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REVIEW OF AWARD FOR STREAMLINED
TECHNOLOGY ACQUISITION RESOURCES
FOR SERVICES (STARS) GOVERNMENT-WIDE
ACQUISITION CONTRACT (GWAC)
REPORT NUMBER A050213/Q/6/P07001
DECEMBER 27, 2006

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ACQUISITION RESOURCES FOR SERVICES (STARS)
GOVERNMENT-WIDE ACQUISITION CONTRACT (GWAC)
REPORT NUMBER A050213/Q/6/P07001

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U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

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Date :December 27, 2006

Reply to

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

Subject :Review of Award for Streamlined Technology Acquisition Resources for Services
(STARS) Government-Wide Acquisition Contract (GWAC)
Report Number A050213/Q/6/P07001

To :James A. Williams
Commissioner, Federal Acquisition Service (Q)

We have completed a review of the 8(a) Streamlined Technology Acquisition Resources for Services (STARS) Government-Wide Acquisition Contract (GWAC). The review determined if the Center's controls over the administration of the 8(a) STARS contracts were adequate to provide reasonable assurance that the contracts were being used properly.

We determined that the Center has reasonable controls as they relate to the accuracy of OMB data, fair opportunity, split procurements, and other direct costs, and with minor adjustments, the Center can enhance assurance over program compliance in those areas. However, we also determined that undetected out of scope task orders and disproportionate subcontracting have occurred.

The report recommends that the GWAC Center clarify specific contract language, standardize review processes, focus resources on high-risk procurements, and take corrective action on out of scope orders identified during the review. In addition, the report provides additional suggestions to improve current processes.

Your response to the draft audit report is included in its entirety as Appendix A of this report.

If you have any questions or would like additional information regarding the report, please contact Laurel Caes, Tina Stuart, or me on 926-7052.

Erin P. Priddy
Audit Manager
Heartland Region



REVIEW OF AWARD FOR STREAMLINED TECHNOLOGY
ACQUISITION RESOURCES FOR SERVICES (STARS)
GOVERNMENT-WIDE ACQUISITION CONTRACT (GWAC)
REPORT NUMBER A050213/Q/6/P07001

INTRODUCTION

Background

The 8(a) Streamlined Technology Acquisition Resources for Services (STARS) Government-Wide Acquisition Contract (GWAC) is a small business set-aside contract for technology solutions. The Small Business GWAC Center (Center) is responsible for STARS program development, contract awards, and contract administration. The Center's goal is to provide small business firms a fair opportunity to compete for technology solutions work in the federal marketplace. The program encourages the small businesses to develop and become "best in class" technology providers.

The Center awarded STARS contracts to 413 vendors on June 1, 2004. STARS contracts are indefinite delivery, indefinite quantity contracts that have a base period of 3 years and two 2-year options. The overall program ceiling is \$15 billion with no individual contract ceilings.

Federal customers can procure a variety of information technology services and associated products from STARS vendors, as STARS covers eight Functional Areas (FAs) designated by the North American Industry Classification System (NAICS). The Center maintains a list of vendors qualified to perform in each of the eight FAs.

As of November 17, 2005, 159 of approximately 425 vendors in the program (37%) had performed under the contract. The total order value from June 1, 2004 through November 17, 2005 was \$273,198,092. The average order value of task orders was about \$300,000, but orders ranged in value from approximately \$4,000 to \$20.8 million. To procure services through STARS, the ordering contracting officer (OCO) must have received a delegation of procurement authority for STARS from the Center. Currently there are approximately 400 OCOs with delegation authority .

Objective, Scope and Methodology

The objective of the review was to determine if the Center's controls over the administration of the 8(a) STARS contracts were adequate to provide reasonable assurance that the contracts were being used properly.

We identified control objectives related to ensuring fair opportunity for STARS vendors; reporting accurate program data to OMB; and prohibiting split procurements, out of scope task orders, and disproportionate subcontracting and other direct costs.

We conducted the review during June 2005 through December 2005. Most of our control testing was based on a judgmental sample of ten task orders selected on November 17, 2005. The sample task orders included the seven largest dollar task orders and represented 18 percent of the total value of all task order awards between June 1, 2004 and November 17, 2005.

