



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

Audit of Price Evaluations and Negotiations for the Professional Services Schedule Contracts

Report Number A160037/Q/3/P17001
March 21, 2017

Executive Summary

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Why We Performed This Audit

As a result of performing risk assessments evaluating Federal Acquisition Service (FAS) operations, we included this audit on the General Services Administration (GSA) Office of Inspector General *Fiscal Year 2016 Audit Plan*. Our objective was to determine if the price evaluation and negotiation of contracts and options awarded under FAS's Professional Services Schedule (PSS) comply with federal regulations and policies.

What We Found

FAS is not consistently evaluating and negotiating contracts and options awarded under the PSS in accordance with federal regulations and internal policies. In particular, FAS consolidated certain pre-existing contracts into the PSS that resulted in the award of new contracts without establishing price reasonableness, as required by the Federal Acquisition Regulation (FAR). Contracting officers also used a combined "Pre and Price Negotiation Memorandum" template that does not include all information required by the FAR and does not conform to FAS policy. Finally, contract files lack key information necessary to support contracting officers' fair and reasonable pricing determinations.

What We Recommended

Based on our audit findings, we recommend that the Commissioner of the Federal Acquisition Service:

1. Direct the Office of Professional Services and Human Capital Categories to perform a formal price analysis on PSS migrated contracts to determine if the contract pricing is fair and reasonable.
2. Direct the Office of Professional Services and Human Capital Categories to discontinue the use of the "Pre and Price Negotiation Memorandum" template and use the separate Pre-Negotiation Memorandum and Price Negotiation Memorandum mandated by FAS Instructional Letter 2011-02.
3. Develop and issue guidance to contracting staff on documenting detailed price analyses, including reviews of comparable labor categories and rates, in order to support contracting actions in the contract file.

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Introduction

Purpose

As a result of performing risk assessments evaluating Federal Acquisition Service (FAS) operations, we included this audit on the General Services Administration (GSA) Office of Inspector General's *Fiscal Year 2016 Audit Plan*.

Objective

Our objective was to determine if the price evaluation and negotiation of contracts and options awarded under FAS's Professional Services Schedule (PSS) comply with federal regulations and policies.

See **Appendix A** – Scope and Methodology for additional details.

Background

The FAS Multiple Award Schedule (MAS) Program provides customer agencies with access to more than 25 million commercial products and services under 25 different schedules. Contracts awarded under each schedule include pre-negotiated prices, delivery terms, warranties, and other terms and conditions intended to streamline the acquisition process. Schedule contracts are indefinite delivery, indefinite quantity and are typically awarded with a 5-year base period and three 5-year option extensions, totaling 20 years.

The MAS Program is authorized by two statutes: Title III of the Federal Property and Administrative Services Act of 1949, Public Law 81-152, and Title 40, U.S.C. Sec. 501, *Services for Executive Agencies*. MAS Program acquisitions are governed by regulatory guidance established within the Federal Acquisition Regulation (FAR), as well as the GSA Acquisition Regulation and internal FAS policies and guidance.

The intent of the MAS Program is to leverage the government's buying power in an effort to provide customer agencies with competitive, market-based pricing. The Competition in Contracting Act of 1984, Public Law 98-369, provides that orders placed under GSA's MAS Program meet competition requirements, as long as they result in the lowest overall cost alternative to meet the government's needs. To enable ordering agencies to meet this requirement, GSA's negotiation policy is to obtain the best price granted to the contractor's most favored commercial customer under the premise that the commercial marketplace establishes best pricing.

FAS's Office of Professional Services and Human Capital Categories, located in GSA's Northwest/Arctic Region, manages the PSS. Through this schedule, FAS offers a wide variety of services to federal agencies. These services include, but are not limited to, professional engineering, advertising and marketing, and business consulting services. In fiscal year 2016, the Office of Professional Services and Human Capital Categories

employed 82 contracting personnel who were responsible for administering 3,785 PSS contracts with more than \$10 billion in sales.

