no instances of non-compliance with the competition requirements of Section 803 of the National Defense Authorization Act for Fiscal Year, 2002. However, we found two new orders that had procurement

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compliance deficiencies, including one with potential financial impact. In our review of existing orders, we found that one order with prior deficiencies did not have adequate remediation. In addition, this order had been inappropriately modified without price justification to add work beyond the original scope. As directed in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, because the CSC is not fully compliant, we are required to perform a subsequent audit of CSC contracting practices by March 2006, to determine whether the CSC has become compliant.

Procurement Compliance Deficiency with Potential Financial Impact. We identified a \$54,965 schedule order for analytical support that was awarded without a best value determination or support for billings analysis as required by Federal Acquisition Regulation (FAR) 8.404. The statement of work required the contractor to provide technical and economic analysis and technical expertise for the client agency. The Project Manager for this task estimated the labor rates based on historical knowledge; however, no independent government estimate or pricing analysis was prepared for this order.

Other Procurement Compliance Deficiencies. We identified one order that had a procurement compliance deficiency with no potential financial impact. The \$695,400 order for assistance to implement a new web-based Commercial Asset Viability System had no quality assurance surveillance plan (QASP) as of the date of award. In accordance with FAR 46.401, a QASP should be prepared in conjunction with the statement of work and incorporated into the task order file to assure that the Government receives the services that are paid for. The CSC subsequently added the QASP to the file at the kickoff meeting with the client.

Inadequate Remediation. As part of our review of current modifications to existing orders, we reviewed an \$11.2 million order awarded in September 2002, to support the development and maintenance of planning documents in support of client transformation initiatives. Our review of this order identified numerous deficiencies, including an unjustified sole source award, inadequate best value determination, no additional discount requested, or received (although the order was over the maximum order threshold) and, inappropriate use of the IT Fund. The CSC had performed no remediation on this task order as of the date of our review.

Existing Order Procurement Deficiency. We identified an inappropriate \$4.1 million modification to the existing \$11.2 million schedule order noted above. The additional work under the modification was not within the original scope of work, and the CSC did not perform any pricing analysis.

Conclusion

While not fully compliant, we found that the Great Lakes Region CSC has made significant progress in implementing controls to ensure compliance with procurement regulations.

The CSC has implemented national controls identified in the Administrator's "Get It Right" Plan and improved its overall contracting practices. We found no instances of non-compliance with the competition requirements of Section 803 of the National Defense Authorization Act for Fiscal Year, 2002. However, we did find procurement compliance deficiencies in two new orders, including one with potential financial impact, and one existing order that was improperly modified to include work beyond the original scope.

As stated in our January 2004 report on the FTS CSCs (Report Number A020144/T/5/Z04002), we believe that steps to remedy the CSC procurement problems require a comprehensive, broad-based strategy that focuses on the structure, operations and mission of FTS as well as the control environment. Based on the comprehensive recommendations contained in that report, no further overall recommendations are deemed necessary at this time.

Management Comments

We obtained agency comments throughout our audit work, providing a draft written summary of our findings on each order to FTS regional officials for their written comments, which we incorporated into our analysis as appropriate. We also provided a draft of this letter report to Regional officials. On April 26, 2005, the Great Lakes Regional Administrator responded to this report, taking no exception to the report as prepared. Management's response is included in its entirety as Attachment 1 to this report.

Internal Controls

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

If you have any questions regarding the report, please contact David Stone or me at (312) 353-7781, extensions 110 or 113, respectively.

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

Attachments

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MANAGEMENT RESPONSE



GSA Great Lakes Region

May 2, 2005

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

FROM: JAMES C. HANDLEY 
REGIONAL ADMINISTRATOR
GREAT LAKES REGION – 5A

SUBJECT: Response to Draft Report
Review of FTS Client Support Center,
Region 5 (Audit No. A050009)

Thank you for the opportunity to review the subject report.

The Regional Office has no comments, beyond those provided to your office by Regional FTS personnel during the development of this report, to make regarding this document.

Please contact me with any questions regarding this matter.

cc: T / 5T / 5L



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

MAY 18, 2005

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REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
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MAY 18, 2005

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U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

DATE: May 18, 2005

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

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

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

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

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

Objectives, Scope and Methodology

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

Results of Audit

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

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

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

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

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

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

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

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

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

Conclusion

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

Management Comments

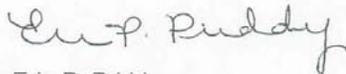
We obtained agency comments throughout our audit work, providing a draft written summary of our findings on each order to FTS regional officials for their written comments, which we incorporated into our analysis as appropriate. We also provided a draft of this letter report to Regional officials. On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

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

Internal Controls

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

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



Erin P. Priddy
Audit Manager
Heartland Region

Attachments

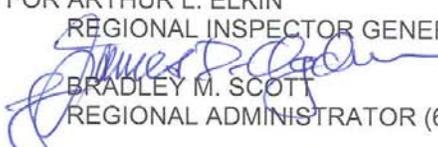
MANAGEMENT RESPONSE

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

April 26, 2005

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

FROM


BRADLEY M. SCOTT
REGIONAL ADMINISTRATOR (6A)

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

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

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

cc: 6T



Bradley M. Scott
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bradley.scott@gsa.gov

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REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER CONTROLS AND
TESTING OF CONTROLS
GREATER SOUTHWEST REGION
REPORT NUMBER A050009/T/7/Z05015