To accomplish the objective of our review, we:

1. Reviewed prior Office of Inspector General reports on the Federal Technology Services Client Support Centers.
2. Reviewed a prior field pricing support report of the STARS contract award.
3. Attended an 8(a) STARS industry day.
4. Reviewed the 8(a) STARS contract and ordering guidelines.
5. Reviewed the 8(a) STARS website for available information.
6. Reviewed Federal Managers' Financial Integrity Act (FMFIA) statements, performance data, OMB data, and task order specific information.
7. Held discussions with Center officials regarding Center responsibilities, current program controls, control limitations, and planned control improvements.
8. Developed a flowchart showing the processes involved with the Center's oversight of the STARS program.
9. Analyzed current program controls.
10. Reviewed a judgmental sample of ten task orders to test controls and expanded the review sample where warranted.
11. Attended one of the Center's biweekly review meetings and reviewed the Center's biweekly review meeting records.
12. Reviewed 8(a) STARS OCO delegation certifications.
13. Reviewed controls over vendor subcontracting limitations.

The review was conducted in accordance with generally accepted Government auditing standards.

RESULTS OF REVIEW

Brief

The results of our review indicate that the Center has taken a proactive approach to developing and maintaining controls to ensure ordering contracting officers (OCOs) and 8(a) STARS vendors use the GWAC properly. Current control initiatives include conducting OCO and vendor training, reviewing task order information for every task order, and tracking task orders through completion. We believe controls as they relate to the accuracy of OMB data, fair opportunity, split procurements, and other direct costs were reasonable, and with minor adjustments, the Center can enhance assurance over program compliance in those areas. However, despite the Center's ambitious attempt to monitor every task order, undetected out of scope task orders and disproportionate subcontracting have occurred. We believe the Center can improve controls in these areas by focusing on high-risk task orders and developing standardized review procedures.

Proactive Approach to Controls

OCOs are responsible for complying with all procurement regulations and requirements related to awarding task orders under the STARS contract, including but not limited to competition requirements and ensuring price reasonableness on individual task orders. As the overall contract administrator, the Center has been proactive in developing and administering program controls to monitor use of the contract that provide additional assurance of proper use. We determined that while these program controls generally provide adequate assurance that the program will be used properly, much of the information used by the Center to evaluate program use is provided by the OCOs and vendors; accordingly, the effectiveness of the controls depends in large part upon the accuracy of the information provided. Some of the controls include:

- **Stakeholder Training.** Since the start of the program, the Center has provided training for vendors and OCOs to educate them in program usage. The Center requires OCOs to complete training before it will authorize them to award STARS task orders. OCO authorizations consist of a delegation of authority certification, which the Center has developed to ensure that OCOs are aware of program requirements.
- **OCO Reporting Requirements.** OCOs must submit copies of the following to the Center after awarding each task order: Statement of work (SOW), award form (GSA Form 300, SF1449, DD1155, or similar form), and a basic award order information form (information form), which summarizes pertinent task order information.
- **Task Order Reviews.** The Center evaluates the task order information submitted by the OCO for appropriateness to functional area, appropriateness to the program,

and appropriate levels of subcontracting and other direct costs. Currently, the Center reviews 100 percent of the task orders in the STARS program. For orders greater than \$3 million, the Center follows-up with the OCO to ensure that the OCO provided fair opportunity to all eligible vendors prior to award, as required by FAR 19.805-1(a)(2).

- Subcontracting Reports. The Center requires that STARS vendors submit semi-annual subcontracting reports certifying the level of subcontracting each vendor has used. The Center reviews the reports to monitor subcontracting levels in accordance with Small Business Administration requirements and FAR 52.219-14, which require the contractors to limit subcontracting to 50 percent over the life of the STARS contract. The Center has advised vendors that a lack of compliance with this reporting requirement constitutes sufficient cause to terminate the vendor for default.
- Bi-weekly Review Meetings. Twice weekly, Center officials meet to discuss issues raised as a result of task order review or stakeholder requests and inquiries. Since the start of our review, the Center has developed a form to summarize the task orders discussed in the meetings, which should improve the Center's review process.
- Past Performance Questionnaire. The Center requires STARS clients to submit a past performance questionnaire at completion of performance of a task by a STARS vendor. The Center maintains the questionnaires and uses them to ensure that program vendors are providing adequate services.

