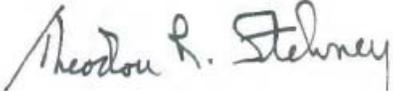




**Office of Audits
Office of Inspector General
U.S. General Services Administration**

DATE: March 13, 2015

TO: Thomas A. Sharpe, Jr.
Commissioner
Federal Acquisition Service (Q)

FROM: Theodore R. Stehney 
Assistant Inspector General for Auditing
Office of Audits (JA)

SUBJECT: Major Issues from Multiple Award Schedule Preaward Audits
Audit Memorandum Number A120050-5

For the past three years, my office has issued memoranda¹ (MAS Major Issues memoranda) outlining recurring issues within the Federal Supply Schedule program (Schedules Program).² These issues were identified by our preaward audits of Multiple Award Schedule contracts (preaward audits) performed the previous year. This memorandum details four issues identified during our Fiscal Year (FY) 2013 preaward audits. We have previously reported each of these issues to the Federal Acquisition Service (FAS) in MAS Major Issues memoranda. Based on their continued presence, the following issues need additional management attention:

- For over three-quarters of the contracts we audited, contractors provided Commercial Sales Practices (CSP) disclosures that were not current, accurate, and/or complete to support their proposed prices.
- Half of the audited contractors supplied labor that did not meet the minimum educational and/or experience qualifications required by their GSA contracts.
- Over one-third of the audited contractors did not have adequate systems to accumulate and report schedule sales, and many contractors improperly calculated their Industrial Funding Fee (IFF) for remittance to GSA.
- Contracting officers are not fully achieving cost avoidances identified by preaward audits.

¹ Memoranda dated September 26, 2011, March 8, 2013, and March 25, 2014.

² The Federal Supply Schedule program is also known as the GSA Schedules Program or the Multiple Award Schedule Program.

Results

In FY 2013, Schedules Program sales exceeded \$35.8 billion. In this same year, we performed 51 preaward audits of contracts with \$14.5 billion in estimated sales for the proposed 5-year option periods. We recommended price and discount adjustments that, if realized, would allow for over \$1.6 billion in cost avoidances. Additionally, we recommended over \$2.7 million in recoverable overcharges.

Commercial Sales Practices (CSP) disclosures were not current, accurate, and/or complete

For over three-quarters of the contracts we audited in FY 2013, contractors submitted flawed CSP disclosures to FAS contracting officers. The reliance on deficient CSPs when awarding contracts greatly reduces a contracting officer's ability to obtain fair and reasonable pricing.

Of the 51 FY 2013 preaward audits, we evaluated proposed prices for 30 of the contracts using the submitted CSP disclosures.³ The CSPs contained non-current, inaccurate, and/or incomplete information in 23 of those audits (77 percent). We calculated that FAS contracting officers could obtain a potential cost savings of over \$895 million if they negotiate contract pricing using current, accurate, and complete CSP information.

Half of the recommended cost savings is attributable to one contract where GSA was not receiving most favored customer pricing even though GSA sales significantly exceeded sales of any commercial customer.⁴ For one special item number under the contract,⁵ the average GSA order size was more than 17 times greater than that of non-GSA customers; however, GSA customers received an average discount that was approximately 9 percent less than the average discount given to non-GSA customers. The contractor's pricing practices also varied greatly from the discounts disclosed in its CSP. If the contracting officer negotiates most favored customer pricing for this contract, the government could realize over \$482 million in cost savings during the 5-year option period.