MAY 18, 2005

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REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
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GREATER SOUTHWEST REGION
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General Services Administration
Office of Inspector General
819 Taylor Street
Fort Worth, TX 76102



Date: May 18, 2005

Reply To
Attn Of: Greater Southwest Region Field Audit Office (JA-7)

Subject: Review of Federal Technology Service's
Client Support Center Controls and Testing of Controls
Greater Southwest Region
Report Number A050009/T/7/Z05015

To: Scott Arney
Regional Administrator (7A)

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

This report presents the results of the Office of Inspector General's audit of the Federal Technology Service (FTS) Client Support Center (CSC) in the Greater Southwest Region (Region 7). The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) directed the Inspectors General of the General Services Administration (GSA OIG) and the Department of Defense (DOD OIG) to jointly perform a review of each FTS CSC and determine whether each CSC is compliant, not compliant, or not compliant but making significant progress, with Defense procurement requirements.

Objectives, Scope, and Methodology

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed between August 1, 2004, and October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders. For the Region 7 CSC, our sample included 14 new awards and 4 existing orders, valued at \$105.9 million and \$2.8 million, respectively. The audit was conducted between October 2004 and March 2005, in accordance with generally accepted Government auditing standards.

Results of Audit

We determined the Region 7 CSC to be not compliant but making progress and considered close to compliant. The Region 7 CSC has implemented national controls identified in the Administrator's "Get it Right" initiative, and has improved its overall contracting practices, compared to our past audit findings. We found no instances of non-compliance with the competition requirements of Section 803 of the National Defense Authorization Act for Fiscal Year 2002. Furthermore, we found the Region 7 CSC had taken appropriate steps to remediate past problems. However, we found a new order that had a procurement compliance deficiency with limited potential financial impact. In addition, as a result of a DOD OIG referral, we found one task order in which the Region 7 CSC exercised an option early for severable services with prior year funds. As directed in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, because the CSC is not fully compliant, we are required to perform a subsequent audit of CSC contracting practices by March 2006 to determine whether the CSC has become compliant.

Procurement Compliance Deficiency with Limited Potential Financial Impact We identified a schedule order for \$598,041 for a desktop trainer that was awarded without requesting discounts as required by Federal Acquisition Regulation (FAR) Part 8.4 when orders exceed the maximum order threshold (MOT) of the schedule contract. The FAR requires, for higher dollar value purchases over the MOT, that discounts be specifically requested given the larger dollar value of the purchase. Because the dollar value of the task order was only \$598,000, the potential financial impact was not significant.

Significant Funding Issue The Region 7 CSC issued a modification in September 2004 for \$1.6 million to exercise an option year, 4 months early, to utilize FY 2002 and 2003 residual funds. According to contract documentation and regional officials, the prior year funding was residual funding from several other task orders for other projects and was at risk of being lost due to changes in GSA's long standing practices governing the use of the Information Technology (IT) Fund. The use of prior year funding from other task orders to fund a task order in FY 2004 for severable services to be performed in FY 2005 was inappropriate, although we recognized that various guidance issued to CSC staff might not have been clear.

Conclusion

While not fully compliant, we found that the Region 7 CSC has made significant progress in implementing controls to ensure compliance with procurement regulations. The CSC has implemented national controls identified in the Administrator's "Get It Right" initiative and improved its overall contracting practices. As stated in the January 2004 report on the FTS CSCs, we believe that steps to remedy the CSC procurement problems require a comprehensive, broad-based strategy that focuses on the structure, operations, and mission of the CSCs as well as the control environment. Based on the

comprehensive recommendations contained in that report, no further overall recommendations are deemed necessary at this time.

Management Comments

We obtained agency comments throughout our audit work, providing a draft written summary of our findings on each order to FTS regional officials for their written comments, which we incorporated into our analysis as appropriate. We also provided a draft of this letter report to regional officials. In his April 29, 2005, response, the Regional Administrator stated the Greater Southwest Region had no comments or additional information. Management's response is included in its entirety as Attachment 1 to this report.

Internal Controls

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

If you have any questions regarding the report, please contact Grace McIver or me at (817) 978-2571.


Joseph C. Smith, Jr.
Audit Manager
Greater Southwest Region

Attachments

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MANAGEMENT RESPONSE

GSA Greater Southwest Region

DATE : April 29, 2005

MEMORANDUM FOR: Greater Southwest Regional Field Audit Office (JA-7)

FROM: Scott Arney *SA*
Regional Administrator (7A)SUBJECT: Greater Southwest Regional Field Audit Office (JA-7)
Client Support Center Controls and Testing of
Controls Greater Southwest Region
Report Number A050009/T/7/xxxx

This office has reviewed the draft report from the Office of Inspector General's audit of the Federal Technology Service (FTS) Client Support Center (CSC) in the Greater Southwest Region (Region 7). After a thorough review of this draft report we have no comments or additional information.

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REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER
CONTROLS AND TESTING OF CONTROLS
ROCKY MOUNTAIN REGION
REPORT NUMBER A050009/T/6/Z05017

MAY 18, 2005

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REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER
CONTROLS AND TESTING OF CONTROLS
ROCKY MOUNTAIN REGION
REPORT NUMBER A050009/T/6/Z05017

MAY 18, 2005

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U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

DATE: May 18, 2005

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

SUBJECT: Review of Federal Technology Service's Client Support
Center Controls and Testing of Controls—Rocky Mountain Region
Report Number A050009/T/6/Z05017

TO: Larry E. Trujillo, Sr.
Regional Administrator (8A)

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

This report presents the results of the Office of Inspector General's audit of the Federal Technology Service (FTS) Client Support Center (CSC) in the Rocky Mountain Region (Region 8). The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) directed the Inspectors General of the General Services Administration (GSA OIG) and the Department of Defense (DOD OIG) to jointly perform a review of each FTS CSC and determine whether each CSC is compliant, not compliant, or not compliant but making significant progress, with Defense procurement requirements.

