CONTRACT PROCUREMENT REVIEW OF THE WESTERN DISTRIBUTION CENTER RELOCATION PROJECT

FEDERAL SUPPLY SERVICE

REPORT NUMBER A050005/F/9/V06001

NOVEMBER 9, 2005

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

Date: November 9, 2005

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

Subject: Contract Procurement Review of the
Western Distribution Center Relocation Project
Federal Supply Service
Report Number A050005/F/9/V06001

To: Barbara L. Shelton
Acting Commissioner
Federal Acquisition Service (FAS)

This report presents the results of the Office of Inspector General's Contract Procurement Review of the Western Distribution Center (WDC) Relocation Project, Federal Supply Service.

The objective of the review was to determine whether FSS followed procurement regulations and exercised sound business judgment in awarding and administering the contract for the WDC project.

Your comments to our draft report were considered in preparing this final report and are included in their entirety as Appendix A.

We thank you and your staff for the courtesies extended during our review. Please contact me at (415) 522-2744 if you or members of your staff have any questions about the report.

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

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TABLE OF CONTENTS

CONTRACT PROCUREMENT REVIEW OF THE WESTERN DISTRIBUTION CENTER RELOCATION PROJECT FEDERAL SUPPLY SERVICE REPORT NUMBER A050005/F/9/V06001

EXECUTIVE SUMMARY

PURPOSE

The objective of the review was to determine whether Federal Supply Service (FSS) followed procurement regulations and exercised sound business judgment in awarding and administering the contract for the Western Distribution Center (WDC) project.

BACKGROUND

This is the third report addressing the WDC's relocation to a renovated and upgraded facility at an existing Defense Logistics Agency warehouse at Sharpe Depot, French Camp, California. Our first report addressed the validity of the savings projected in a feasibility study conducted prior to the modernization. The second report identified the total costs related to the relocation and modernization of the WDC.

During 2003, FSS relocated most of the WDC operations from Rough and Ready Island, Stockton, California, to a newer more technologically advanced facility located at nearby Sharpe Depot. The decision to move was based on a 2002 Feasibility Study, prepared by Tompkins Associates, Inc. (Tompkins) that specified a $20.6 million investment in design, implementation, equipment and construction costs. The study projected annual savings of approximately $9.7 million and a payback of 2.2 years for a modern, more efficient distribution facility. FSS decided to proceed with the modernization and relocation and made efforts to solicit a contractor proposal. Tompkins was the only bidder, and on July 2, 2002, was awarded the multiple award schedule task order for the project in the amount of $14.4 million with the facility's planned opening date of March 31, 2003. The task order was primarily Firm-Fixed-Price, with a portion related to computer systems technology integration priced as Time and Materials. The project was procured by FSS using a task order applied to Tompkins' LogWorld multiple award schedule (MAS) contract. System testing was eventually completed and accepted on May 28, 2004, over a year behind schedule, primarily due to equipment and software system incompatibility issues.

As we stated in our previous report, we expect that the new distribution system should prove to be a valuable data collection and on-line analysis tool for WDC and the Office of Global Supply. However, the project costs and related expenses totaled $39 million, surpassing the original anticipated cost of $22.7 million[1], by 72 percent. The $39 million included costs that were not in the original estimate such as additional rent, labor, and miscellaneous costs. In response to our report, WDC officials stated that some of the labor costs could be attributable to distribution activity uniquely related to Iraq War supply requirements. However, FSS did not provide quantifiable support.

RESULTS IN BRIEF

The procurement was inadequately competed and administered, contributing significantly to the large cost overruns. FSS personnel did not fully comply with prescribed procurement rules, regulations, and generally accepted practices, and as a result management control weaknesses contributed to the procurement problems for the WDC project.

Tompkins had a competitive advantage that was enhanced by actions taken by FSS that resulted in no additional bidders, and no assurance of FSS receiving fair and reasonable pricing or best value. The short timeline that was established for the project compromised the proposal review process and Federal Acquisition Regulation (FAR) compliance with regards to determination of price reasonableness and justification of use of a Time and Materials contract. The use of the LogWorld service schedule for the procurement was not the correct vehicle to procure a project containing a significant amount of other direct costs of $6.8 million (or nearly 50 percent) of the original contract award of $14.4 million. Further, FSS did not adequately document the price reasonableness determinations for these costs, providing little assurance of best value for the government

RECOMMENDATIONS

We recommend that the Commissioner of FAS direct the Assistant Commissioners for Global Supply and Commercial Acquisition to:

1. Strengthen management controls over the acquisition process to promote competition and sound business practices;

2. Heighten awareness among employees of the importance of proper procurement practices; and

3. Enforce compliance with acquisition policies, regulations and procedures.

[1]Tompkins' projected cost: $20.6 million; plus other planned costs (post-acceptance support and office renovation): $2.1 million; total estimate: $22.7 million.