In 2015, FAS established the PSS by combining seven pre-existing professional services schedules, listed in *Figure 1*, into the existing 00CORP schedule. FAS then changed the title of the 00CORP schedule from the “Consolidated Services Schedule” to the “Professional Services Schedule.” According to FAS management, the consolidation enables customer agencies to procure a wide variety of services using one contract vehicle, which will increase program efficiency, reduce costs associated with the management of multiple schedules and contracts, and ultimately increase use by the federal community. FAS estimates that the consolidation will save GSA \$3.95 million in administrative costs over the first 5 years and result in sustained annual savings of \$1.29 million thereafter.

Figure 1 – Schedules Consolidated into PSS

Schedule Number	Schedule Title
520	Financial and Business Solutions (FABS)
541	Advertising and Integrated Marketing Services (AIMS)
738II	Language Services
871	Professional Engineering Services (PES)
874	Mission Oriented Business Integrated Services (MOBIS)
874V	Logistics Worldwide (Logworld)
899	Environmental Services

FAS used two different processes to consolidate the pre-existing contract offerings into the PSS:

- Transitioned Contracts – FAS “transitioned” pre-existing contracts where the contractors held only one professional service contract (e.g., solely a PES contract or solely a MOBIS contract). To accomplish this, FAS issued a contract modification that replaced the former solicitation with the PSS solicitation. Transitioned contracts retained all existing contract elements, including pricing, contract number, period of performance, and other terms and conditions. See *Figure 2* for an example of a contract transition. FAS used this process to convert 3,949 contracts into the PSS. These transitioned contracts accounted for \$5.8 billion in sales in fiscal year 2015.

Figure 2 – Example of Transitioned Contract

Former Schedule Title	Former Contract Expiration	New Schedule Title	New Contract Expiration
PES	10/1/2017	PSS	10/1/2017

- Migrated Contracts** – FAS “migrated” pre-existing contracts where the contractors held two or more professional services contracts (e.g., a separate PES and MOBIS contract). The migration process required contractors to submit an offer for a new contract under the PSS solicitation. FAS instructed the contractors to propose the current pricing, terms, and conditions for each contract in its new offer. FAS subsequently awarded a new contract to these contractors, complete with a new contract number and period of performance (20 years in total, including a 5-year base and three 5-year options). See *Figure 3* for an example of a contract migration. Using this process, FAS consolidated 721 separate pre-existing professional services contracts into 322 PSS contracts. These migrated contracts accounted for \$4.2 billion in sales in fiscal year 2015.

Figure 3 – Example of Migrated Contract

Former Schedule Title	Former Contract Expiration	New Schedule Title	New Contract Start Date	New Contract Expiration
PES	10/1/2017	PSS	10/2/2015	10/1/2020
MOBIS	11/1/2018			

Results

FAS's process to consolidate certain pre-existing service contracts into the PSS resulted in the award of new contracts without establishing price reasonableness, as required by federal regulations. Contracting officers also used a combined "Pre and Price Negotiation Memorandum" template that does not adhere to applicable requirements. Lastly, contract files lack detail necessary to support contracting officers' fair and reasonable pricing determinations.

Finding 1 – FAS's process to consolidate pre-existing services contracts into the PSS resulted in the award of new contracts without establishing price reasonableness as required by federal regulations.

During the process of consolidating contracts into the PSS, FAS migrated 721 pre-existing contracts into new PSS contracts. In doing so, FAS established 322 contracts, with estimated sales of \$21 billion over the 5-year base period. We sampled 45 contracts, accounting for over 78 percent of fiscal year 2015 sales of the 322 contracts. Of the sampled contracts, 44 contracts, with total annual schedule sales of \$2.5 billion, were awarded without required price analyses. As a result, prices for these contracts, and others awarded without required price analysis could remain unevaluated for up to 10 years, increasing the likelihood that customer agencies will overpay for services under these contracts and placing taxpayer dollars at risk.

According to FAS, the pre-existing contracts were migrated in accordance with FSS Acquisition Letter FC-01-7 – *Implementation of Corporate Contracting Across Acquisition Centers and Administration Zones*. This policy, established in December 2001, instructs contracting officers to process migrations as contract modifications to a pre-existing contract. However, FAS deviated from this policy because its current system does not allow for the issuance of a new contract number through modification to a pre-existing contract. As a result, FAS awarded new contracts with full 5-year base periods; whereas, the cited policy would have maintained the original period of performance of the modified contract.