Objectives, Scope and Methodology

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed between August 1, 2004 through October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders. For the Region 8 CSC, our sample included 12 new awards and 2 existing orders, valued at \$30.8 million and \$109.6 million, respectively. The audit was conducted between October 2004 and March 2005, in accordance with generally accepted Government auditing standards.

Results of Audit

We determined the Region 8 CSC to be not compliant but making significant progress. The Region has implemented national controls identified in the Administrator's "Get It

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Right” Plan, and has improved its overall contracting practices, compared with our past audit results. We found no instances of non-compliance with the competition requirements of Section 803 of the National Defense Authorization Act for Fiscal Year 2002. However, we did find 4 new orders that had procurement compliance deficiencies, including one order with limited potential financial impact. Our review of the two existing orders indicated that both orders had prior deficiencies and the CSC had not yet defined remediation plans. In addition, the CSC modified one existing order during the audit period to include a revised statement of work (SOW) with no explanation. As directed in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, because the CSC is not fully compliant, we are required to perform a subsequent audit of CSC contracting practices by March 2006 to determine whether the CSC has become compliant.

Procurement Compliance Deficiency with Limited Potential Financial Impact. We identified a \$205,000 schedule order for hardware and software systems support that only had one bid and was awarded without support for best value determination. There was a large difference between the labor hours proposed and those listed on the Independent Government Cost Estimate, and neither FTS nor the client addressed the level of effort in their evaluations of the proposal to establish the reasonableness of the total price for labor.

Other Procurement Compliance Deficiencies. We identified three orders that had procurement compliance deficiencies without potential financial impact.

- A \$252,000 schedule order for installation of audio-visual systems was not evaluated in accordance with the SOW evaluation criteria, which was past performance and cost. File documentation indicates that the evaluation was based on cost, technical approach, and past performance. There is no financial impact because FTS selected the lowest priced proposal.
- A \$1.6 million schedule order for management systems support had option years identified in the SOW and the proposal but were not identified on the GSA Form 300. The GSA Form 300 did not contain detail of option years, period of performance and ceiling amount.
- A \$621,000 schedule order for waste management services and software support did not have a Memorandum of Understanding in the file nor was the ceiling amount identified on the GSA Form 300.

Existing Orders Procurement Deficiencies. Both existing orders had prior deficiencies; however, the CSC did not have defined remediation plans. In addition, the CSC modified one of the existing orders to include a revised SOW with no explanation.

- A \$74 million Answer contract order for enterprise network and telecommunications requirements and programs support had prior procurement deficiencies including inadequate best value determination, no justification for

use of a time-and-materials type contract, no ceiling amount, improper execution of contract options, and inadequate contract oversight. During the sample period, the CSC modified this order to revise the SOW. However, FTS was not able to provide adequate support for why the SOW was revised. FTS stated that this order was “dead” effective February 28, 2005, however, FTS did not provide information relative to plans for continuing the work once this task ended (e.g., a plan for re-competition).

- A \$35.3 million Millennia contract order for operational support had prior procurement deficiencies including an inadequate best value determination, improper execution of contract options, and inadequate contract oversight. FTS did not provide supporting documentation indicating adequate remediation progress for this order.

Conclusion

While not fully compliant, we found that the Region 8 CSC has made significant progress in implementing controls to ensure compliance with procurement requirements. The CSC has implemented national controls identified in the Administrator’s “Get It Right” Plan and improved its overall contracting practices. However, we did find procurement compliance deficiencies in 4 new orders, including 1 with limited potential financial impact, and 2 existing orders that did not have defined remediation plans and one existing order had been modified to include a revised SOW with no explanation. As stated in our January 2004 report on the FTS CSCs, we believe that steps to remedy the CSC procurement problems require a comprehensive, broad-based strategy that focuses on the structure, operations and mission of FTS as well as the control environment. Based on the comprehensive recommendations contained in that report, no further overall recommendations are deemed necessary at this time.

Management Comments

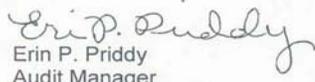
We obtained agency comments throughout our audit work, providing a draft written summary of our findings on each order to FTS regional officials for their written comments, which we incorporated into our analysis as appropriate. We also provided a draft of this letter report to Regional officials. On May 9, 2005, the Rocky Mountain Region Regional Administrator responded to this report, taking no exception to the report as prepared. Management’s response is included in its entirety as Attachment 1 to this report.

Internal Controls

We assessed the internal controls relevant to the CSC’s procurements to assure that the procurements were made in accordance with the Federal Acquisition Regulation and the terms and conditions of the contracts utilized. While we have seen substantial

improvements in internal controls, FTS will need to continue their commitment to the "Get It Right" Plan and to implementation of effective controls over procurement processes to ensure full compliance by March 2006.