MANAGEMENT'S COMMENTS AND OFFICE OF INSPECTOR GENERAL'S RESPONSE

The Acting Commissioner, Federal Acquisition Service, acknowledged and generally agreed with the recommendations. However, she noted that the Iraq War and increased inventory levels impacted the cost of the project. In addition, she disagreed that other direct costs should be limited on a service contract.

Although we recognize that the war had affected the relocation of the depot, it did not have a significant effect. The primary cause of the delay was the implementation of the warehouse management system, which was not related to the war effort. Finally, using a service schedule for a project that includes significant amount of Other Direct Costs (nearly 50 percent) raises the question whether the best price was received or if a better price could have been obtained through competition.

CONTRACT PROCUREMENT REVIEW OF THE WESTERN DISTRIBUTION CENTER RELOCATION PROJECT FEDERAL SUPPLY SERVICE REPORT NUMBER A050005/F/9/V06001

INTRODUCTION

The San Francisco Field Audit Office conducted a review of the contract award and administration related to the Relocation Project of the Western Distribution Center (WDC) of the Office of Global Supply, Federal Supply Service (FSS). This report addresses:

- Solicitation and award of the task order to Tompkins Associates, Inc. (Tompkins) by the Service Contracts Division of the Services Acquisition Center, Office of Commercial Acquisition, for the Office of Global Supply;

- Administration of Tompkins' Logistics Worldwide (LogWorld) Multiple Award Schedule contract by the Acquisition Division of FSS' Management Services Center in Auburn, Washington; and,

- Administration of the task order to complete the WDC Relocation Project by the Office of Global Supply.

This is the third review addressing WDC's relocation to a renovated and upgraded facility at an existing Defense Logistics Agency warehouse at Sharpe Depot, French Camp, California. Our first report, titled Review of Depot Upgrades and Modernization (Report No. A030139/F/9/V04001, dated November 19, 2003), addressed the validity of the savings projected in a feasibility study conducted prior to the modernization. Our second report, titled Review of the Western Distribution Center Relocation Project (Report No. A040050/F/9/V04011, dated September 29, 2004) addressed the total costs related to the relocation and modernization of the WDC.

FSS is considering similar modernizations for the Eastern Distribution Center (EDC), currently located in Burlington, New Jersey.

BACKGROUND

The Office of Global Supply manages the logistics program by which it receives, stores, and distributes items to federal customers. Its two depots, the EDC in Burlington, New Jersey; and the WDC in California, anchor distribution operations.

During 2003, FSS relocated most of the WDC operations from Rough and Ready Island, Stockton, California, to a newer more technologically advanced facility located at nearby Sharpe Depot. The decision to move was based on a 2002 Feasibility Study, prepared by Tompkins, that specified a $20.6 million investment in design, implementation, equipment and construction costs. The study claimed projected annual savings of approximately $9.7 million and a payback of 2.2 years for a modern, more efficient distribution facility. In 2003, we issued a report that addressed the validity of the savings projected in the feasibility study.[2]

In the spring of 2002, FSS decided to implement the recommended system in Tompkins' study, and hired a private firm, Gartner Consulting, to prepare a Statement of Work. The Statement of Work (SOW) required the contractor to provide a fully functional distribution facility at Sharpe, with a total cost "Not to Exceed $17 Million." Two separate solicitations in the form of Request for Quotes (RFQ) were sent to 11 contractors during April and May 2002. The RFQ, which included Tompkins' feasibility study as an attachment, went to vendors selected from FSS' Logistics Worldwide (LogWorld) multiple award service schedule. Tompkins was the only bidder.

On July 2, 2002, FSS awarded Tompkins the task order for modernizing and relocating the distribution center in the amount of $14.4 million with a planned opening date of March 31, 2003. The task order was primarily Firm-Fixed-Price, with a portion related to computer systems technology integration priced as Time and Materials. Over the next 23 months, the project progressed and grew in cost. Material Handling Equipment (MHE) and software system incompatibility problems caused delays in the opening of the new distribution center. The final relocation of personnel and equipment to the new Sharpe facility was accomplished in January 2004. System testing was eventually completed and accepted on May 28, 2004.

[2] Review of Depot Upgrades and Modernization (Report No. A030139/F/9/V04001, issued November 19, 2003)

As we stated in our previous report[3], we expect that the new distribution system should prove to be a valuable data collection and on-line analysis tool for WDC and the Office of Global Supply. However, the project costs and related expenses totaled $39 million, surpassing the original anticipated cost of $22.7 million[4], by 72 percent. The $39 million included costs that were not included in the original estimate such as additional rent, labor, and miscellaneous costs. In response to our report, WDC officials stated that some of the labor costs could be attributable to distribution activity uniquely related to Iraq War supply requirements. However, FSS did not provide quantifiable support.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the review was to determine: Did FSS follow procurement regulations and exercise sound business judgment in awarding and administering the contract?