Accuracy of OMB Data

We determined that the Center's reporting process provides reasonable assurance that its annual reports to the Office of Management and Budget (OMB) are accurate.

As an Executive Agent for OMB, the Center must fulfill specific responsibilities to meet OMB's expectations. To track the Center's effectiveness as an Executive Agent, OMB requires the Center to report program information. The Center's annual report to OMB includes: number of tasks that were subject to fair opportunity, number of tasks that included performance-based statements of work, task order types, level of competition, exceptions to the fair opportunity process, award values, and socio-economic breakdown.

To maintain program information, the Center requires all non-GSA delegated OCOs to report task order information to the Center after task order awards and modifications. The Center maintains an internal database that automatically records the specifics of task order awards made by GSA OCOs. When external OCOs submit task order information, the Center manually adds the data into its database. We believe there is potential for inaccuracy in reported information from external OCOs. However, Center officials advised that they further ensure OMB report data accuracy by reconciling OCO

reported task order information to task order information reported by STARS vendors in their semiannual subcontracting reports.

During our review, we reconciled the information from a sample of two task orders to the Center's task order database. We then compared the Center's task order database totals to the most recent OMB report. In both analyses, we were able to reconcile task orders to the OMB report.

Ensuring Fair Opportunity

We determined that the Center's controls to ensure fair opportunity are reasonable, and we believe that one of the controls could be simplified for greater efficiency.

The Center has developed and implemented controls to ensure OCO compliance with fair opportunity regulations in FAR 19.805-(1)(a). FAR 19.805-(1)(a) requires that every STARS vendor in the applicable functional area be given an opportunity to bid on all orders greater than \$3 million.

As part of the Center's delegation process, the Center trains OCOs on fair opportunity requirements and advises OCOs that they are responsible for (1) determining the appropriate functional area (FA), and (2) ensuring that tasks are competed among all vendors in the applicable FA. The Center reviews all task orders over \$3 million and requests verification of fair opportunity from the OCOs.

To test fair opportunity controls, we reviewed a judgmental sample of five task orders at or above \$3 million. In addition, we briefly reviewed the bi-weekly meeting records for fair opportunity issues. We determined that the Center verified fair opportunity for all orders in our sample by requesting that the OCO provide the number of quotes. In addition, we noted that the bi-weekly meeting records demonstrated that the Center has addressed fair opportunity in the past.

While current controls are adequate, we believe the Center could increase assurance of fair opportunity and eliminate the current process of following up with OCOs by adding fair opportunity questions to the information from the Center already requires from OCOs for each task order.

Split Procurements

We determined that the Center's controls over split procurement violations are reasonable and could also be enhanced to ensure OCO and vendor compliance.

In accordance with FAR 19.805-1(a)(2), sole source orders up to \$3 million are allowable in the STARS program. However, orders exceeding \$3 million require fair opportunity to compete, which allows all vendors in the applicable FA fair opportunity to

bid. FAR 19.805-1(c) further supports the limitation by stating that a proposed 8(a) requirement with an estimated value exceeding \$3 million shall not be divided into several requirements for lesser amounts in order to use 8(a) sole source procedures for award to a single firm. Evidence of split procurements involving OCOs and STARS vendors could significantly harm the reputation of the STARS program. We suggest, therefore, that the Center consider a periodic structured review to monitor stakeholders' compliance with the prohibition on split procurements.

Current Center controls include formal stakeholder training and informal task order database review. Stakeholder training ensures that vendors and OCOs are aware of sole source limitations. Center officials advised that the database reviews are designed to ensure stakeholder compliance with those requirements. The Center advised that during the database review, they look for patterns in the data to identify split procurements, and they monitor orders close to the \$3 million threshold. If any suspicious activity is detected, the Center proceeds with a more in-depth review of the statements of work (SOW) for those task orders.

We reviewed the task order database as of November 17, 2005, for potential split procurements and identified two examples of multiple sole source orders from the same vendor to the same client on the same date that totalled more than \$3 million. While our follow-up on the questionable orders revealed that neither was a split procurement, we noted that the Center did not annotate either order as a potential split procurement.