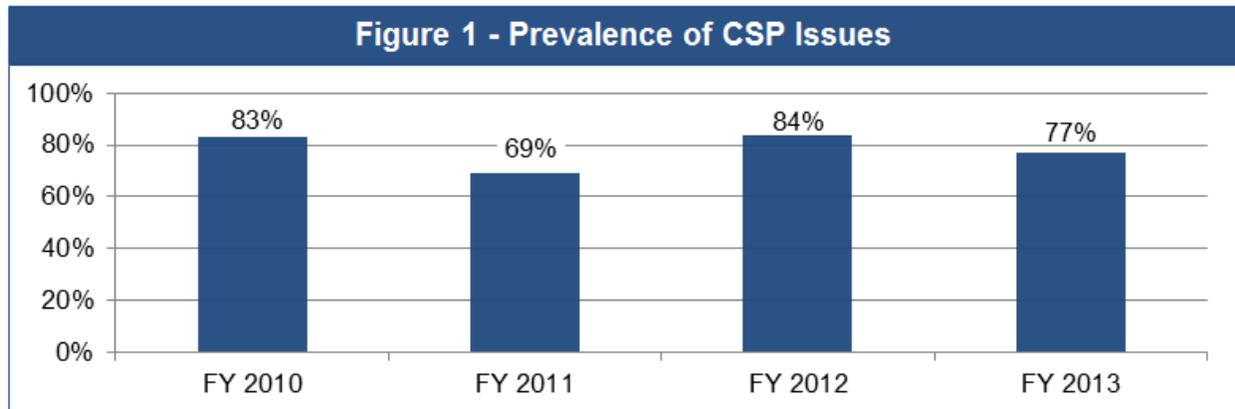
Figure 1 outlines the prevalence of CSP issues identified in our preaward audits over the past 4 fiscal years. We have notified FAS management of these issues in our MAS Major Issues memoranda for FYs 2010-2012. While the occurrence of CSP issues decreased by 7 percent in FY 2013, the percentage of deficient CSPs remains unacceptably high. FAS needs to take action to mitigate these continued CSP

³ The other 21 contracts were evaluated using cost buildup data. Cost buildup data is used when there is a lack of comparable commercial or other federal sales.

⁴ GSA sales exceeded that of the highest commercial customer by \$108.6 million in calendar year 2012.

⁵ A special item number is a group of generically similar products or services that are intended to serve the same general purpose or function.

deficiencies as this information is essential to achieving the best value for customer agencies, and ultimately, the American taxpayer.



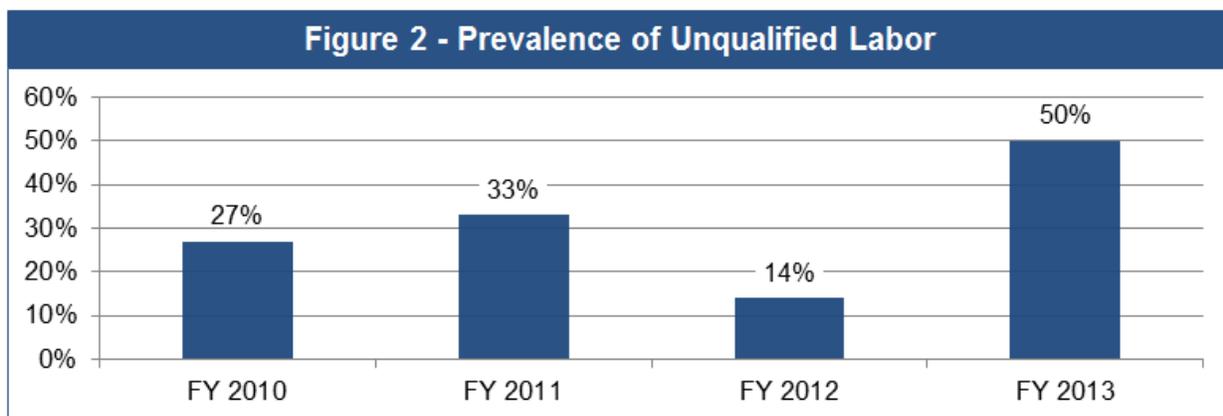
Contractors provide customer agencies with unqualified labor

Half of our FY 2013 preaward audits of service contracts found that customer agencies were overcharged for professional services. The employees providing these services did not meet the minimum educational and/or experience qualifications required by their respective GSA contracts.

We audited 34 service contracts and found 17 (50 percent) in which contractors charged customer agencies for labor that did not meet the contracts' minimum qualifications. In one audit, nearly two-thirds of the contract employees we examined were not qualified for the labor categories to which they were assigned. Of these unqualified employees, 75 percent failed to meet the minimum educational requirements, and 25 percent did not meet the minimum experience requirements. As a result, the customer agency was overcharged \$569,409 for unqualified labor during the 6-month period covered by the audit.⁶

Figure 2 illustrates the frequency of unqualified labor, as identified by our preaward audits, over the last 4 fiscal years. The instances of unqualified labor in FY 2013 increased substantially as compared to the previous 3 fiscal years, indicating that customer agencies increasingly did not receive the level of services they paid for. This fact, coupled with the knowledge that we previously highlighted this same issue in our FY 2010 and FY 2011 MAS Major Issues memoranda, illustrates the need for FAS to take action to enforce the contractual requirement that contractors provide GSA schedule customers with individuals who possess the specified labor qualifications.