To accomplish the objective, we:

- Held discussions with GSA, FSS (WDC, headquarters, and regional offices) and contracting officials (Tompkins and other LogWorld vendors);
- Reviewed contract administration, including invoices to determine if billings were in accordance with contract terms and conditions;
- Analyzed contract documents, and correspondence that included LogWorld contract files;
- Performed equipment verification and observed distribution operations at the new distribution facility at Sharpe;
- Contacted contractors for information via telephone and other electronic means; and
- Reviewed laws, regulations, and applicable guidance.

Our review focused on contract documentation related to the WDC relocation from November 2001 to October 2004.

The audit was conducted in accordance with generally accepted government auditing standards.

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[3] Review of the Western Distribution Center Relocation Project (Report No. A040050/F/9/V04011, issued September 29, 2004)
[4] Tompkins' projected cost: $20.6 million; plus other planned costs (post-acceptance support and office renovation): $2.1 million; total estimate: $22.7 million.

CONTRACT PROCUREMENT REVIEW OF THE WESTERN DISTRIBUTION CENTER RELOCATION PROJECT FEDERAL SUPPLY SERVICE REPORT NUMBER A050005/F/9/V06001

RESULTS OF REVIEW

FSS personnel did not fully comply with prescribed procurement rules, regulations, and generally accepted practices. The procurement was inadequately competed and administered, contributing significantly to the large cost overruns. Therefore, management control weaknesses contributed to the procurement problems for the WDC project.

Tompkins had an inherent competitive advantage, which was enhanced by actions taken by FSS Services Acquisition Center and Global Supply, resulting in Tompkins' bid being the only one received. As a consequence, FSS was not assured of receiving fair and reasonable pricing or best value.

The decision to establish a short timeline for completing the project adversely affected the acquisition process. Specifically, there was an inadequate review of the contractor's proposal, and FSS did not fully comply with Federal Acquisition Regulations (FAR) with regards to determination of price reasonableness and justification of use of a Time and Materials contract.

LogWorld, the FSS service schedule contract used for the project, was not the correct procurement vehicle because of the significant amount of Other Direct Costs (ODCs). In order to procure the ODCs through the schedule, they were added to LogWorld as support products. However, FSS did not adequately document price reasonableness determinations for these products, thus providing little assurance of best value for the government for over $8 million in ODCs.

These conditions were indicative of weaknesses in the management controls as they related to this procurement. The total cost of the project was in excess of $39 million with cost overruns of 72 percent. Although the total cost overruns cannot be directly attributed to these weaknesses, effective controls could be expected to have significantly lessened them.

Tompkins' Competitive Advantage

Despite FSS obtaining legal assurance that permitted Tompkins to bid on the project, we noted two factors that enhanced Tompkins' competitive advantage. First, the time provided for responding to the SOW was insufficient to ensure adequate competition from contractors who did not have prior knowledge on the specifics of the project. Second, the solicitation gave the impression that Tompkins was the favored contractor.

The effect of these actions was an inherent competitive advantage for Tompkins, as evidenced by the vendor as the sole bidder. Receiving only one offer, FSS was not assured of adequate competition, fair and reasonable pricing, or as shown by the significant cost overruns, best value for the Government.

Legality of Including Tompkins

FSS expressed concern about the legality of allowing Tompkins to submit a proposal for this solicitation. Tompkins had an inherent advantage because it had performed the initial feasibility study upon which FSS' decision to relocate and modernize was based. Having studied the depot and various alternatives for accomplishing the modernization project, Tompkins had the opportunity to develop a working knowledge of the depot and a sound understanding of the project requirements. In effect, Tompkins had 4 more months to prepare for this procurement than its competitors.

FSS hired an independent consultant to prepare the SOW. Two weeks after the feasibility study was released, FSS provided the consultant with a draft statement of work dated March 21, 2002. The consultant was tasked to write the full SOW for the RFQ, which was issued 15 days later.

GSA's General Counsel was approached by FSS about the potential conflict of interest concerning Tompkins. Generally, the FAR restricts contractors from providing systems or services in cases where a contractor has assisted the government in defining its requirements. That restriction is intended to: (1) avoid the possibility of bias in the situation where a contractor would be in a position to favor its own capabilities; or (2) avoid the possibility that the contractor, by virtue of its special knowledge of the agency's future requirements, would have an unfair advantage. However, there are exceptions to the conflict of interest rules. Specifically, when more than one contractor has been involved in preparing the work statement, the conflict is mitigated. As a result, contractors who participated in writing the work statement would not be precluded from competing for the work on this basis. Because an independent consultant had been used to prepare the SOW, counsel concluded that Tompkins should not be prohibited from participation in the competition.

Solicitation Schedule

The deadlines and timeframes established for this solicitation were too restrictive. After issuing its report on March 7, 2002, Tompkins informed FSS that the project could be completed in 10 to 12 months. FSS' establishment of March 31, 2003 was the completion date as noted in the original statement of work. As a result, FSS set an accelerated schedule for the award of this project that appears to have been too short to ensure adequate competition. The calendar below shows the activity leading up to issuing the RFQ on April 12, 2002.

