

ALERT REPORT ON AUDIT OF
FEDERAL TECHNOLOGY SERVICE'S
CLIENT SUPPORT CENTERS
REPORT NUMBER A020144/T/5/W03001
MARCH 6, 2003

DATE: March 6, 2003

REPLY TO

ATTN. OF: Regional Inspector General for Auditing, Great Lakes Region (JA-5)

SUBJECT: Alert Report on Audit of Federal Technology Service's Client Support Centers
Report Number A020144/T/5/W03001

TO: Sandra N. Bates
Commissioner, Federal Technology Service (T)

PURPOSE AND SCOPE

The Office of Inspector General is auditing the Federal Technology Service's (FTS) Client Support Centers (CSC), sometimes referred to as Regional IT Solution Shops. The primary emphasis of the review is an examination of task and delivery orders issued to private businesses on behalf of the CSC's Government agency clients. Our onsite review of task orders issued by the Northwest/Arctic CSC (Region 10) located in Bremerton, Washington, disclosed significant inappropriate contracting practices and misuse of the Information Technology (IT) Fund. While our audit is continuing, this report is being issued to alert management to significant audit concerns that warrant immediate attention.

To make our assessment, we:

- Reviewed 30 task orders issued by the Bremerton CSC during the period September 2000 through September 2002;
- Interviewed FTS and United States Army personnel involved in the issuing and administration of the tasks;
- Worked with representatives of a Small Business Administration (SBA) 8(a) contractor to whom several of the tasks were issued; and
- Obtained and analyzed Military Interdepartmental Purchase Requests (MIPRs), purchase orders, invoices, interagency agreements, statements of work, contract files, architectural drawings, and other records, as necessary, to ensure the validity of our findings.

Our onsite review was accomplished during the period November 2002 to February 2003. The audit was performed in accordance with generally accepted Government auditing standards.

RESULTS OF REVIEW

FTS officials in Bremerton, Washington engaged in inappropriate contracting practices on behalf of United States Army clients during the period September 2000 through October 2002. Our audit field work revealed that FTS:

- Constructed a modern office building and performed over \$36 million in building renovation work under the auspices of the IT Fund;
- Used SBA 8(a) contractors to procure the construction and architectural services required, even though the contracts were for professional IT services performing non-complex computer systems integration;
- Used "technical direction letters" to institute cardinal changes in a services task order, thus allowing the construction of a modern office building without benefit of contract modification;
- Used an SBA 8(a) contractor to obtain the products and services of a large business, through sole source orders under the competitive 8(a) provisions of FAR 19.805-1;
- Split procurements in order to place sole source orders in accordance with the provisions of FAR 19.805-1;
- Did not properly compete a large procurement directed to an SBA 8(a) contractor;
- Issued task orders under contracts let by the Federal Acquisition Services for Technology (FAST) 8(a) Solutions Development Center that did not include a single contract line item that was directly traceable to the contracts;
- Did not include the necessary Federal Acquisition Regulation (FAR) clauses in the task orders for construction work; consequently, FTS incurred expenses for claims filed under the provisions of the Davis-Bacon Act; and
- Accepted a proposal from a Federal Supply Service (FSS) schedule contractor that did not provide detail for the substantial building renovation effort being performed, but instead improperly classified the building renovation work as "IT Technician" time.

FTS justified these activities by preparing "fair and reasonable" price determinations that were not representative of the facts.

Total Army Distance Learning Program

FTS, using purchase orders citing the IT Fund, spent over \$36 million renovating United States Army facilities on behalf of the Total Army Distance Learning Program (TADLP). A goal of the program was to build standardized classrooms for participants in the program. The building renovation work was sometimes quite extensive and amounted to over \$1,000,000 at a single site. This work was performed during the period 1998 through 2002.