Specifically, FAS required contractors with multiple service contracts to submit a new offer for a single contract under the PSS solicitation. The new offer was to be submitted with the same pricing, terms, and conditions included in the original contracts. When new offers were received, contracting officers verified that the terms and conditions of each new offer matched the existing terms and conditions of the contract to be migrated. However, contracting officers did not perform a price analysis or hold negotiations with contractors.

The lack of a price analysis was acknowledged in the award documentation of the 44 contracts awarded without a price analysis, with the following statement:

The purpose of this contract action is to migrate (combine) the following Individual Schedule Contracts (contract #s) into one single contract. As a

result, currently awarded services and prices from (company name) Individual Schedule Contracts are hereby transferred to GSA's Consolidated Schedule Program.... As this action is a transfer of currently awarded services and prices, a reevaluation of services, prices, and scope was not performed. Any changes to these areas, whether initiated by the Government or the Contractor, will be evaluated under a separate action and if approved, this contract will be modified accordingly.

Additionally, the award documents for 29 of the 45 sampled contracts contained the following statement regarding the contractor's pricing disclosures:

As this action is a consolidation of existing contracts with previously negotiated terms and conditions, (company name) was not required to update/change its MFC and price discount information to ensure that its pricing disclosures were current, accurate and complete as of 14 days prior to offer submission. If changes are necessary and/or the information needs to be updated, the contractor is advised to submit a modification request after the migration action is complete.

As a result, the pricing established at the time of the previous 5-year option awards may remain unevaluated for up to 10 years. For example, one contractor held separate MOBIS and FABS contracts with 5-year option periods effective November 1, 2010, and July 6, 2011, respectively. On October 7, 2015, FAS migrated both contracts – without conducting a price analysis or holding negotiations – into a new PSS contract with a 5-year base period ending on October 6, 2020.

FAR 15.402, *Pricing Policy*, requires contracting officers to determine whether offered prices are fair and reasonable and to price each contract separately and independently. Furthermore, while not in effect during the migration period, current FAS policy reiterates this FAR requirement. Specifically, FAS Policy and Procedures 2016-04, *Guidelines for the Award of Overlapping FSS Contracts (continuous contracts)*, states:

Proposed prices under the new offer must be determined fair and reasonable independent of the terms awarded under the existing contract. When evaluating the new offer, contracting officers must negotiate prices and pricing terms (e.g., economic price adjustment, basis of award, etc.) that represent the best possible deal for the Government. Though a comparison of proposed prices/pricing terms against those already awarded under the existing contract can provide valuable insight, contracting officers must not rely solely on this information when making a determination of fair and reasonable pricing.

FAS's process for migrating contracts to the PSS resulted in the award of new contracts without price analysis performed by a contracting officer. Such analysis of proposed pricing is required by federal regulations. Without this analysis, FAS and customer agencies do not have assurance that GSA schedule prices for professional services are

fair and reasonable. Therefore, FAS should perform a formal price analysis on PSS migrated contracts to determine if the contract pricing is fair and reasonable.

Finding 2 – The “Pre and Price Negotiation Memorandum” template used by PSS contracting officers does not conform to the FAR and FAS policy.

The contracting officers administering migrated and transitioned PSS contracts used a template to record contract negotiation actions. This template combines the Pre-Negotiation Memorandum and Price Negotiation Memorandum into one document. However, this template is missing key information required by federal regulation and FAS internal policy. Without this information, we were unable to determine whether contracting officers achieved their negotiation objectives and obtained best pricing.

FAS’s Instructional Letter (IL) 2011-02, *Mandating the Use of Pre-Negotiation, Price Negotiation and Final Proposal Revision Templates for the Federal Supply Schedules Program* (and supplements 1-5), requires the use of separate pre-negotiation and price negotiation templates for the award and administration of contracts. These separate templates are designed to meet FAR requirements for documenting contract negotiation actions. Specifically, the Pre-Negotiation Memorandum template is designed to meet FAR 15.406-1, *Prenegotiation Objectives*, which requires that contracting officers establish and document pre-negotiation objectives prior to the commencement of negotiations. The Price Negotiation Memorandum template is used to document the contracting officer’s negotiations with the contractor, in accordance with FAR 15.406-3, *Documenting the Negotiation*.