Pre-Solicitation Activity Timeline (March/April 2002)

Sun	Mon	Tue	Wed	Thurs	Fri	Sat
3 **March**	4	5	6	7 Tompkins' Report issued	8	9
10	11	12	13 FSS Supply's decision to proceed with project	14	15	16
17	18	19	20	21 FSS' Draft of SOW	22 Tompkins' MAS application submitted to LogWorld	23
24	25	26	27	28	29	30
31	1 **April**	2	3 Pre-notification of RFQ to Tompkins and three other vendors	4	5 Tompkins' LogWorld contract awarded	6
7	8	9 FSS phone call to GSA General Counsel requesting opinion	10 Information on project sent to General Counsel	11 Legal opinion: Tompkins allowed to compete	12 RFQ issued to Tompkins and three other LogWorld vendors	13

As depicted above, within 3 weeks of its decision to proceed with the project, FSS had selected the vendors for the competition and notified them of the impending RFQ. The notification letters informed the vendors that the RFQ would be issued within 7 business days. On April 12th, the RFQ (which included the SOW and Tompkins' feasibility study) was issued to the four contractors.

In addition to the quick development and release of the RFQ, the time allowed for the vendors to respond was very ambitious. The vendors had a total of 3 weeks from the time the RFQ was issued until the proposals were due. During the 3 weeks, the vendors (who, with the exception of Tompkins, did not have prior knowledge about the project) were expected to become familiar with the requirements of a $20.6 million project and provide meaningful price and technical proposals.

The calendar below shows the tight timeframe for the responses to the RFQ issued on April 12, 2002.

Schedule Surrounding First RFQ Issuance

Sun	Mon	Tue	Wed	Thu	Fri	Sat
April 2002	1	2	3 Pre-RFQ notice sent to original 4 (including Tompkins)	4	5	6
7	8	9	10	11	12 RFQ #1 issued to original 4 (including Tompkins)	13
14	15	16 Response required for walk-thru	17 Walk-through	18 scheduled at WDC	19	20
21	22 Deadline for bidder's to submit questions	23	24	25	26 Scheduled FSS response to bidder's questions	27
28	29	30	1 **May**	2	3 Price & technical proposals due	4

By April 30th, concerns regarding the value of additional competition arose when it became apparent that only Tompkins was planning to submit a proposal. On May 3rd, the date the proposals were due, FSS extended the deadline with the intent to issue another RFQ. On May 8th, FSS issued a revised SOW that was provided to seven additional potential bidders over the next several days. FSS continued the quick pace on the second RFQ with a proposal deadline of May 29th as shown in the calendar below. Similarly, for the second solicitation, the established accelerated schedule was noticeably short, resulting in no additional bidders.

Schedule Surrounding Second RFQ Issuance

Sun	Mon	Tue	Wed	Thu	Fri	Sat
		May 2002	1	2	3 Original 4 bidders notified of extension	4
5	6	7	8 RFQ #2 issued to 4 more potential bidders	9	10 Response required for Walk-thru	11
12	13 RFQ #2 issued to 3 more potential bidders Walk-	14 -through	15 scheduled	16 at	17 Deadline for bidder's to submit questions WDC	18
19	20	21	22	23	24	25
26	27	28	29 Price & Technical proposals due	30	31	

Several vendors noted that the established schedule for bidders to participate in the solicitation was brief. Although only Tompkins submitted a proposal, several vendors submitted declinations, citing the short time frame as a reason. The responses included:

- "…we must decline this opportunity to bid. …after careful review,…determined that it could not meet your schedule allotted for walkthrough of the facilities to make a full assessment of this requirement."
- "My firm is too small, and the time frame is too short for us to bid."
- "Our current workload will not permit us to do justice to the effort."
- "Due to firm fix price elements…and short lead time…does not (allow) for a proper cost analysis and pricing that would be required."

The short timeframe unmistakably favored Tompkins, who had obtained much of the necessary data while conducting the feasibility study.

<u>SOW and Feasibility Study</u>

The solicitation, although written by an independent consultant, also appeared to favor Tompkins. The SOW included the feasibility study prepared by Tompkins as an appendix. As we noted in our prior reviews, Tompkins' feasibility study presented five alternatives for modernizing the Sharpe facility, with the contractor recommending the third alternative. A review of the parameters presented in the SOW in conjunction with the Tompkins study leads to the conclusion that FSS favored Tompkins' third alternative. This conclusion is borne out by our discussions with other vendors to whom FSS sent the solicitation. Two vendors indicated their decisions not to bid were based in part on Tompkins being in the competition. Further, the SOW issued on April 12, 2002, to Tompkins and three other vendors, in discussing the feasibility study, referred to Tompkins, by name, as "*a well-known specialist in the field of warehousing, distribution, and supply chain management."*

<u>Conclusion</u>

Although FSS ensured Tompkins could legally participate in the bid for the WDC Relocation Project, specific actions taken by FSS enhanced the contractor's already advantageous bidder position in this solicitation. These actions included establishing an abbreviated solicitation schedule that was insufficient to ensure participation from other bidders, and issuing an SOW that appeared to favor Tompkins.

