

LIMITED AUDIT OF
FEDERAL SUPPLY SERVICE'S
CONTRACTING FOR SERVICES
UNDER MULTIPLE AWARD
SCHEDULE CONTRACTS
REPORT NUMBER A000897/F/3/V01002
JANUARY 9, 2001

Date: January 9, 2001

Reply to

Attn of: Regional Inspector General for Auditing (JA-3)

Subject: Limited Audit of Federal Supply Service's
Contracting for Services Under Multiple Award Schedule Contracts
Report Number A000897/F/3/V01002

To: Donna D. Bennett, Commissioner
Federal Supply Service (F)

This report presents the results of the limited audit of Federal Supply Service's (FSS) Contracting for Services under Multiple Award Schedule (MAS) Contracts. This review was included in the Office of the Inspector General's Fiscal Year 2000 Annual Audit Plan.

The main focus of the limited audit was to determine whether FSS had awarded MAS service contracts in accordance with Federal Acquisition Regulations. Based on contract file reviews, customer agency task order reviews, interviews of contracting officers and customer agency personnel, and interviews of various state contracting officials, we found that FSS' services contracts are extremely popular with Federal agencies, especially the Department of Defense; contracting officers are establishing fair and reasonable prices and FSS is taking steps to improve internal controls over the negotiation, award and administration of services contracts. Therefore, we believe no additional audit work is necessary or any recommendations are required.

Background

The General Services Administration (GSA) was established in 1949 to give the Federal Government a more efficient and economical system for procuring and supplying personal property and non-personal services. Begun at GSA in the 1950s, the MAS program has provided federal agencies with a simplified method of acquiring small, repetitive quantities of common-use, commercial items, ranging from paper and furniture to mainframe computers and complex laboratory equipment. When compared to traditional procurement methods, the MAS program provides several advantages to both federal agencies and vendors. Agencies can order small quantities of commonly used goods and services

without using the cumbersome and administratively costly traditional procurement process. By having GSA negotiate MAS contracts, agencies, as well as contractors, also avoid the cost of duplicating procurements for common use items. Contractors also benefit because their commercial products are exposed to a large number of potential federal customers. Information Technology Services (Schedule 70) were the first professional services contracts executed under the MAS program in 1996. Other services such as Environmental and Professional Engineering, were subsequently contracted for under the MAS program.

The audit survey evaluated selected contracts within seven service categories under the MAS program. The total estimated value of all the service contracts within the seven service categories is \$11.3 billion. The breakdown of this amount by service category is as follows: Information Technology Services \$7,936,170,964; MOBIS \$2,029,326,330; Environmental Services \$1,085,670,000; Professional Engineering Services \$160,150,000; Financial Asset Services \$78,350,004; Financial Related Audits \$48,100,000; and Mechanical, Chemical, Electrical, Geological Testing \$22,087,208.

Objectives, Scope, and Methodology

The main focus of the audit survey was: “Do service contracts belong under the FSS MAS Program and are they awarded consistent with recent procurement reform legislation?”

To accomplish the survey objective, we obtained a database from the Acquisitions Operations and Electronic Commerce Center (FCSP) listing all active MAS services contracts. We selected a total of 24 service contracts covering the seven service categories as indicated below.

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| ❖ 3 Information Technology Services (IT) Contracts | ❖ 1 Mechanical, Chemical, Electrical and Geological Testing Contract |
| ❖ 2 Professional Engineering Services (PES) Contracts | ❖ 5 Environmental Services Contracts |
| ❖ 2 Financial Asset Services Contracts | ❖ 10 Management, Organization, Business Improvement Services (MOBIS) Contracts |
| ❖ 1 Financial Related Audit Contract | |

The twenty-four contracts were selected based on an estimated minimum contract value of \$5 million except for the IT contracts which we used a \$10 million minimum threshold. As of December 31, 1999, the total estimated contract value for the twenty-four contracts was over \$2.1 billion or 19 percent of the total estimated contract value of \$11.3 billion for all active service contracts.

The contracts were reviewed to determine the basis of award, and the criteria used for determining fair and reasonable pricing. We interviewed GSA contracting personnel regarding specific questions related to the twenty-four contracts in our review.

Also, from the four service schedules with the greatest sales volume (Information Technology, Professional Engineering Services, Environmental Services and MOBIS) we identified the contractors with the largest GSA sales volume. Then, we sent letters to these contractors requesting a listing of their total GSA sales by government agency, as well as a comprehensive listing of the individual task orders for their top 10 Government customers. This information was provided in an Excel spreadsheet format and covered the period commencing at contract inception (varied) and ending December 31, 1999. From the task order spreadsheet, we judgmentally selected 10 task orders for review. The task orders were reviewed to determine if contracting officers were competing the orders and renegotiating the GSA ceiling labor rates at the task order level.