The combined template used by PSS contracting officers does not indicate if negotiation objectives were established prior to entering negotiations. Without this information, it is not possible to determine whether negotiation objectives were established prior to negotiation and whether those objectives were achieved. As a result, the template is not meeting its intended purpose of facilitating contracting officer compliance with FAR requirements governing documentation of negotiations. Furthermore, the combined template does not adhere to FAS IL 2011-02, which specifically requires the use of separate pre-negotiation and price negotiation templates for the award and administration of contracts. In order to ensure compliance with FAR and FAS policy, FAS should require that the Office of Professional Services and Human Capital Categories discontinue use of the combined “Pre and Price Negotiation Memorandum” template.

Finding 3 – Contract file documentation lacks sufficient information to determine fair and reasonable pricing, as required by federal regulation and FAS guidance.

The price analyses in the sampled contracts lacked detail to adequately support the awarded labor category rates. To determine price reasonableness prior to exercising an option, PSS contracting officers perform a market analysis using a price comparison database called the *Management Services Center pricing database*. However, when documenting the market analysis, the contracting officers did not specifically identify the

varying prices of compared labor categories found in the database or any analysis of the source data, but rather, only included limited summary-level information.

For example, in one market analysis, the contracting officer cited 523 comparable rates for a proposed labor category but did not document the actual rates or source of the rates evaluated in the comparison. Due to limited details and a lack of support, we were unable to verify price reasonableness determinations.

FAR 15.403-3(c)(1), *Contract Pricing*, requires that the contracting officer perform a price analysis to determine fair and reasonable pricing whenever acquiring a commercial item or service. Further, FAR 4.801, *Government Contract Files*, states that documentation in the contract files shall provide a complete background as a basis for informed decisions, to support actions taken, and to provide information for reviews and investigations. Additionally, GSA Procurement Information Bulletin 05-4, *Documentation, Documentation, Why It's Important!*, states that data and information related to the contracting officer's price reasonableness determination should be included in the contract file. Contracting officers must specifically document the steps performed, explain the results in detail to support the analysis, and provide any documents used during the analysis to support their determination. Accordingly, FAS should take action to ensure PSS contracting officers include sufficient detail in the contract file to support price reasonableness determinations.

Other Observation

As part of the PSS consolidation, FAS allowed contractors to retain their current contracts to continue performance under existing blanket purchase agreements (BPAs) and task orders, while also obtaining a new PSS contract to compete for new business opportunities. As of July 1, 2016, 49 such contracts remained active. Although this practice does not violate federal regulation or policy, FAS has limited guidance and controls in place to minimize risks related to the administration of the Price Reductions clause and sales reporting for overlapping contracts.

FAS Policy and Procedures 2016-04, *Guidelines for the Award of Overlapping FSS Contracts (continuous contracts)*, acknowledges the risks associated with overlapping contracts, as follows:

To the maximum extent possible, contracting officers should strive to maintain consistency between the overlapping contracts to reduce potential confusion among ordering activities and contractors. Inconsistency between the two contracts could increase the risk of contract number misapplication, Industrial Funding Fee payment errors, and improper blending of terms from the two FSS contracts.

To minimize risk, FAS should consider developing more detailed guidance surrounding overlapping contracts. For example, the guidance should focus on ensuring that price

reductions are administered properly and that overlapping contract sales are properly reported. Additional guidance in these areas could aid contracting officers in the award and administration of contract options and assist FAS's Industrial Operations Analysts in conducting compliance reviews.

Conclusion

FAS's process to consolidate certain pre-existing contracts into the PSS resulted in the award of 44 new contracts without required price analysis and negotiation. As a result, FAS and customer agencies do not have assurance that the prices for these contracts, which account for over \$2 billion in annual schedule sales, are fair and reasonable. In addition, the template used by PSS contracting officers to document pre-negotiation objectives and results of negotiations is not compliant with federal regulations and FAS policy. Specifically, the template lacks information necessary to verify whether contracting officers established negotiation objectives prior to entering negotiations and obtained best pricing. Lastly, contract files were missing necessary documentation to support contracting officers' price reasonableness determinations, as required by federal regulation and FAS guidance.