We encourage the Center to continue with current controls over split procurements. However, we suggest a more formal approach to database reviews on a periodic basis. By performing various database sorts to assist in identifying attributes that could indicate a split procurement on a quarterly basis, the Center could enhance its controls. Quarterly reviews should also help the Center identify sole source tasks that have expanded past the 8(a) competitive threshold through modifications.

Other Direct Costs (ODC)

We determined that the Center's controls to monitor other direct costs (ODCs) are reasonable and could also be enhanced to provide greater assurance that task order costs are predominately for services and not for other direct costs (ODCs) or costs not pre-priced under the contract (NLIs).¹

The STARS program could be at risk if OCOs and vendors do not comply with restrictions over items not pre-priced under the contract (ODCs and NLIs), especially on noncompetitive task orders valued under \$3 Million, where the risk is increased that

¹ The Office of Regional Counsel issued an opinion that, in part, explained that ODCs are items not pre-priced as they pertain to time-and-material and labor-hour contracts, and that the term, ODC, does not pertain to fixed price task orders. For purposes of this report, we refer to items not pre-priced under the contract as they pertain to fixed price contracts as non-labor items (NLIs), although we note that these costs may include labor costs that were not pre-priced such as subcontractor labor, training services, etc.

ODC/NLI pricing may not be fair and reasonable. Center officials stated that controls over ODCs have increased through their implementation of training and reviews; however, we did not evaluate whether these steps resulted in improved controls.

The STARS contract is to be used primarily to purchase technology services, with hardware, software, and related supplies being procured as part of an integrated solution. On May 6, 2006, the Center modified the STARS contract to improve controls over ODCs. The modification requires that: (1) for all tasks that include ODC items, the ODC items must be firm fixed price at the time of award; (2) the predominate work in terms of total dollar value for each task is to consist of services from the pre-established contract labor categories; and (3) while hardware and software are permitted ODCs, these items are to be subordinate to the services-based solution and must not be separately orderable. The Center has taken other steps to mitigate risks of excessive ODCs, including formal training of OCOs and vendors and by reviewing task order documentation.

We reviewed a judgmental sample of ten task orders, including the seven largest dollar task orders in the program at the time of review, to test controls over ODCs. In the final analysis, we found no ODC restriction violations. However, based on input from the Heartland Office of Regional Counsel, the Center should advise OCOs that the true test of whether un-priced (non-labor) items in a task order (whether it is time and material, labor hour, or firm fixed price) are appropriate, is to look at the industry standard – the North American Industrial Classification System (NAIC) codes under which the procurement falls.

In addition, Regional Counsel advised that the ODC modification language is limited to time-and-material and labor-hour contracts in some instances, while the language appears to apply to all task orders in other instances, thereby creating confusion. While it appears that the intent of the Center in modifying the contract was to ensure that all task orders awarded were primarily IT services as they pertain to each functional area, current contract language does not clearly address items that were not pre-priced (NLIs) as they pertain to fixed price contracts. This situation could put the STARS program at risk for abuses through award of fixed price task orders.

Accordingly, the Center could enhance controls over items not pre-priced under the contract by requiring OCOs to (1) include total ODCs/NLIs on the award documentation and/or the information form submitted to the Center and (2) prepare a justification, based on industry standards, for awarding task orders where ODCs/NLIs exceed 50 percent of the task order dollars. In addition, the Center and program stakeholders would benefit from distinct guidance for firm fixed price tasks as well as time-and-material and labor-hour tasks. Further, we suggest that the Center provide clarification of the definition of “subordinate” in reference to the limitation of ODCs as compared to services, as it is not clear as currently written in the contract.

Recommendations

1. We recommend that the Center modify the STARS contract to clearly explain the conditions under which users can deviate from the ODC limitations set forth in the STARS contract.

Out of Scope Task Orders

The Center's controls to prevent and detect out of scope task orders do not appear to be adequate. Use of the STARS contract for other than its intended purpose also jeopardizes the program.