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


Erin P. Priddy
Audit Manager
Heartland Region

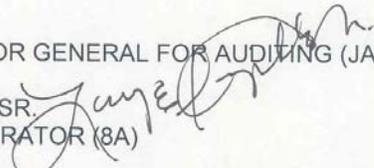
Attachments

MANAGEMENT RESPONSE

U.S. General Services Administration

May 9, 2005

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

FROM: LARRY E. TRUJILLO, SR. 
REGIONAL ADMINISTRATOR (8A)

SUBJECT: Draft Report – Review of Federal Technology Service's Client
Support Center Controls and Testing of Controls – Rocky
Mountain Region Report NumberA050009

We have reviewed the subject report and have had discussions with you concerning the report. Please note that we take no exceptions to the report as written. We believe that it is important to note that the interaction with your office has been a very positive one in which the quality of our acquisition and service to our client have greatly benefited. We feel that opportunities lie in the findings of this report for us to focus on critical acquisition functions and achieve even greater levels of quality and compliant acquisitions in support of our client's missions.

We would like to thank you for your report and your constant display of professionalism and cooperation. We believe that this continued relationship will be fruitful to all stakeholders. Please also note that in the spirit of "Get it Right" we have included an action plan which will serve as the basis for our continued acquisition enhancement, effectiveness and efficiency to best serve our Agency Clients and the United States Taxpayers.



Rocky Mountain Region
Office of the Regional Administrator
P.O. Box 25006
Building 41, Room 200
Denver Federal Center
Denver, CO 80225-0006
Voice: 303 236 7329
Fax: 303 236 7280

MANAGEMENT RESPONSE

Region 8, FTS
Action Plan
In Response To
Draft Proposed Report of the Office of
Inspector General, report number
A050009
Conducted by
Office of the Chief Acquisition Officer
and the Department of Defense

Paul Ross
Acquisition Director

MANAGEMENT RESPONSE

Response: GSA, RMR FTS has reviewed the OIG's comments in detail and we accept the finding with no exceptions to the reported findings. One noted concern to the findings was a lack of "...supporting documentation indicating adequate remediation progress for this order." Again, while we agree with all of the findings and note that each of the contract actions that have a remediation plan, the remediation may dictate that no further action be taken. For remediation plans that do possess contracting irregularities or issues, the respective remediation plans may dictate that no further action on a task order be taken on those that have ended (also referred to as "dead"). If that is the case and the task order is "dead" the next action that a contracting officer may take and evidence of such should be in the file is to move forward conveying this message to the client, contractor and work towards close out.

We also agree with the findings from the report on progress, for example the comments in the Internal Control portion of the report:

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

We, GSA, RMR FTS looks forward to really getting it right and continues to provide best practices to our process that will support this effort. In particular, we have most recently conducted a preaward training session (subjects include sample documents, forms, letters and discussion on the changes on funding by the Funds Manager) updated the tab cover pages to the contract file and we will continue to update the tabs to include to obtain required documentation and indicate where it should be added to the contract file.

We are planning to add to the training schedule post award, in particular, contract administration and have the contracting officer play a more active role in the entire process. In addition, we have six (6) contracting officers (one contracting officer on loan from PBS for an extended time and an additional contract specialist without a warrant at this time) with an addition contracting officer receiving a warrant within a few days. Our current total of FTE contract specialist is 8. We also will be adding to the contracting officer/contract specialist numbers through announcement that are in the working and we have 3 temporary contract specialist from FedSource, 6 contract specialist from a one year contract with options. This brings our total of contract specialist, including contracted support, to 17. We report this information in order to show some of the progress and the commitment that management has made to "Get It Right".

We are also developing a desk reference/ acquisition guide for all GSA, FTS, Region 8 staff to have available for a reference. This guide will be a working guide and we welcome your review of the guide regardless to where we are in the process. Finally, we welcome the return to GSA, RMR FTS to assist our efforts and your commitment to provide support to the GSA effort to "Get It Right". Your assistance has been most

MANAGEMENT RESPONSE

beneficial in directing corrective actions, progress and providing focus on a variety of actions.

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

MAY 18, 2005

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

MAY 18, 2005

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U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

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

Date: May 18, 2005

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

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

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

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

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

Objectives, Scope and Methodology

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

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Results of Audit

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

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

Procurement Compliance Deficiencies

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

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

Existing Orders Procurement Deficiencies

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

For the third order with prior deficiencies, the CSC had remediation plans in place, but the plans had not yet been fully implemented at the time of our review. Deficiencies included: (i) no support for fair and reasonable pricing for the ODCs originally proposed (76 percent of the total \$158 million task order value); (ii) no justification for use of a Time and Materials task order, (iii) an inadequate Statement of Work; (iv) use of incorrect contract vehicle; (v) improper period of performance extensions; and (vi) no quality assurance plans. In addition, the task order did not have price support for the two of the three modifications issued during our review period.