⁶ We are currently conducting a postaward audit of the contract to quantify the total overcharges from unqualified labor.



Contractors have inadequate systems to accumulate and report schedule sales and are improperly computing their Industrial Funding Fee (IFF) payments

Of the 51 preaward audits performed in FY 2013, we identified 19 instances (37 percent) of inadequate systems used to accumulate and report schedule sales. As a result, GSA cannot ensure it is collecting the correct IFF from the contractor.⁷

Of those 19 instances of inadequate systems, 17 were found to have improperly computed the IFF.⁸ Over half of the audits that identified improper IFF computations resulted in recommended monetary recoveries.⁹ For example, one audit found that a contractor failed to report \$22.5 million in schedule sales during a 5-year period by not properly identifying sales from four product lines as schedule sales. As a result, the contractor owed \$175,056 for unpaid IFF.

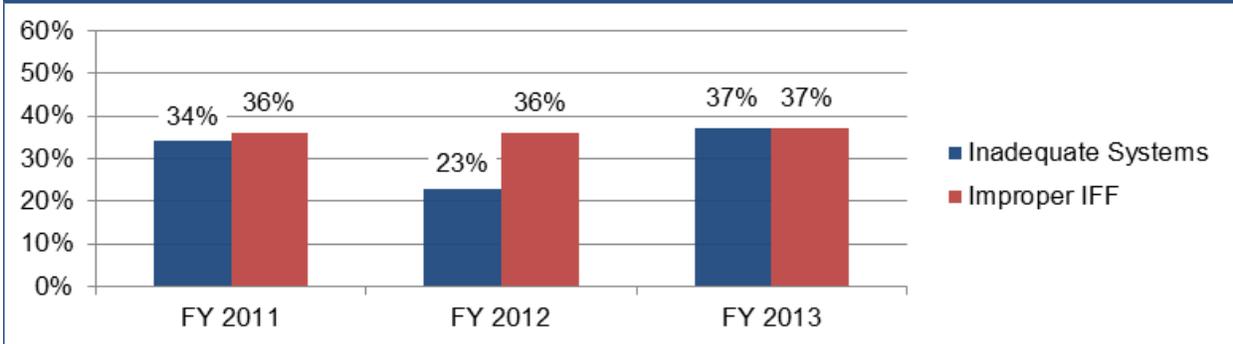
Figure 3 illustrates the incidence of these issues since FY 2011, which has been fairly consistent for the past 3 fiscal years. We previously reported these issues to FAS management in our FY 2011 MAS Major Issues memorandum. FAS needs to strengthen controls, including additional oversight, to ensure schedule contractors have adequate systems to accumulate and report schedule sales and ensure proper IFF payments.

⁷ The IFF is the method in which GSA is reimbursed for administering the Schedules Program. This fee is included in the award price of goods and services and is used to cover the operating costs of the Schedules Program. General Services Administration Acquisition Manual Section 552.238-74 requires contractors to accurately report schedule sales on a quarterly basis and to remit the IFF within 30 days of the end of each reporting period.

⁸ A contractor's capability to accumulate and report schedule sales is distinguishable from a contractor's capability to accurately calculate IFF; therefore, preaward audits may identify a contractor who is deficient in one area but not the other. For example, two audits identified improper IFF payments although their systems were determined to be adequate.

⁹ In some instances, contractors over-reported IFF which resulted in no recommended recoveries.