Acquisition Process

FSS' establishment of a short timeframe for building a state of the art facility led to deficiencies in the acquisition process. According to FSS officials, Tompkins assured FSS that the project could be completed within a short timeframe, and senior management had expressed concerns about the progress of the project. Because of the unrealistic timeframe, FSS did not allow sufficient time to review the contractor's proposal and did not fully comply with the FAR. The project actually took 26 months to complete rather than the 12 months projected by Tompkins, with costs significantly higher. Although other factors may have contributed to the cost increase, we believe allowing more time for the acquisition process and fully complying with FAR requirements might have led to a more cost-effective and overall successful project.

FSS established a project completion deadline of March 31, 2003. That date was responsive to senior management's concerns about not acting quickly and missing an opportunity for savings. According to FSS officials, Tompkins representatives had assured them that the project could be completed in 10 to 12 months. They relied on this assertion because of the good working relationship developed with Tompkins during the feasibility study. Further, as stated in the SOW, FSS management considered Tompkins to be "*a well-known specialist in the field of warehousing, distribution, and supply chain management.*"

GSA senior management, upon learning of the modernization project and its potential savings, expressed concern that FSS was not acting quickly enough. In November 2001, senior management visited the WDC and the proposed location at Sharpe. At that time, the annual rent savings were expected to be approximately $3.3 million ($9,000 per day). At a February 2002 FSS management conference in Maryland, the preliminary results of the feasibility study were discussed. An FSS official estimated costs of $36,000 for each workday that the opening of the new facility was delayed. Senior management raised concerns about the lack of progress and the missed savings opportunity. Thus, relying on Tompkins' assurances while addressing management's concerns, FSS established March 31, 2003 as the completion date.

A 12-month deadline was unrealistic for such a complex project. FSS accepted Tompkins' estimate that the project could be completed by March 31, 2003. This estimated timeframe was unrealistically short for the complex issues that FSS faced in making the proposed warehouse management system work with the existing information technology (IT) system. The complexity of the project is evidenced by previous efforts to introduce commercial IT systems at FSS Distribution Centers. We were told that those efforts had been less successful than anticipated due to complex compatibility problems. FSS did not provide sufficient time to allow for resolving potential compatibility issues, as indicated by the project eventually taking 26 months, primarily due to system implementation issues.

Inadequate Review of Contractor's Proposal

FSS did not adequately review the contractor's proposal prior to awarding the task order. The task order was awarded only 34 days[5] after receiving the proposal because of the urgency to complete the project by the established deadline. Although it might be reasonable to expect the review of a proposal for a less-complex undertaking to be completed within 34 days or less, for a task as complex as the WDC Relocation Project this period was insufficient. In its rush to award the task order, Global Supply did not accomplish as thorough a review as the situation warranted. And as a result, FSS faced numerous problems with the interfacing of the software system and unanticipated requirements resulting in task order modifications totaling $11 million.

[5]Tompkins' technical proposal was submitted on May 29, 2002; task order was awarded on July 2, 2002.

FAR Compliance

The rush to complete the project led to instances of not fully complying with the FAR. Specifically, (1) FAR 8.405-2(d) – requiring determinations of price reasonableness, and (2) FAR 16-601 – requiring a determination and findings statement to justify use of a Time and Materials contract.

FAR 8.405-2(d) – Price Reasonableness. This section of the FAR requires that the contracting officer make a determination that the appropriate level of effort/mix of labor proposed and the total price are reasonable. However, FSS did not provide adequate evidence or documentation that the level of effort/labor mix or the price was determined to be reasonable for the cost items proposed in the original turnkey contract and for the task order modifications. In addition, we noted no independent analysis (such as an Independent Government Estimate), to provide an estimate of a fair and reasonable price in advance of the solicitation. Although not required, such an analysis could have provided valuable information on the resources required to successfully complete the project. An analysis would also serve to document the determination of price reasonableness in compliance with this section of the FAR.

FAR 16-601 - Determination and Findings Statement. Although required by FAR, the contracting officer did not include a Determination and Findings Statement for the Time and Material (T&M) pricing portion of the contract. The systems implementation portion of the project included $1.3 million in T&M pricing for adapting the commercial software to interface with FSS' existing inventory control system. Acquisition regulations require written justification for use of T&M pricing. Because there is no incentive for a contractor to increase operational efficiency or control costs, we believe that the government is placed at risk when T&M contracts are used. According to FAR requirements, a T&M contract may be used only after the contracting officer executes a determination and findings that no other contract type is suitable.