The STARS program provides its clients with vendors that are collectively capable of performing IT services in eight functional areas (FAs). Some STARS vendors are eligible for tasks in only one FA, while other STARS vendors are eligible for tasks in a number of FAs. The Center maintains lists of vendors capable of providing each of the eight specific FA services.

OCOs are responsible for determining which FA is appropriate to the individual task. If an OCO does not identify out of scope tasks or associates a task with an incorrect FA, there is potential for misuse of the STARS GWAC; specifically, selection of the wrong vendor, competition among the wrong vendors, award protests, and program abuse. Repeated misclassification of tasks could eventually result in loss of the program.

To mitigate out of scope related risks, the Center provides OCO and vendor training and reviews all SOWs for task orders issued under the STARS GWAC. However, despite the Center's OCO and vendor training and its 100 percent review of SOWs, we identified task orders that did not appear appropriate for the STARS program and task orders that were not appropriate for the FA solicited.

To test the controls, we reviewed the Center's biweekly program review meeting records and a judgmental sample of ten of the STARS program's task orders, which included seven of the largest task orders in the STARS program. The biweekly review meeting records confirmed that the Center has periodically questioned OCOs and vendors about the scope of task orders. In our sample of ten task orders, we determined that the Center identified one task order that was outside the scope of the STARS program and two task orders that were outside the scope of the FA. However, we identified two additional task orders in the sample that also appeared to be out of scope for the selected functional area or the STARS program that the Center did not identify. While we identified control weaknesses in the sample, which included the largest task orders, since the sample was judgmental, the results may not be representative of the entire population.

- The SOW for one task order indicated that only about four percent of the task order was for development of a call center system. The remainder of the task

order was to staff the call center operation and train call center staff. Four of the five labor categories on the SOW were not included under FA3, the FA designated for the order, or FA7, which covers call centers. Further, the experience required for key staff includes expertise in the client agency's organizational policies and procedures, experience in the development and delivery of adult education, and real estate or residential finance experience. These experience requirements are clearly not IT services. Thus, this task order did not appear appropriate for the FA or the STARS program.

- The SOW for another task order indicated that the primary purpose of the project was to perform auto-enrollment services for a Government program through use of a call center. Although it appears that the first three months of the task were applicable to FA2 and the STARS program (planning and building computer system capacity to operate a call center), the remainder of the effort was for operation of a call center. Key personnel requirements include experience with the Government program's regulations and enrollment system. These requirements are clearly not IT services. Thus, this task order does not appear appropriate for the FA or the STARS program.

Recommendations

2. We recommend that the Center take corrective action to address the out of scope task orders identified in our review.

To better ensure that task orders are appropriate for the STARS GWAC and the specific functional areas utilized, we recommend that the Center:

3. Focus task order reviews on the highest risk orders (task orders greater than \$3 million); task orders for the largest vendors and largest clients; and task orders with new stakeholders.
4. Develop a standardized SOW review process to maintain consistency in scope review.

Disproportionate Subcontracting

The Center's controls to prevent and detect disproportionate subcontracting also do not appear adequate. Highly disproportionate subcontracting levels jeopardize the vendor's ability to develop its own staff and expertise. In addition, because of the STARS program goal of developing small and disadvantaged business information technology abilities, the program could face significant risks if subcontracting is not adequately monitored and controlled. FAR 52.219-14, Limitation on Subcontracting, requires that at least 50 percent of labor costs on 8(a) contracts be expended for employees of the 8(a) vendor. 13CFR 124.510 has the same requirement and states that the 8(a) contractor

must perform at least 50 percent of the applicable costs to date at six-month intervals. Therefore, if an 8(a) vendor has subcontracted more than 50 percent of its work, after the six-month period ends, it will have subcontracted disproportionately. While we understand that the subcontracting limitation applies to the vendor's total contract rather than individual task orders, the semi-annual subcontracting reports allow the Center to monitor the ratio on an ongoing basis, which is necessary to ensure that the contractor performs at least 50 percent of the applicable costs for the combined total of all task orders.

Through vendor training, the Center advises STARS vendors about disproportionate subcontracting. The Center also requires STARS vendors to submit semiannual subcontracting reports that include the total value of each task order, the value of work completed, and the percentage of work completed by subcontractors. If a STARS vendor does not provide timely and accurate subcontracting reports, the Center may remove the vendor from the STARS program. Once disproportionate subcontracting is identified, the Center can counsel the vendor on the need to monitor and manage subcontracting levels to improve the ratio on future tasks.

