DATE: March 8, 2013

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

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

SUBJECT: Major Issues from Multiple Award Schedule Preaward Audits
Audit Memorandum Number A120050-3

This document provides an update regarding the three recurring issues we highlighted in a September 26, 2011, memorandum. Specifically, we reported that for the Multiple Award Schedule (MAS) preaward audits we conducted in fiscal year (FY) 2010:

- The majority of vendors provided information that was not current, accurate, and/or complete to support their proposed prices.
- Nearly half of the vendors had minimal or no non-federal commercial customers, making it impossible to use non-governmental commercial sales[1] as a basis for determining price reasonableness.
- Over a quarter of the vendors we audited supplied labor that did not meet the minimum educational and/or experience qualifications required by the contracts.

Based on our review of FY 2011 MAS preaward audits, two of these areas showed some improvement; however, the high rates of recurrence still remain a concern. We are highlighting additional observations concerning the Industrial Funding Fee (IFF) identified by our audits. We are also reporting the monetary results of our analyses related to the recommended, agreed upon, and achieved savings for FY 2011 audited MAS contracts as of October 1, 2012. We are providing this information to you so that GSA can decide how to best address these issues.

[1] The term "commercial sales" as used throughout this memorandum refers to non-governmental sales.

Results

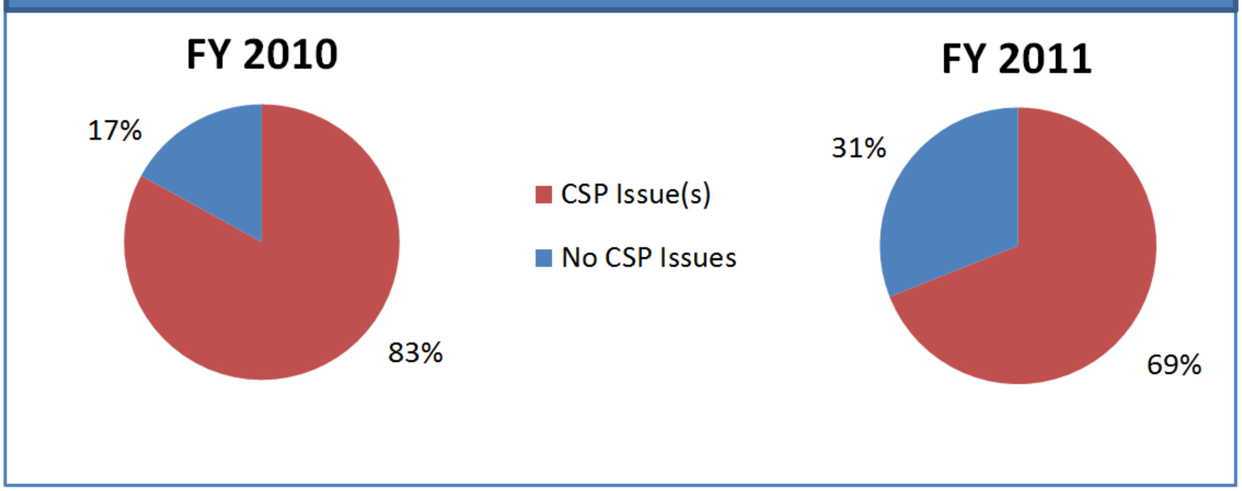
In FY 2011, GSA Schedule sales exceeded $38 billion. In this same year, we performed 53 MAS preaward audits of contracts with approximately $8 billion in estimated sales for their pending 5-year option periods. We recommended price and discount adjustments that, if realized, would allow for over $326 million in cost avoidances for customer agencies and ultimately savings for the taxpayer. Additionally, we recommended over $9 million in recoverable overcharges.

Update of FY 2010 Issues

Commercial Sales Practices disclosures are not current, accurate and/or complete. Over two-thirds of vendors we reviewed in FY 2011 provided contracting officers with flawed commercial sales practices (CSP) information which adversely affected the contracting officers' determination of fair and reasonable pricing for those contracts. This remains a problem but represents an improvement from our FY 2010 MAS preaward audit results.