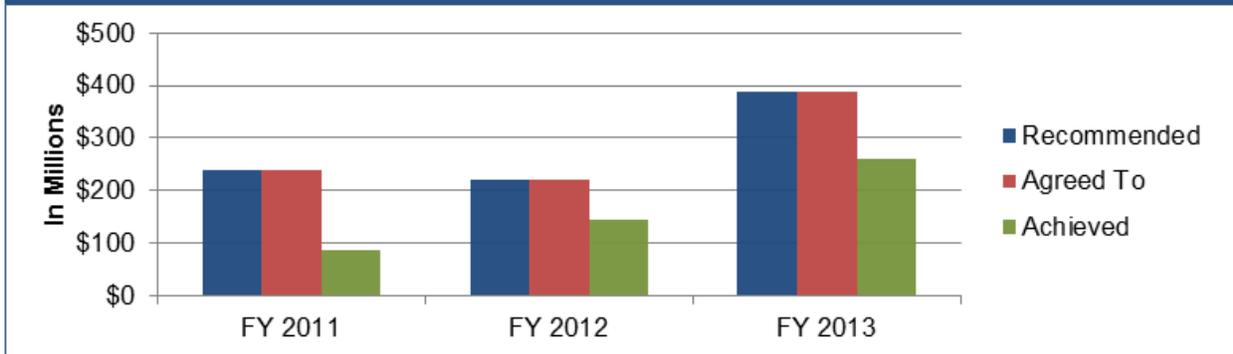
Figure 3 – Prevalence of Inadequate Systems to Accumulate and Report Schedule Sales and Improper IFF Calculations



Contracting officers are not fully achieving cost avoidances identified by preaward audits

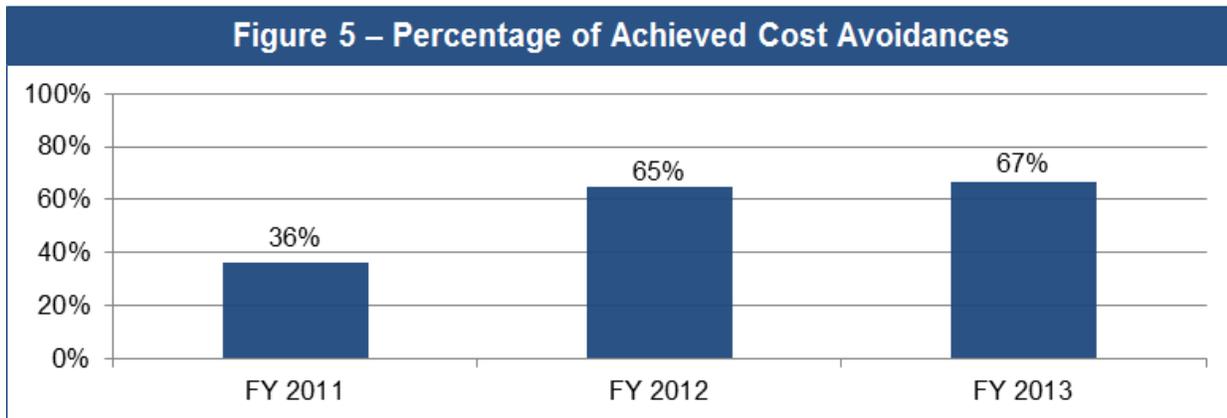
FAS contracting officers achieved savings for 67 percent of the recommended cost avoidances identified in our FY 2013 preaward audits when the pending option periods were awarded.¹⁰ This savings is despite agreeing with 100 percent of our recommended cost avoidances. We previously reported this issue to FAS management in our FY 2011 and FY 2012 MAS Major Issues memoranda. The recommended, agreed to, and achieved cost avoidance amounts of the contract options as reported in these MAS Major Issues memoranda are depicted in *Figure 4*.

Figure 4 – Status of Preaward Cost Avoidances



¹⁰ As of October 21, 2014, 19 of the 51 contract options audited in FY 2013 have been awarded.

The percentage of achieved cost avoidances for FY 2013 is consistent with the percentage of achieved cost avoidances for FY 2012, as shown in *Figure 5*. FAS has improved its achieved cost avoidance from 36 percent when first reported for FY 2011. However, given the overwhelmingly high percentage of contracting officers' agreement with our audit findings, FAS should take steps to improve negotiation results in order to maximize cost savings.



Conclusion

The Schedules Program, with FY 2013 sales of over \$35.8 billion, is the largest interagency contracting vehicle in the federal government. The four issues reported in this memorandum have been previously reported to FAS management in our MAS Major Issues memoranda. Their prolonged presence illustrates the need for additional management attention. Improvements in these areas will strengthen the integrity and cost effectiveness of the Schedules Program.

If you have any questions regarding this audit memorandum, please contact me or any member of the team at the following:

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