The last phase of the audit survey fieldwork included interviewing (telephonically or in person) other state contracting agencies to determine how they contract for services. We contacted state contracting personnel from the following states: Pennsylvania, Washington, Utah, California, Arizona, Nevada, Idaho, Massachusetts, Maryland, Virginia and Colorado.

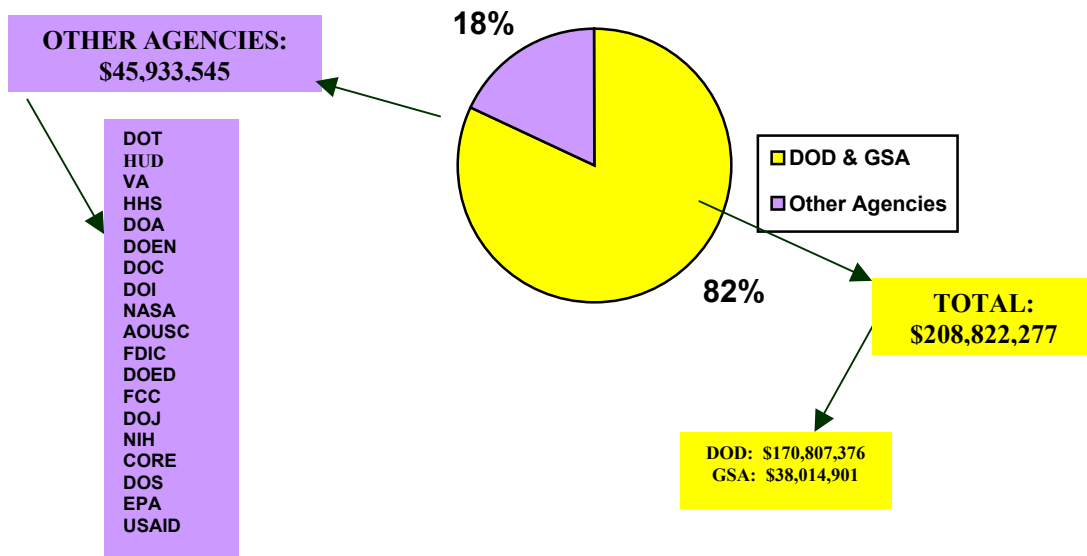
Our office decided to proceed with the audit with the following revised audit objectives:

- Are Multiple Award Schedule (MAS) service contracts awarded and the prices negotiated in accordance with FAR and GSAM requirements? If not, is the effect significant? What can be done to correct the problem?
- Can FSS benefit from practices used by State Governments and commercial entities to procure services?

Furthermore, we narrowed our focus to the top four service contract schedules that have a combined estimated contract value of \$11.2 billion. We selected 30 contracts from these four schedules for review (eleven of which were originally examined under the survey phase). The 30 contracts valued at \$3.4 billion accounted for 30 percent of the total estimated schedule contract value under these schedules.

SERVICE CONTRACT SCHEDULE	NO. OF CONTRACTS REVIEWED	\$ VALUE OF CONTRACTS REVIEWED	TOTAL \$ VALUE OF SCHEDULE
IT	8	\$1,957,190,555	\$7,936,170,964
MOBIS	10	945,510,000	2,029,326,330
ENVIRONMENTAL	7	438,000,000	1,085,670,000
PES	5	65,000,000	160,150,000
TOTAL	30	\$3,405,700,555	\$11,211,317,294

As previously stated, the contracts were reviewed to determine the basis of award, and the criteria used for determining fair and reasonable pricing. For each of the contracts, we requested from the contractors a listing of the top 10 GSA schedule task orders for the period April 1, 1999 to March 31, 2000. We compiled the task order information we received from the contractors into a spreadsheet. Our database consisted of 206 task orders with a total dollar value of \$254,755,822. For purposes of the audit, we focused on the two agencies that accounted for the largest portion of total dollar value: Department of Defense (DOD) and General Services Administration (GSA). As the chart below illustrates, DOD and GSA accounted for \$208,822,277 or 82 percent of the total task order dollar value and they processed 149 of the 206 task orders.



We selected for review 14 task orders, (9 DOD and 5 GSA) representing the top dollar value task orders for each agency. The 14 task orders totaled \$86,238,247 and accounted for 41 percent of the total dollar value of \$208,822,277 for DOD and GSA. Like the 10 task orders reviewed during the survey, these task orders were reviewed to determine if contracting officers were competing the orders and

renegotiating the GSA ceiling labor rates at the task order level. Also, we interviewed FSS contracting officers as well as user agency contracting officers or contracting officer representatives.