In FY 2011, 42 of the 53 audits were based on information included in the vendors' CSPs. In 29 of these audits (69 percent), we found that the CSPs contained non-current, inaccurate, and/or incomplete information. In one case, approximately half of the non-GSA sales received discounts that were greater than the vendor's disclosed discounts. If the greater discounts identified through these 29 MAS preaward audits were negotiated, nearly $77 million in savings over the contracts' 5-year option periods would be realized by customer agencies and ultimately the United States taxpayers. These savings represent the difference between the discounts on the flawed CSPs and those we calculated using current, accurate, and complete information.

Chart 1 – Prevalence of CSP Issues

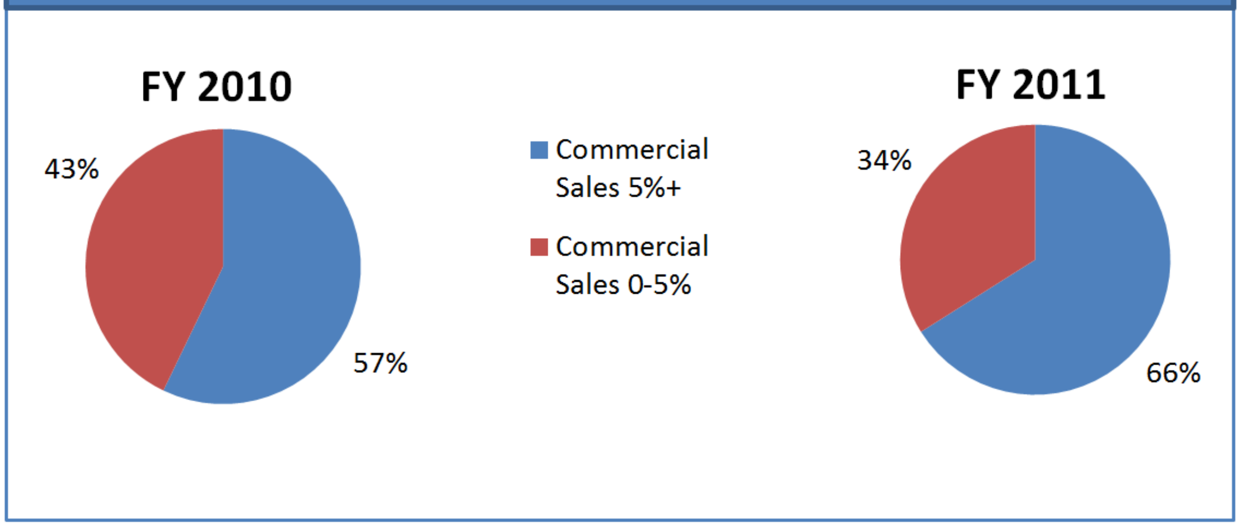


Despite the improvement in CSP disclosures (see *Chart 1*), flaws in vendor CSP information continue to be problematic. Therefore, we reaffirm the position, as stated in our September 26, 2011, memorandum, that Federal Acquisition Service (FAS) management should take action to ensure contracting officers appropriately and consistently evaluate discount information.

Vendors have minimal or no commercial sales. Over one-third of FY 2011 MAS preaward audits found that the vendors had minimal or no commercial sales, a slight improvement from FY 2010. If there are no comparisons with commercial sales, the identified basis of award customer may prove to be ineffective, and customer agencies cannot be assured that they will benefit from pricing changes in the marketplace.

For 18 of 53 vendors (34 percent) audited in FY 2011, commercial customers accounted for 5 percent or less of the vendor's total sales. In seven instances, the vendor had no commercial sales. In one case, a vendor stated that its commercial business is separate from its government business. In fact, it acknowledged that sales practices on the commercial side bear little resemblance to those on the government side where the GSA contract is managed.