Conclusion

Less than full compliance with FAR may have contributed to the delays and cost overruns experienced on this project. System interface problems and subsequent additions for equipment and services could have been resolved prior to contract award had FSS conducted a more thorough review and testing of the contractor's proposal. With the additional 14 months to complete the project, FSS incurred costs that significantly increased over the original estimates, leading us to question whether the government received best value.

LogWorld Contract

Based on the significant amount of Other Direct Costs (ODCs), many of which were site-specific, the project should have been competed on the open market rather than through the LogWorld schedule. Further, FSS did not adequately document price reasonableness for the site-specific ODCs that were added as support products to the schedule. As a result, there is little assurance that the government paid a reasonable price for the ODCs.

Use of LogWorld

The LogWorld contract was not the correct procurement vehicle for the depot modernization project. An FSS official stated that LogWorld was selected because they felt that the contract best suited the needs of the project. The $14.4 million task order award included $6.8 million (47 percent) of ODCs[6] (e.g., material handling equipment). However, LogWorld is a service contract. FSS should have provided for open market competition.

The LogWorld schedule contract clearly was not intended to include a significant amount of non-service items. The only non-service Special Item Number (SIN) on this schedule is 874-506 (Support Products), defined as *"ancillary products used in the delivery of a service, including training manuals, CD-ROMs, overhead slides, etc*." Given the nature of the support products and that LogWorld is a service contract, we believe that other direct items should be incidental to providing a service and should not be a major component of the procurement. Other direct items required for the modernization project, including warehouse management system software, material handling equipment, sprinkler systems, safety striping, warehouse inventory transfer from Rough and Ready Island to Sharpe, etc., were added to Tompkins' LogWorld schedule contract through this SIN so that Global Supply could procure them under the WDC Relocation Project task order. These items appear to be well beyond the intended scope of this SIN. As a result, adding these items to this particular SIN was inappropriate.

[6]The ODCs included items in Tompkins' original proposal and those issued as task order modifications.

The table below lists some of the items purchased as support products:

Description	Amount	Explanation
Lift Trucks and Pallet Jacks	$ 480,852	ODCs as listed in the proposal
Shelving & Storage	1,287,917	ODCs as listed in the proposal
Pick Engines [7]	1,357,817	ODCs as listed in the proposal
Air Compressors	31,125	ODCs per Task Order Modification
Scanners	92,495	ODCs per Task Order Modification
Radio Frequency System	413,465	ODCs per Task Order Modification

Source: Contract Proposal and Task Order Modification

The above items clearly did not belong on the LogWorld service schedule. LogWorld officials expressed disagreement with FSS' decision to use LogWorld for the ODCs indicating that the addition of the ODCs and the non-service items placed on the schedule goes against the true purpose that LogWorld is a service contract. LogWorld officials further stated that perceived pressure from FSS was a significant factor in complying with the request to utilize LogWorld even though the non-service purchases were not within the intended scope of the service schedule.

Documentation of Fair and Reasonable Pricing Determination

We found inadequate documentation of fair and reasonable pricing determinations for support products that were added to Tompkins' LogWorld contract. According to FAR 8.405-2(d), the contracting officer is required to make a determination that the Government received fair and reasonable pricing, and provide documentation of that determination. Responsibility for those determinations lies with the LogWorld contracting officer.

The contacting officer informed us that most of the ODCs, which were added as support products, were geared specifically toward the Sharpe warehouse project. Global Supply reviewed and approved all the modifications before Tompkins submitted them to LogWorld for addition to the schedule contract. The proposals submitted to LogWorld included a price that Tompkins and Global Supply had determined to be mutually acceptable. The items were added to the schedule contract at the predetermined price. For all of the modifications, we found that the contracting officer had signed the amendment indicating that a determination of fair and reasonable pricing had been made. However, the documentation we were provided did not demonstrate that an adequate analysis of price reasonableness had been performed. The contracting officer provided product specifications sheets, vendor pricelists, handwritten notes, etc. However, generally the documentation was not directly linked to any particular modification.

[7] Pick Engines consist of shelving and adjoining conveyor belt, controls and equipment (e.g., printers, lighting and fire sprinklers) configured to facilitate the selecting of items for filling customer orders.

Without supporting documentation, we are unable to conclude that adequate price reasonableness determinations were made for the support products that were added to the Tompkins' LogWorld contract. This is especially disturbing because Global Supply indicated its understanding that determining price reasonableness was the responsibility of the LogWorld contracting officer. Under the task order, FSS purchased support products of over $8.7 million. There is little assurance that the government paid a reasonable price for the ODCs.

Conclusion

We identified improper procurement practices at various levels of the Western Distribution Center Relocation Project that clearly indicated weaknesses in management controls.