Significant Funding Issue

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

Conclusion

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

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

Management Comments

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

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

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

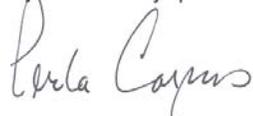
Office of Inspector General's Response

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

Internal Controls

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

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



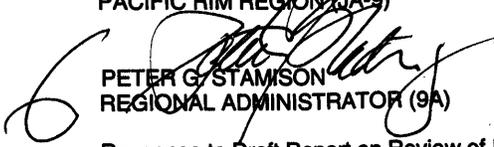
PERLA CORPUS
Audit Manager
San Francisco Field Audit Office

MANAGEMENT RESPONSE

GSA Pacific Rim Region

May 10, 2005

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

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

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

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

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

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

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

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

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REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER
CONTROLS AND TESTING OF CONTROLS
NORTHWEST/ARCTIC REGION
REPORT NUMBER A050009/T/9/Z05022

MAY 18, 2005

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REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
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MAY 18, 2005

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U.S. General Services Administration
Office of Inspector General



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

Date: May 18, 2005

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

Subject: Review of Federal Technology Service's Client Support Center
Controls and Testing of Controls - Northwest/Arctic Region
Report Number A050009/T/9/Z05022

To: Robin G. Graf
Acting Regional Administrator (10A)

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

This report presents the results of the Office of Inspector General's audit of the Federal Technology Service (FTS) Client Support Center (CSC) in the Northwest/Arctic Region (Region 10). The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) directed the Inspectors General of the General Services Administration and the Department of Defense to jointly perform a review of each FTS CSC and determine whether each CSC is compliant, not compliant, or not compliant but making significant progress with Defense procurement requirements.

Objectives, Scope and Methodology

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed from August 1, 2004 to October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders. For the Northwest/Arctic Region CSC, our sample included 16 new awards and two existing orders, valued at \$33 million and \$116 million, respectively. The audit was conducted between October 2004 and March 2005, in accordance with generally accepted Government auditing standards.

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

Results of Audit

We determined the Region 10 CSC to be not compliant but making significant progress. The Region has implemented national controls identified in the Administrator's Get It Right Plan, and has improved its overall contracting practices, compared with our past audit findings. For example, we did not find any instances of non-compliance with the competition requirements of Section 803 of the National Defense Authorization Act for FY 2002. However, we found one new order with procurement compliance deficiencies with limited potential financial impact, and compliance deficiencies for another new order but with no financial impact. In our review of existing orders, we found two with procurement deficiencies for which the CSC had not made adequate remediation progress.

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

Procurement Compliance Deficiency with Limited Potential Financial Impact. For a new, sole-source order valued at \$1.25 million and awarded to improve engineering design process, no discount was requested or received after exceeding the maximum order threshold (MOT) for the schedule contract. In the pre-negotiation memorandum, FTS erroneously stated that the contractor offered a discount of 3.48 percent upon exceeding the MOT. However, the contractor actually indicated that the Federal Supply Service's schedule prices had already represented a 3.48 percent discount off its commercial, non-governmental rates. Because of the erroneous assumption, FTS did not pursue the discounts as required by procurement regulations.

Other Procurement Compliance Deficiencies. We identified procurement problems with seven new orders placed against a Blanket Purchase Agreement (ceiling price of \$175 million) with Schedule 70 contractors. These seven orders represented \$55 million of the \$68 million (or 81 percent) awarded during the sample period to support technical areas, ranging in scope from the acquisition of unspecified hardware, software, cable and wiring to user support and help desk operations, training and systems engineering. Given the size and complexity of the procurement, the Office of General Counsel (OGC) advised FTS that an imposed one-week deadline was insufficient to complete an adequate legal review. The legal review, prepared subsequent to award, indicated that FTS did not provide all pertinent documents such as underlying evaluation documents, past performance evaluation scorecards, or the proposals themselves. The legal review also disclosed the following errors associated with the source selection decision: (i) no source selection plan for evaluating the proposals received in response to the Request

for Quotation; (ii) no pre-evaluation standard developed; (iii) overall ranking and method for selecting offerors not clearly described; and (iv) evaluation of price not adequately addressed. The OGC further noted its concerns regarding the broad scope of the Blanket Purchase Agreement citing serious risk that due to the procurement's size, scope, duration, and limited number of awards, the transaction might be considered anti-competitive. While no bid protests occurred, documentation did not support that FTS adequately addressed the OGC concerns.

Existing Order Procurement Deficiencies. For two task orders, we identified procurement deficiencies involving inadequate remediation efforts and improper billings, respectively. The first order, which supported data center services, has a potential value of \$104 million. Problems at award included: (i) inadequate price support; (ii) no justification for use of a Time and Materials task order; (iii) no evidence of price negotiation to obtain discounts; and (iv) significant variances between the Independent Government Estimate and the vendor's proposal for the level of effort. FTS had recognized the prior deficiencies and had begun discussions with the client agency. However, FTS did not develop a formal remediation plan to clearly demonstrate management's commitment and to assure that the necessary steps will be carried out. The second order, which provided information technology support for counter-intelligence field activity, totaled \$8.3 million. Performance was completed in November 2004. However, we determined that nine labor categories that were not proposed and/or included in the vendor's base contract were improperly billed for approximately \$600,000. We informed FTS of the improper billing in January 2005, but as of the completion of our fieldwork, FTS had not yet notified the contractor to resolve the matter.

Conclusion

While not fully compliant, we found that the Northwest/Arctic Region CSC has made significant progress in implementing controls to ensure compliance with procurement regulations. The CSC has implemented national controls identified in the Administrator's Get It Right Plan and improved its overall contracting practices. However, we did find procurement compliance deficiencies in seven new orders without potential financial impact, and one task with potential financial impact. As stated in the January 2004 OIG report on the FTS CSCs, we believe that steps to remedy the CSC procurement problems require a comprehensive, broad-based strategy that focuses on the structure, operations and mission of FTS as well as the control environment. Based on the comprehensive recommendations contained in that report, no further overall recommendations are deemed necessary at this time.