Recommendations

We recommend that the Commissioner of FAS:

1. Direct the Office of Professional Services and Human Capital Categories to perform a formal price analysis on PSS migrated contracts to determine if the contract pricing is fair and reasonable.
2. Direct the Office of Professional Services and Human Capital Categories to discontinue the use of the "Pre and Price Negotiation Memorandum" template and use the separate Pre-Negotiation Memorandum and Price Negotiation Memorandum mandated by FAS Instructional Letter 2011-02.
3. Develop and issue guidance to contracting staff on documenting detailed price analyses, including reviews of comparable labor categories and rates, in order to support contracting actions in the contract file.

GSA Comments

The Commissioner of FAS generally agreed with our findings and recommendations. GSA's written comments to the draft report can be found in their entirety in **Appendix B**.

Audit Team

This audit was managed out of the Mid-Atlantic Region Audit Office and conducted by the individuals listed below:

Thomas Tripple	Regional Inspector General for Auditing
Susana Bandeira	Audit Manager
Michelle Luna	Auditor-In-Charge
Justin Long	Auditor

Appendix A – Scope and Methodology

Our audit scope consisted of a judgmental sample of 55 PSS contracts. We selected our sample from different contracting officers and contracting specialists who award and administer PSS contracts in order to obtain a general representation of contracting activities.

To accomplish our objectives, we:

- Reviewed the FAR and FAS policies pertaining to the negotiation and administration of contracts;
- Interviewed Office of Professional Services and Human Capital Categories officials, senior management, and supervisory contracting officers to gain an understanding of their role in the consolidation of service contracts to PSS;
- Obtained and analyzed the universe of all PSS contracts to determine contract values, periods of performance, and the effects of the consolidation process;
- Reviewed 45 contract migrations to determine whether contract award procedures and documentation were in accordance with federal regulations and FAS policies;
- Examined contract option award documentation for a judgmental sample of 10 transitioned contracts, totaling \$108 million in fiscal year 2015 sales;
- Analyzed FAS's "Pre and Price Negotiation Memorandum" template to determine if it complied with federal regulations and FAS policy; and
- Interviewed contracting officers and senior management regarding the region's policies and procedures, as well as contract file documentation.

We conducted the audit between November 2015 and December 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Our assessment of internal controls was limited to those necessary to address the objective of the audit. Identified internal control issues are discussed in the Results section of this report.

Appendix B – GSA Comments



Federal Acquisition Service

March 6, 2017

MEMORANDUM FOR THOMAS TRIPPLE
REGIONAL INSPECTOR GENERAL FOR AUDITING
MID-ATLANTIC REGION AUDIT OFFICE (JA-3)

FROM: THOMAS A. SHARPE
COMMISSIONER (Q)

A handwritten signature in black ink, appearing to read "T. Sharpe", written over the printed name of the Commissioner.

SUBJECT: Management Response to the Office of Inspector General Draft
Report *Audit of Price Evaluations and Negotiations for the
Professional Services Schedule Contracts*, Number A160037,
dated January 26, 2017

Thank you for the opportunity to respond to the findings identified in the Office of Inspector General (OIG) draft Audit Report Number A160037, *Audit of Price Evaluations and Negotiations for the Professional Services Schedule Contract* in which were provided recommendations on how the Federal Acquisition Service can improve its price evaluations, contract documentation process, guidelines, and memorandums to the file under the migration of existing contracts to the new Professional Services Schedule contract.

On October 1, 2015, GSA launched the new [Professional Services Schedule](#) (PSS) to provide access to the same scope of professional services found in eight existing Schedule contracts but through a unified solution. The new Schedule significantly reduces contract duplication as well as burden for contractors associated with negotiating, awarding and administering multiple contracts. Further, the consolidation improves the federal buyers' access to complex professional services. By FY 2020, the PSS will eliminate more than 700 contracts, resulting in an estimated five year savings of \$4 million and sustained savings of \$1.3 million annually thereafter.

The Assistant Commissioner for FAS's Office of Professional Services and Human Capital Categories (PSHC) and I have reviewed the draft audit report and while we do not fully agree with some of the findings, FAS does concur with the overall substance of those findings and the resulting recommendations.