Camp Murray

FTS, under a purchase order citing the IT Fund, constructed a modern one-story office building to house the courseware development activities¹ of the Washington Army National Guard (National Guard) at Camp Murray, Washington State. The 5,000 square foot office building was complete with break rooms, showers, conference room, private offices, and space for 25 to 30 employees. The building's cost, with furnishings, was around \$950,000. The building was completed around November 2001. Here is a picture of the building:



FTS used contracts with Information Systems Support, Inc. (ISS) and ACS Systems and Engineering, Inc. (ACS), to procure the architectural, engineering, and general construction services to perform the building renovation work. ISS and ACS have FAST 8(a) contracts for the provision of non-complex computer systems integration services under Standard Industrial Classification Code (SIC) 7373. SIC 7373 is for computer integrated systems design. ISS' and ACS' contracts stated that the "contractor shall integrate commercially available off-the-shelf hardware and software resulting in a turnkey solution for the GSA client agency." The contract line items consisted of professional IT services, namely computer systems analysts, programmers, and LAN technicians. Therefore, the work was not within the scope of their contracts.

¹ Many of the tasks reviewed involved the provision of on-line training to remote Army personnel.

Task orders we reviewed did not contain the necessary FAR construction clauses or follow FAR procedures for the provision of architect/engineering services. Consequently, the Northwest/Arctic Region CSC has been subject to claims for increased costs regarding Davis-Bacon Act violations for task orders issued which contained building renovation work. In one instance, the CSC paid \$161,776 to settle a request for equitable adjustment related to a Davis-Bacon Act violation. The client agency declined FTS' request for reimbursement of the \$161,776; therefore, the final invoice was directly paid by GSA from the IT Fund on or about February 12, 2003.

Moldovan Conference Center

FTS renovated the Ministry of Defense Conference Center in the Eastern European nation of Moldova into a modern facility based on contemporary Western European standards. We determined that about \$290,000 in renovations were performed by a Moldovan architect and general contractor. FTS officials accepted a proposal from a FSS schedule 70 prime contractor that did not provide detail for the substantial building renovation effort performed. The contractor, instead of detailing the costs of subcontracting architectural and construction work, proposed about 10,000 hours of "IT Technician" time (which covered the architectural and construction work).

Inappropriate Use of IT Fund

Camp Murray, TADLP, and the Moldovan Conference Center were all instances of using funds residing in the IT Fund for the purpose of renovating or constructing buildings and hiring the necessary architectural and engineering skills. 40 USC Section 11101 defines the term "information technology" to mean "any equipment or interconnected system or subsystem of equipment, used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information. . .", and states that the term "includes computers, ancillary equipment, software, firmware and similar procedures, services (including support services), and related resources; but. . . does not include any equipment acquired by a federal contractor incidental to a federal contract." See also FAR 2.101.

In addition, 40 USC Section 322 (the statute creating the Information Technology Fund) clearly states that, "[i]n operating the Fund, the Administrator may enter into multiyear contracts, not longer than 5 years, to provide information technology hardware, software, or services. . ." 40 USC Section 322(e)(1). Further, the IT Fund is available "for expenses, including personal services and other costs, and for procurement (by lease, purchase, transfer, or otherwise) to efficiently provide information technology resources to federal agencies and to efficiently manage, coordinate, operate, and use those resources. . . Information technology resources provided under this section include information processing and transmission equipment, software, systems, operating facilities, supplies, and related services including maintenance and repair." 40 USC Section 322(c)(1)&(2). Therefore, we do not feel that building construction or renovation is an appropriate or necessary use of the IT Fund.

Inappropriate Contracting Practices

Our review revealed numerous examples of inappropriate contracting practices. Of particular concern were wholesale changes to a task order's scope without benefit of contract modification and use of the sole source provisions of the small business program. FAR 19.805-1 allows for sole source procurements to eligible SBA 8(a) firms if the anticipated total value of the non-manufacturing contract is under \$3 million.

Scope changes without contract modification. FTS officials used technical direction letters to institute cardinal changes to the statement of work supporting task order number GS10TR-00-EBF-2546 to ISS, which called for support for the National Guard's courseware development activities. The statement of work, purchase order (GSA Form 300), interagency agreement and MIPRs associated with this order did not call for the provision of architectural services or the construction of buildings. FTS officials, using these technical direction letters, directed the contractor to obtain architect and construction services. However, architect and construction services were not part of ISS' FAST 8(a) contract, whose contract line items consisted of professional IT services, including computer systems analysts, programmers, and LAN technicians. FTS officials created contract line items for architect and construction services, but these contract line items were not part of ISS' contract and were not valid. Task order GS10TR-00-EBF-2546 was not modified to reflect this change in scope.