Management's Comments

We obtained agency comments throughout our audit work, providing a draft written summary of our findings on each order to FTS regional officials for their written comments, which we incorporated into our analysis as appropriate. We also provided a draft of this letter report to Regional officials. On May 10, 2005, the Regional Administrator concurred with the report findings and provided further comments on newly established and/or revised contract procedures to address compliance deficiencies as noted in the report. Management's response is included in its entirety as Attachment 1 to this report.

Internal Controls

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

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



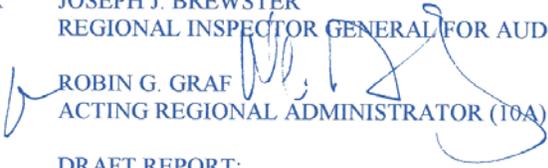
PERLA CORPUS
Audit Manager
San Francisco Field Audit Office (JA-9)

MANAGEMENT RESPONSE

GSA Northwest/Arctic Region

MAY 10 2005

MEMORANDUM FOR JOSEPH J. BREWSTER
REGIONAL INSPECTOR GENERAL FOR AUDITING (JA-9)

FROM:  ROBIN G. GRAF
ACTING REGIONAL ADMINISTRATOR (10A)

SUBJECT: DRAFT REPORT:
Review of Federal Technology Service's
Client Support Center Controls and Testing of Controls
Northwest/Arctic Region
Assignment Number A050009

Please allow us to express our appreciation to your staff for the tremendous amount of exchange of information, opinions, and ideas that occurred between this Region's Federal Technology Service Client Support Center and your office during this review. During the last two years, the Northwest/Arctic Region CSC has made significant progress in creating processes, procedures, and controls where none formerly existed. We recognize that a review such as this is an opportunity to identify where continuous improvement needs to occur.

We are presently undertaking efforts to improve our desk guides, templates, review and approval mechanisms, and training efforts. Our comments concerning the results of the audit and our efforts to prevent any reoccurrences are attached for your review. It must be noted, however, that resolution of some of the issues are beyond the control of a single CSC and will require dialog between internal organizations and FTS leadership.

If you have any questions, please feel free to contact Kathy Brinkley, Acquisition Director, at (253) 931-7888.

Attachment

U.S. General Services Administration
400 15th Street, SW
Auburn, WA 98001-6599
www.gsa.gov

MANAGEMENT RESPONSEProcurement Compliance Deficiency with Limited Potential Financial Impact

Finding: For a new sole-source order, no discount was requested or received after exceeding the maximum order threshold for the schedule contract.

Comment and Corrective Action: It has been this CSC's practice to include instructions in a Request for Quotation (RFQ) which requires quotes to be sufficiently detailed to permit the analysis of the proposed labor mix, the Schedule prices, and any discounts offered. Although such a request was made in the action reviewed, it is apparent that the contracting officer relied on information provided and made an erroneous assumption that would not have occurred if the quotation had required the contractor to provide a copy of the FSS Published Pricelist. Our RFQ templates have been revised and contract specialists have been trained to explicitly request a discount and obtain sufficient supporting documentation either in the RFQ or in on-line tools such as GSA Advantage. In addition, the detail of our Price Negotiation Memorandum will be improved to fully explain the price discussions that occurred between the offeror and the Government concerning discounts, as well as the contracting officer's decision to agree to the final price considering the rate of the discount.

Other Procurement Compliance Deficiencies

Findings: Office of General Counsel advised FTS that an imposed one-week deadline was insufficient to complete an adequate level review. FTS did not provide all pertinent documents. Errors existed in the source selection decision. The OGC noted concerns regarding the broad scope of the Blanket Purchase Agreement.

Comment and Corrective Action: This one procurement action received General and Regional Counsel Review of the acquisition planning and source selection documents prior to issuance of the competitive solicitation. The belief was that Counsel concurred with the acquisition approach as well as the form and the content of the solicitation. The award recommendation was submitted to Counsel with all documents the CSC believed to be pertinent within the timeline specified in the GSA Order concerning Legal Review. The documents for this procurement were voluminous and were forwarded to FTS Counsel because of the workload in Region 10. The review was accomplished through a teleconference with Region 10 representatives, a representative from FSS in Central Office, and Legal Counsel in Central Office, Region 9 and Region 10. It was determined during this call that there were no legal impediments that precluded the proposed awards. Review comments from Counsel were received after award for use in future procurements.

This one instance reveals that a closer working relationship with a single point of contact within Legal through the entire acquisition would be beneficial. In order to foster continuity and improve our own communication with the Office of General Counsel during the entire procurement process, we have adopted a form which will capture the comments and advice offered by Counsel for the benefit of those conducting subsequent reviews. Counsel has and will continue to be invited to participate in Contract Review Board sessions involving actions that will require Legal review or any action that might be result in source selection process

MANAGEMENT RESPONSE

challenges. These steps should improve the understanding of prior decisions affecting an acquisition strategy and result in greater efficiency and timeliness of the review process. Conversations on this issue have occurred between the Office of General Counsel and FTS Central Office and Regional management that will, hopefully, result in improved clarity of what types of information are considered to be pertinent, discern the difference between recommendations and advice and actual findings of legal sufficiency or insufficiency, and establish new guidance on the time allotted for reviews.

Existing Order Procurement Deficiency

Finding: Inadequate remediation efforts and improper billings were discovered in two older task orders that were recently completed. Problems at award included inadequate price support, lack of justification of a time and material order, no evidence of negotiations to obtain discounts, and significant variances between the Independent Government estimate and the offeror's proposal.