Should you have any questions, please contact Judith R. Zawatsky, judith.zawatsky@gsa.gov, at (703) 605-2593.

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Appendix B – GSA Comments (cont.)

Attachment

cc: Tiffany T. Hixson, Assistant Commissioner, PSHC (QR)
Chiara McDowell, Acting Assistant Commissioner, OPAC (QV)
Judith Zawatsky, Director, MAS Program Management Office (Q1A)
Barbara E. Bouldin, Deputy Assistant Inspector General for Acquisition Audits

Appendix B – GSA Comments (cont.)

Management Response to Audit Report A160037

For your consideration below please find FAS's response to each of the draft audit findings and recommendations.

Finding 1 – FAS's process to consolidate pre-existing services contracts into the PSS resulted in the award of new contracts without establishing price reasonableness as required by federal regulations.

Recommendation 1 - Direct the Office of Professional Services and Human Capital Categories to perform a formal price analysis on the PSS migrated contracts to determine if the contract pricing is fair and reasonable.

FAS agrees with this finding in that the required documentation for price reasonableness was not performed as part of the issuance of the new contract. FAS does note that the contracting officials did review recent determinations of fair and reasonable pricing to ensure that such had been done on the individual contracts being migrated.

To properly accomplish this corrective action, in January 2017, the current contracting officers for each of the migrated contracts were directed to independently reevaluate all 327 migrated contracts to ensure prices awarded were fair and reasonable. Corrective action began in February 2017 including:

- Verification that current Commercial Sales Practice (CSP) information was incorporated into awarded contracts.
- Verification that appropriate price analysis was conducted. Based on the judgement of the reviewing contracting officer, where an appropriate price analysis was not conducted:
 - a new price analysis will be completed that may include negotiations with the impacted contractor; and,
 - if it is found that rates are significantly overstated and/or a firm's CSP disclosures were not current at the time of migration a post-award audits may be initiated.
- Contracting officers will document their reevaluation findings in the contract file by preparing the appropriate memorandums to the file. The memorandum(s) will include clear statements regarding price reasonableness as well as evidence supporting their judgement of price reasonableness.

Appendix B – GSA Comments (cont.)

Finding 2 – The “Pre and Price Negotiation Memorandum” template used by PSS contracting officers does not conform to the FAR and FAS policy.

Recommendation 2 – Direct the Office of Professional Services and Human Capital Categories to discontinue the use of the “Pre and Price Negotiation Memorandum” template and use the separate Pre-Negotiation Memorandum and Price Negotiation Memorandum mandated by FAS Instructional Letter 2011-02.

FAS agrees in part with this finding. While FAS disagrees that PSHC templates used for documenting contract awards do not comply with internal FAS policies, all PSHC contract documentation templates will be reviewed to ensure the templates comport with FAS guidance and Transactional Data Reporting (TDR) requirements, as applicable.

Finding 3 – Contract file documentation lacks sufficient information to determine fair and reasonable pricing, as required by federal regulation and FAS guidance.

Recommendation 3 – Develop and issue guidance to contracting staff on documenting detailed price analyses, including reviews of comparable labor categories and rates, in order to support contracting actions in the contract file.

FAS agrees in part with this finding. FAS has robust internal guidance on price analyses, but in response to this finding and audit recommendation, will review existing guidance to ensure that the contracting officers have updated guidance on reviewing comparable labor categories and rates so that they may document and support contracting actions.

Appendix C – Report Distribution

Acting GSA Administrator (A)

FAS Commissioner (Q)

FAS Deputy Commissioner (Q1)

Chief of Staff (Q1)

Acting Assistant Commissioner, Office of Acquisition Management, (QV)

Program Management Officer (QV0EB)

Financial Management Officer, FAS Financial Services Division (BGF)

Acting Regional Administrator (10A)

Assistant Commissioner, Office of Professional Services and Human Capital Categories (QR)

Deputy Regional Commissioner (QR)

Chief Administrative Services Officer (H)

GAO/IG Audit Management Division (H1G)

Assistant Inspector General for Auditing (JA)

Director, Audit Planning, Policy, and Operations Staff (JAO)