Misuse of 8(a) sole source authority. We noted several instances where FTS used inappropriate methods to obtain the sole source advantages of FAR 19.805-1, including the following:

Subcontracting. FTS' orders to ISS in support of the National Guard's program were directed procurements under FAR 19.805-1. Our analysis of task orders to ISS, covering the period September 2000 through July 2002 and valued at over \$7 million, revealed that 80 percent of the task orders' value "passed through" ISS, including about 70 percent to a larger firm called CLICK2LEARN. Many ISS task orders were fulfilled as "other direct costs", which represented the services and software of CLICK2LEARN. FAR 52.219-14, which is included by reference in ISS' contract, limits subcontracting on services-type tasks to 50 percent. In this instance, orders were being placed to ISS under the sole source provisions of FAR 19.805-1, while the work was being performed by other firms.

Split procurements. FTS officials split procurements to ensure that the individual ISS task orders stayed below the \$3 million sole source threshold. Our analysis indicated that i) identical statements of work existed; ii) purchase orders were prepared on the same date and signed by a contracting officer within a 3 day period; and iii) the source of funding was identical. The task orders had values between \$2,449,120 and \$2,941,600. Responsible FTS officials agreed with our analysis, stating that "by failing to consider all of the project's requirements, FTS failed to obtain national competition under the 8(a) Program." FAR 19.805-1(c) states that a proposed 8(a) requirement with

an estimated value exceeding the applicable competitive threshold amount shall not be divided into several requirements in order to use sole source procedures for award to a single firm.

Absence of competition. Task orders to ACS under the TADLP program were directed buys under the sole source authority of FAR 19.805-1 and the FAST 8(a) contract. However, we concluded that the classroom renovation phase of the Army's TADLP program was not competed.

FTS officials provided us with records revealing that during the period March 5, 1998 (date of first MIPR) until October 7, 1998, the Army forwarded over \$21 million in funds to FTS for the TADLP program, of which approximately \$12 million were for classroom renovations. We obtained documents showing that the Army envisioned over 700 classrooms world-wide.

FTS' written support for selecting ACS to perform the classroom renovation phase of the TADLP program was produced 3 years after project commencement, contained misstatements and omissions, and was a price comparison (among projects of dissimilar scopes) instead of a price competition. Responsible FTS officials stated that while comparison of historical procurement data was an acceptable price analysis technique, it was not sound practice to rely on it in the absence of competition. Without the benefit of competition, there was no assurance that the Government was getting a fair and reasonable price for the renovation work.²

Contract items not found on FAST 8(a) contracts. FTS also issued task orders against contracts let by GSA's FAST 8(a) Solutions Development Center that did not procure a single contract line item that was directly traceable to those contracts. The contracts did allow for additional labor categories and rates to be obtained from schedule 70 contracts, which was sometimes the case here.

Revenue Enhancement

The Northwest/Arctic Region CSC's revenues increased almost ten-fold during the period 1998 through 2002 (from \$53 million to \$522 million) and key employees were rewarded for this increase. We believe that the emphasis on revenue enhancement may have contributed to the CSC's willingness to provide the client with any product to obtain a two percent fee.

Conclusion

Contracting practices within the CSC in the Northwest/Arctic Region need improvement. We identified numerous inappropriate contracting practices on behalf of U.S. Army clients. We concluded, given the preponderance of questionable directed procurements under the sole source guidelines of the small business program, that the CSC did not

² ACS has reached the contract maximum dollar limit (\$90 million) under its FAST 8(a) contract, with all orders being placed by GSA Region 10.

adequately compete these procurements. In our opinion, an absence of competition in contracting may not have resulted in the best use of taxpayers' money.

We met with cognizant FTS officials in the Northwest/Arctic Region on February 14, 2003 to discuss the issues presented in this report. FTS officials pledged immediate corrective action.

Please be advised that the subject matter discussed in this report will be addressed further in the audit report on the CSC program (to be issued at a later date). You will have an opportunity to respond to the draft report before the final report is issued. Nevertheless, we request management to provide us with comments by April 4, 2003 about the issues identified in this report. Should you or your staff have any questions, please contact me or Steve Shute on (312) 353-7781, extensions 113 and 129, respectively.

John P. Langeland
Audit Manager
Great Lakes Region

APPENDIX A

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