The survey and audit was performed from December 1999 through September 2000. This audit was conducted in accordance with generally accepted Government auditing standards.

Results of Audit

The GSA Federal Supply Service (FSS) Multiple Award Schedule (MAS) services contracts program is extremely popular with Federal agencies. The benefits realized by user agencies include a streamlined procurement process, which results in faster delivery of needed services. GSA accomplishes most of the required procurement procedures during the negotiation and award of services contracts, eliminating these requirements for user agencies. Additionally, GSA establishes the pricing under its services contracts is fair and reasonable, eliminating the requirement for agencies to obtain multiple quotes. Our review showed GSA FSS is taking steps to improve the internal controls over the negotiation, award and administration of services contracts. Some of these changes include additional training for their procurement personnel, and FSS obtaining customer feedback through Dun and Bradstreet to evaluate how satisfied agencies are with MAS services vendors. Further, FSS is supporting Federal Acquisition Regulation changes which will require agencies using the services schedules to attempt to obtain better-than-negotiated pricing on large procurements. In our opinion, these changes will strengthen the program and result in better pricing for user agencies.

As part of our audit, we reviewed task orders issued by Federal agencies under GSA FSS services contracts. Interviews with agencies' contracting officers, and other agency representatives showed agencies are very satisfied with FSS MAS services contracts as a procurement vehicle. This was especially true with Department of Defense (DOD) customers. The primary advantage to using FSS MAS services contracts cited by DOD customers was faster procurements. When using GSA, Federal agencies are not required to advertise in the Commerce Business Daily, follow the Fair Opportunity to Compete, develop a procurement plan, or follow their agencies' oftentimes cumbersome approval process. Agencies that have a services requirement and use a GSA MAS schedule as a procurement vehicle develop a performance oriented statement of work, send it to one or more GSA MAS schedule vendors, review the proposals from the vendors, select the vendor that offers them the best value, and then issue the purchase order. GSA has already established that the prices under the MAS contract are fair and reasonable, therefore agencies are not required to negotiate rates with the vendor.

Our review of how GSA FSS awards and administers MAS services contracts showed GSA FSS contracting officers established fair and reasonable pricing prior to award of each MAS services contract. Price reasonableness is established by one or more methods, including: i) comparisons with commercial rates; ii) comparisons with other Government contracts; iii) analysis of proposed rates by an outside agency (i.e. Defense Contract Audit Agency); iv) comparison with rates for other contracts under the same schedule; v) comparisons with rates offered by the vendor under previous MAS contracts; and vi) market analysis.

Representatives of GSA FSS indicated the negotiated rates on the MAS schedule are “ceiling rates.” They explained this means the agencies using the GSA schedule will never pay more than the negotiated rate on the schedule contract, but could possibly pay less. In interviews with GSA contracting officers, we were told agency schedule users further negotiate the GSA rates with each task order issued. As part of our review, we examined fourteen task orders, nine of which were awarded by the DOD, and five awarded by GSA. Each of these task orders was over the schedule contract maximum order (MO) of \$500,000. As part of the review, we examined the agency’s contract file and interviewed the contracting personnel responsible for negotiating and awarding these task orders. Of the fourteen task orders reviewed, three reflected pricing lower than the rates negotiated by GSA. For the eleven that reflected the GSA pricing, at least one agency did not know they could request lower rates from the vendor, despite the fact this information is on the GSA FSS web site and outlined in the ordering procedures in the vendor’s GSA catalog. In our opinion, prospective changes to the Federal Acquisition Regulations (FAR) requiring agencies with task orders exceeding the MO to request lower rates could result in savings to the Government.

Our review found GSA FSS is taking steps to improve the internal controls over the negotiation, award and administration of services contracts. FSS is conducting training for its contracting personnel, including services contracts. FSS is also working with Dun and Bradstreet to develop a feedback system to evaluate the agencies’ level of satisfaction with FSS MAS services contracts. Currently, FSS informally gauges the level of satisfaction by the procurement dollars spent on individual contracts. Additional program improvements will occur with the implementation of prospective FAR changes. These changes will include the requirement for agencies using the MAS services schedules to attempt to obtain better-than-negotiated pricing on large procurements, specifically those over the contract MO. Currently, once the agency selects the vendor that provides the best value, guidelines encourage but do not require the agency to request better pricing than the GSA schedule pricing. In our opinion, requiring the agencies to request better-than-GSA pricing, especially on large procurements, could result in savings to the government.

We wish to thank members of your staff for the courtesies extended to the audit staff during this review. Should you or your staff have any questions concerning this review, please contact me at (215) 656-6170.

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