To test current controls over disproportionate subcontracting, we reviewed a judgmental sample of ten task orders, including seven of the Center's largest task orders. For one task order, we determined that the vendor relied on subcontracting for 95 percent of the work. We also noted that several other tasks in our sample indicated a strong probability of heavy subcontracting as the tasks continue. Accordingly, we expanded our review to include an additional random sample of ten task orders from the remaining STARS task orders and identified two additional task orders with very high subcontracting levels (over 90 percent).

At the time of our review, Center officials advised us that due to personnel turnover, they had not been able to review vendor subcontracting reports, but they planned to review all the reports and follow-up with vendors reporting disproportionate subcontracting levels. Center officials advised us that follow-up measures will consist of warning the vendor that their contract could be in jeopardy and requesting an action plan with specific steps the vendor plans to take to reduce overall subcontracting levels for work performed under the contract. Center officials also stated that they would not exercise contract options for noncompliant vendors. These procedures should serve to enhance controls over disproportionate subcontracting.

An additional control the Center is considering is the implementation of FSS Contract Management Center (FXC) reviews over STARS vendor contract compliance, including subcontracting limitations. In discussions with STARS officials, we expressed concern that vendors may be tempted to misrepresent unfavorable subcontracting levels in their subcontracting reports once the Center denies the award of options for vendors not in compliance with subcontracting restrictions. Center officials advised that they have held preliminary discussions with FXC regarding the possibility of FXC conducting reviews of STARS vendors. We believe implementation of FXC or equivalent reviews would greatly enhance controls to ensure accurate subcontracting reports. We also suggest that the

Center could add questions regarding subcontracting levels to the information form required from the OCO for each task order. This information would assist the Center identify and address disproportionate subcontracting levels earlier.

As indicated above, we identified several task orders with disproportionate subcontracting, which indicates that current controls need to be enhanced. However, we recognize that the Center's current control efforts are useful tools to educate stakeholders and identify disproportionate subcontracting. We commend the Center for proactively planning and considering additional controls, including follow-up on subcontracting reports and implementation of FXC reviews, which we believe would enhance current controls.

Recommendation

To compliment the Center's current initiatives and further enhance planned controls related to subcontracting, we recommend that the Center:

5. Develop standardized procedure for timely review and follow-up of subcontracting reports.

Management Comments

We obtained agency comments throughout the audit and had open dialogue with the agency throughout the review process. On December 20, 2006, the agency provided a formal response to the report, stating that the Small Business Government-wide Acquisitions Contracts Center has implemented all five recommendations contained in this report. Management's response is included in its entirety as Appendix A to this report.

Internal Controls

Our review of internal controls was limited to controls as they relate to the Center's objective to improve vendor and OCO compliance with the FAR and the terms and conditions of the STARS program. We determined that there were adequate controls over OMB data accuracy, fair opportunity, split procurements, and other direct costs. However, we identified control weaknesses over out of scope task orders and disproportionate subcontracting.

APPENDICES

MANAGEMENT RESPONSE



GSA Federal Acquisition Service

DEC 20 2006

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

FROM: JAMES A. WILLIAMS
COMMISSIONER
FEDERAL ACQUISITION SERVICE (Q)

A handwritten signature in black ink that reads "James A. Williams".

SUBJECT: Draft Report on Review of Award for Streamlined Technology
Acquisition Resources for Services (STARS) Governmentwide
Acquisition Contract (GWAC), Report Number A050213

We appreciate the opportunity to respond to the draft report on the Streamlined Technology Acquisition Resources for Services Governmentwide Acquisition Contract (STARS GWAC).

The report includes five recommendations that the Small Business Governmentwide Acquisition Contracts Center (SB GWAC) has implemented during the review process. As the STARS GWAC was a relatively new contract at the outset of the subject audit, many of the management controls were in the process of being implemented at the time of the audit, and the recommendations included have assisted the SBGWAC Center in implementing those controls. The Center appreciates the insight this review has provided on the 8(a) STARS GWAC.

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