Comment and Corrective Action: We recognize that orders or contract decisions made a few years ago did not benefit from the in-depth review and documentation that is occurring at this time. Although Federal Acquisition Regulation encourages Contracting Officers to streamline the process and the documentation, we recognize that simplification of the Contracting Officer's decision documentation is not a prudent place in which to minimize details.

Processes are in place to review old orders and determine the most effective remediation approach. When beneficial, that approach may include the planning and execution of new competitions. We recognize that exiting from a contract before its expiration date may not be advisable or must be properly timed to mitigate any termination liability or risk of litigation, detriment to the client agency's mission or disruption of public service, or increased cost to the taxpayer.

Your review revealed that our file documentation of the contract management review process and the resultant decisions and plans needs to be improved. A shortcoming of FTS's automated contract system, Integrated Technology Solutions Shop, is that contract management correspondence and documentation that is not directly in support of a modification is archived after 90 days and disappears from the active windows. In order to remedy this problem, we are developing a database that will improve management's visibility into outstanding issues and planned milestones to ensure that resolution of problems are conducted in a timely manner. This database will also serve as an active repository of contract administration actions and will permit the Contracting Officer to record decisions and assign dates for follow-up action. Templates for price negotiation memorandums are being developed to ensure that negotiations and award decisions are documented in sufficient detail to permit subsequent readers to gain a full understanding of the basis for the contracting officer's decision.

FTS Central Office has recently issued policy on the review and processing of invoices which we anticipate will reduce errors. FTS R10 implemented similar processes well before the publication of this new guidance. However, on this once instance, the process failed when the reviewer compared the invoices to an earlier contract document without considering later

MANAGEMENT RESPONSE

processes are being implemented, timely payment of invoices has become a problem for many Regions, and we are working to resolve and prevent such delays.

The Northwest/Arctic Region is particularly committed to improving our ability to create meaningful Independent Government Estimates. Internal training and on-the-job coaching is a primary focus at this time. It must be recognized, however, in some instances a variance between a government estimate and the price offered by industry is not necessarily a failing. We have discovered that improved performance based work statements, recently granted authority for FTS to utilize a broader spectrum of Federal Supply Schedules and Government-Wide Acquisition Contracts, better understanding of the scope of work that can be purchased under those contracts, allowance of longer proposal preparation times for industry, and the use of e-Buy to alert potential sources of our requirements has stimulated the competitive environment. Such a highly competitive environment is resulting in more innovative solutions and cost savings from industry. In such cases, the government is delighted to see a variance from the Independent Government Estimate. Such good news deserves better documentation which we will achieve by improving our Price Negotiation Memorandums as noted above.

Conclusion

We are acutely aware of the need to improve communications and foster cooperation and understanding between all members of the acquisition team which includes clients, internal GSA organizations, and industry. Our continuous process improvement efforts can be seen in our re-engineering of contract file documentation, independent government estimates, performance based statements of work, quality assurance surveillance plans, acquisition management tools, contract review boards and audits, and updated desk guides and templates and our commitment to human resource development and appropriate staffing. To meet the challenges of acquiring complex services, we are recruiting outstanding scholars for contracting career internships and investing in their formal and on-the-job training. We are joining forces with neighboring Federal agencies and professional organizations, such as National Contract Management Association, Seattle Federal Executive Board, and the Department of Army at Fort Lewis and Madigan Hospital, to maximize access to acquisition and fiscal law training. Our associates in the project management and customer relationship management professions are completing professional certification programs as well as client relationship management. Other training is planned that should enhance our ability to provide compliant, value-added support to Federal agency clients. Your continued advice and recommendations in achieving these goals will help us to obtain our mission.

REVIEW OF
FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER CONTROLS
AND TESTING OF CONTROLS
NATIONAL CAPITAL REGION
REPORT NUMBER A050009/T/W/Z05013

MAY 18, 2005

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REVIEW OF
FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER CONTROLS
AND TESTING OF CONTROLS
NATIONAL CAPITAL REGION
REPORT NUMBER A050009/T/W/Z05013

MAY 18, 2005

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U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

DATE: May 18, 2005

REPLY TO

ATTN OF: National Capital Region Field Audit Office (JA-W)

SUBJECT: Review of Federal Technology Service's Client Support Center
Controls and Testing of Controls - National Capital Region
Report Number A050009/T/W/Z05013

TO: Donald C. Williams
Regional Administrator (WA)

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

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

Objectives, Scope and Methodology

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed between August 1, 2004 and October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders through February 2005. For the National Capital Region CSC, our sample included 12 new awards and 3 existing orders, valued at \$26,032,174 and \$91,627,975 respectively. The audit was conducted between October 2004 and March 2005, in accordance with generally accepted Government auditing standards.

7th & D Streets, SW, Washington, DC 20407

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Results of Audit

We determined the National Capital Region CSC to be not compliant but making progress and considered close to compliant. The Region has implemented national controls identified in the Administrator's "Get it Right" Initiative, and has improved its overall contracting practices, compared with our past audit findings. For example, we found no instances of improper use of the IT Fund, work being performed outside the scope of the base contract, or unjustified extensions of periods of performance. We found no instances of non-compliance with the competition requirements of Section 803 of the National Defense Authorization Act for Fiscal Year 2002. However, as directed in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, because of the two deficiencies discussed below, the CSC is not fully compliant, and we will be required to perform a subsequent audit of CSC contracting practices by March 2006 to determine whether the CSC has become compliant.