- The solicitation process provided a competitive advantage to the original project consultant.
- An unrealistic completion date resulted in an inadequate review of the contractor's proposal and not fully complying with FAR requirements.
- Use of the LogWorld service contract for a task requiring a substantial amount of ODCs was inappropriate, and items were added to the contract as support products without adequate documentation of fair and reasonable pricing determination.

Reasonable assurance that the government received best value was not apparent throughout this procurement, as the cost overruns and project delays indicated.

In order to remedy these problems for future projects, a comprehensive plan to improve controls in the aforementioned areas of the procurement process must be developed. FSS needs to ensure that all participants in the procurement process are aware of the requirements, policies and procedures.

Recommendations

We recommend that the Acting Commissioner (FAS) direct the Assistant Commissioners for Global Supply and Commercial Acquisition to:

1. Strengthen management controls over the acquisition process to promote competition and sound business practices;

2. Heighten awareness among employees of the importance of proper procurement practices; and

3. Enforce compliance with acquisition policies, regulations and procedures.

Management's Comments

The Acting Commissioner, Federal Acquisition Service, acknowledged and generally agreed with the recommendations. She noted, in particular, that organizational changes and implementation of proposed actions over the acquisition process would ensure associates comply with applicable procurement regulations and procedures in future acquisitions. Further, the Acting Commissioner provided additional information regarding the significant cost overruns. However, she disagreed with our finding concerning the propriety of obtaining products as ODCs. See Appendix A for a copy of management's comments.

Office of Inspector General's Response

Concerning the significant cost overruns, the Acting Commissioner stated that military supply requirements for the Iraq War and unanticipated inventory levels exceeding the project design were among the key causes. In our previous review of the WDC Relocation Project, FSS raised the issue that some of the additional labor costs could be attributed to distribution activity uniquely related to the war supply requirements. However, FSS was unable to provide quantifiable support and we do not believe that these costs were significant. The labor costs were incurred over the entire 14-month delay, and represented only 29 percent of the total overruns. Implementation of the warehouse management system was the primary cause of the delay and represented the largest portion of the overruns. Although FSS delayed the relocation to Sharpe because of the war, it did not halt implementation of the warehouse management system. Furthermore, the Sharpe depot was not ready for occupancy at the time that FSS suspended the move.

As for the ODCs, management stated that the purchase of products as ODCs is an acceptable business practice using a service contract. Advantages for using ODCs included: (i) a reduction in time; (ii) a single contractor who performs the work; and (iii) prices controlled through negotiations. We recognize that ODCs can be procured under a service schedule; however, they should be ancillary to the project and not the types of items that were included such as the pick engines and the radio frequency system. Nor should they represent 48 percent of the original contract value. Although the schedule program might have reduced the time it took to award the project, FSS could have contracted with a single vendor to provide services and materials for the entire project through open market competition. Further, the selection of vendors only from the LogWorld schedule limited the pool of potential contractors that might have been able to compete, thereby stifling competition and leaving open the question of the government receiving best value. Similarly, regarding negotiation, although a reasonable price can be negotiated, the fact the ODCs were not competed also calls to question whether the best price was received or if a better price could have been obtained through competition.

INTERNAL CONTROLS

We performed a review of internal controls related to contract award and administration of the WDC Relocation Project. Our results are identified in the body of this report.

GSA Federal Supply Service

October 25, 2005

MEMORANDUM FOR EUGENE WASZILY
ASSISTANT INSPECTOR GENERAL
FOR AUDITING (JA)

FROM: BARBARA L. SHELTON
ACTING COMMISSIONER (FAS)

SUBJECT: GSA Draft Report, "Review of Western Distribution Center Relocation Project, Federal Supply Service" (A050005)
Dated August 25, 2005

The above referenced report is the third audit associated with the relocation of the FSS Western Distribution Center (WDC) from Stockton, California, to French Camp, California (Sharpe Depot). The review suggested: (a) FSS personnel did not fully comply with prescribed procurement rules, regulations and generally accepted practices: (b) the procurement was inadequately competed, and as a consequences, FSS was not assured of receiving fair and reasonable pricing or best value for the procurement; and (c) there were weaknesses in the management controls pertaining to the procurement.

For ease of reference, we've addressed each of the report's recommendations below and describe the steps we plan to take to address the deficiencies identified in the report. Before discussing the recommendations, however, we would like to offer comments on two issues raised in the audit report.

First, while costs exceeded the original estimates for this project, the Sharpe Depot implementation coincided with the build-up and support of combat operations for the Iraq war and required an inventory level far exceeding original project design. Keeping two depots in operation to meet the sustained surge in labor-intense war-related workload and inventory levels exceeding original project design were amongst the key reasons behind the significantly increased costs - - and not poor program management.