New Procurement Order Compliance Deficiency. We identified one task order that was issued without a not to exceed price limitation as required by Federal Acquisition Regulation 16.601(c) for time & material contracts. This order with a value of \$412,794 was issued to design, develop, and implement a database system on a time & materials basis.

Existing Order Procurement Deficiency. We identified one task order with an incomplete remediation strategy. The task order encompassed the requirements definition, implementation and production (phases I, II and III respectively) of a medical bill processing system, with operations to be accomplished under a series of one-year options likely to exceed 95 percent of the total task order value. The initial solicitation required a fully priced proposal for phases I and II, but simply a unit price rate for phase III. The documented price analysis did not include the production phase; it covered only the development and implementation phases. There was no evidence that the cost of production was considered as an award factor. Subsequently, the vendor has submitted a new proposal dated 12/17/04 to cover current fiscal year operations already in process. As of the end of audit fieldwork, price analysis of the new proposal remained outstanding, and a viable acquisition plan for the remaining out years has yet to emerge.

Conclusion

While not fully compliant, we found that the National Capital Region CSC has made significant progress and is considered close to compliant in implementing controls to ensure compliance with procurement regulations. The CSC has implemented national controls identified in the Administrator's "Get It Right" Initiative and improved its overall contracting practices. However, we did find a procurement compliance deficiency in one new order, and an incomplete remediation strategy for an existing order that did not address pricing concerns.

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

Management Comments

We obtained agency comments throughout our audit work, providing a draft written summary of our findings on each order to FTS regional officials for their written comments, which we incorporated into our analysis as appropriate. We also provided a draft of this letter report to Regional officials. In his May 10, 2005 response, Attachment A, the Regional Administrator stated that they "are committed to the GSA 'Get It Right' initiatives and are implementing appropriate actions to address these deficiencies."

Internal Controls

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

To help us improve our customer service, please ask the primary user of the report to complete the attached customer satisfaction survey and return it in the enclosed envelope to the Office of Audits' Operations Staff (JAO).



Keith A. Amacher
Audit Manager
National Capital Region

Attachments

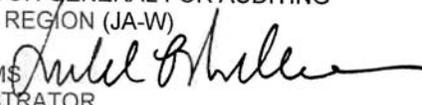
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GSA National Capital Region

May 10, 2005

MEMORANDUM FOR PAUL J. MALATINO
REGIONAL INSPECTOR GENERAL FOR AUDITING
NATIONAL CAPITAL REGION (JA-W)

FROM: DONALD C. WILLIAMS 
REGIONAL ADMINISTRATOR
NATIONAL CAPITAL REGION (WA)

SUBJECT: Draft Report: Review of FTS Client Support Center
Controls and Testing of Controls - National Capital Region
Report Number A050009/T/W/Z05###

We would like to thank you and your staff for the thorough and comprehensive research that went into this audit.

As you indicated in your findings, the Federal Technology Service (FTS) was not fully compliant, but has made significant progress and is considered close to compliant in implementing controls to ensure compliance with procurement regulations.

Your audit reported two procurement deficiencies. We are committed to the GSA "Get It Right" initiatives and are implementing appropriate actions to address these deficiencies.

If you have any questions regarding the response, please contact me at (202) 708-9100 or Mr. Craig F. Kennedy, Assistant Regional Administrator at (202) 708-6100.

Attachment

U.S. General Services Administration
301 7th Street, SW
Washington, DC 20407-0001
www.gsa.gov

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REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER
CONTROLS AND TESTING OF CONTROLS
EUROPEAN CLIENT SUPPORT CENTER
REPORT NUMBER A050009/T/6/Z05019

May 18, 2005

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REVIEW OF FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTER
CONTROLS AND TESTING OF CONTROLS
EUROPEAN CLIENT SUPPORT CENTER
REPORT NUMBER A050009/T/6/Z05019

May 18, 2005

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U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

Date : May 18, 2005

Reply to
Attn of : Heartland Region Field Audit Office (JA-6)

Subject : Review of Federal Technology Service's Client Support Center Controls
and Testing of Controls – European Client Support Center
Report Number A050009/T/6/Z05019

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

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

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

Objectives, Scope and Methodology

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed between August 1, 2004 through October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders. For the ECSC, our sample included 11 new awards and 2 existing orders, valued at \$16 million and \$8 million, respectively. The audit was conducted between October 2004 and March 2005, in accordance with generally accepted Government auditing standards.

Results of Audit

We determined the ECSC to be compliant with Defense procurement requirements. The ECSC has implemented national controls identified in the Administrator's "Get It Right" Plan, and has improved its overall contracting practices. We did not find any instances of non-compliance with Defense procurement requirements. As directed in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, because the ECSC is compliant, we are not required to perform a subsequent audit of ECSC contracting practices.

1500 East Bannister Road, Room 2075, Kansas City, MO 64131-3088

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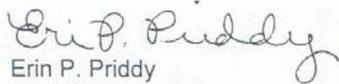


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Internal Controls

We assessed the internal controls relevant to the ECSC's procurements to ensure that the procurements were made in accordance with the Federal Acquisition Regulation, and the terms and conditions of the contracts utilized. We have seen substantial improvements in internal controls, and did not find any procurement deficiencies during this review.

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



Erin P. Priddy
Audit Manager
Heartland Region