Second, we take issue on the section in the audit report that questions the propriety of obtaining products under the category "Other Direct Costs" (ODC's) in a service contract. It is a commonly accepted business practice for service providers to offer ancillary products used in the delivery of their services. This is one way service providers reduce the time required to deliver market solutions to their customers. In addition to time savings, there are inherent advantages and additional value provided when one contractor is responsible for the performance of a large and complex, integrated system. To address concerns about costs, aggressive negotiations can take place under task orders for ODC's and reasonableness of pricing can be determined prior to acquiring products through these arrangements.

OIG Recommendations and FAS Response:

1. Strengthen management controls over the acquisition process to promote competition and sound business practices

FAS concurs with this recommendation and has taken a variety of approaches to strengthen management controls over the acquisition process.

(1) Organizational Focus/Supportive Structure. FAS is implementing a greatly expanded Office of Acquisition Management (OAM) with contract integrity as a key focus. Acquisition Review and Improvement is an important component of the OAM organization.

(2) Training. Acquisition activities are working on a continual basis to ensure contract specialists receive training on proper acquisition procedures and understand that compliance with acquisition policies is critical to GSA's goal of "acquisition excellence".

(3) Evaluation. To gauge associate knowledge and the effectiveness of training, in March 2003, the Acquisition Quality Measurement and Improvement Program was established. As part of this program, contracts from each Acquisition Center are reviewed each quarter. Contracts are randomly selected, assessed for regulatory compliance against established guidelines, and scored as either "Excellent", "Satisfactory", "Acceptable with Conditions", or "Unsatisfactory".

(4) Nationwide Performance Management. Acquisition Centers use the results from the quarterly contract quality reviews to improve associate training as well as to implement appropriate initiatives or corrective actions to improve performance. In addition, the scores from these reviews are compiled and used as the results for the annual Contract Quality performance measure. The Contract Quality reviews commenced in 2004 with the Special Order Program (SOP) and expanded in FY 2005 to include Schedule contract awards. In 2006, we plan to expand these reviews to include internal procurements of products and services for projects like the Sharpe Deport acquisition.

(5) Individual Competency. In addition to the nationwide program measure, Contract Quality is also a factor in contract specialist performance

appraisals. Specifically, the factor requires each GS-1102 contract specialist to be evaluated as to whether contract actions are supported and in compliance with regulatory and internal guidelines and that documentation is complete and properly filed and formatted.

2. Heighten awareness among all FSS associates of the importance of proper procurement practices

FAS concurs with this recommendation and has already taken steps to heighten associate awareness of the importance of proper procurement practices. For example:

(1) "Get It Right" Plan. As part of this plan, associates are receiving training on the proper use of GSA contracting vehicles and services and Acquisition Centers are stressing compliance with federal acquisition policies, regulations and procedures.

(2) Performance Management. To ensure associates recognize its importance to the FAS organization, Contract Quality is a nationwide incentivized program performance measure. As previously discussed, contracts are randomly selected and assessed for regularity compliance against established guidelines. The results of the reviews are used to monitor whether the organization is making improvements in contract quality.

(3) Associate Performance Plan and Appraisal System (APPAS). Contract quality is a factor that is to be considered by supervisors during the GSA annual appraisal process for contracting specialists.

3. Enforce compliance with acquisition policies, regulations and procedures.

FAS concurs with this recommendation and is addressing compliance with acquisition policies, regulations and procedures through:

(1) Organizational Design. OAM reports directly to the FAS Commissioner with a dotted line reporting relationship to the Chief Acquisition Officer (CAO). The CAO provides input for the OAM Assistant Commissioner rating. OAM is aligned and integrated with the CAO, who provides policy and guidance, to ensure the consistent application of acquisition policy and guidelines across the new business portfolios and FAS as a whole.

(2) Organizational Focus/Supporting Structure. FAS is implementing a greatly expanded OAM with contract integrity as a key focus. An important support unit in OAM is Acquisition Review and Improvement. This component ensures

contract quality and integrity through a coordinated review process and documents and shares best practices that are “looped back” into training.

(3) Measures and Targets. To ensure compliance with acquisition policies, regulations and procedures, Contract Quality is a performance measure for the acquisition program as a whole and for individual contact specialists. Contract quality is a factor that is to be considered by supervisors during the GSA annual appraisal process for contracting specialists.

Conclusion

FAS believes the Sharpe Depot project resulted in an acceptable value outcome when project complexity, cost, risk/security of the supply chain, and response to military actions are taken into consideration.

Nonetheless, FAS concurs with the recommendations and acknowledges there is room for improvement in the handling of acquisitions by our associates. We are confident that the organizational changes and actions discussed above will enhance management controls and ensure associates comply with all applicable regulations and procedures in future acquisitions.

cc: Joseph J. Brewster (JA-9)
Peter Stamison (9A)
John W. Boyan (9F)

CONTRACT PROCUREMENT REVIEW OF THE
WESTERN DISTRIBUTION CENTER
RELOCATION PROJECT
FEDERAL SUPPLY SERVICE
REPORT NUMBER A050005/F/9/V06001

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