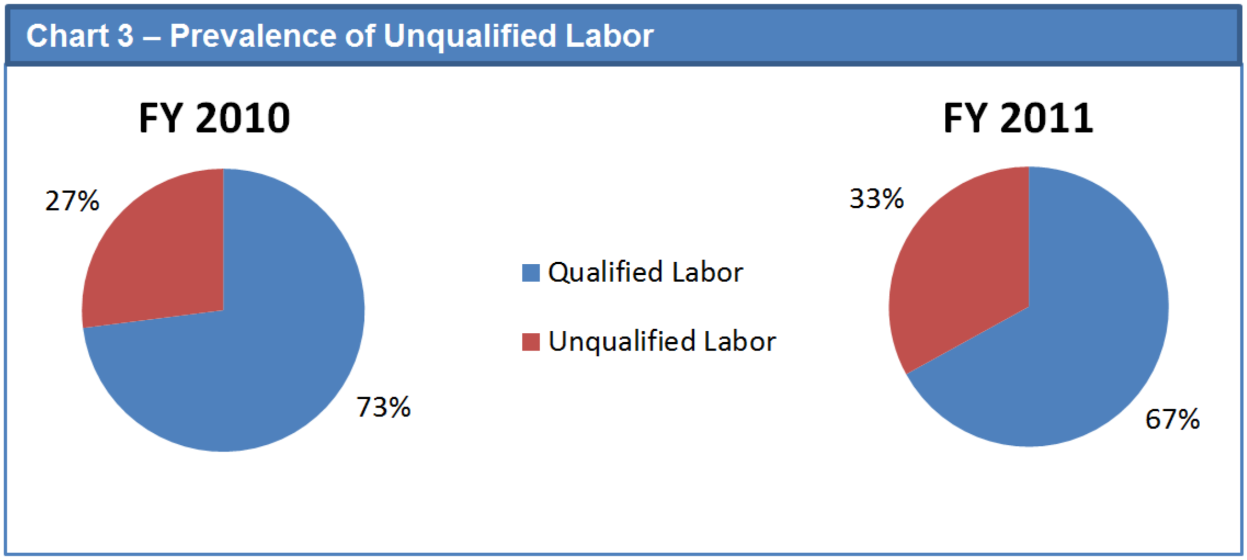
Chart 2 – Prevalence of Limited Commercial Sales



Based upon the contracts we audited, the percentage of MAS vendors with minimal or no commercial sales decreased from FY 2010 to FY 2011 (see *Chart 2*). This is especially true in regard to the proportion of vendors with no commercial sales, which decreased from 25 percent to 13 percent. However, FAS management should continue to ensure that customer agencies are provided the opportunity for price reductions.

Vendors provide customer agencies with unqualified labor. One-third of FY 2011 MAS preaward audits found that GSA customers were overcharged for professional services. The employees contracted to provide these services did not have the minimum educational and/or experience qualifications proposed by the vendor and required by their contracts. We found this issue to be more prevalent in FY 2011 than we did in FY 2010.

We audited 21 service contracts and found 7 instances (33 percent) in which vendors charged customer agencies for labor that did not meet the qualifications required by their contracts. In one instance, we found that 43 percent of a vendor's employees assigned to GSA Schedule task orders during the audit period did not meet the educational qualifications outlined in the contract. This indicates that customer agencies did not receive the level of services they paid for.



Since this issue has not shown improvement from FY 2010 (see *Chart 3*), we reaffirm our assessment that contracting officers may not realize the extent or potential ramifications of this problem. FAS management should take appropriate action to ensure that vendors provide GSA and ordering agencies with individuals who possess the labor qualifications specified under their contracts.

<u>Additional Observations from FY 2011 MAS Preaward Audits</u>

Vendors have inadequate systems to accumulate and report GSA Schedule sales and are improperly computing IFF.[2] Over one-third of the vendors audited in FY 2011 had inadequate systems to accumulate and report schedule sales. In addition, the IFF was not properly computed in many cases, resulting in monies owed to the government.

The IFF (0.75 percent) is included in the award price of goods and services and is used to cover the operating costs of the Schedules Program. The General Services Administration Acquisition Manual Section 552.238-74, requires vendors to accurately report schedule sales on a quarterly basis and to remit the IFF within 30 days of the end of each reporting period.

[2] These two issues are not interdependent; therefore, audits may identify a vendor deficient in one area but not the other.

Of the 53 audits we performed in FY 2011, 18 vendors (34 percent) did not have adequate systems for accumulating and reporting schedule sales. We identified 19 vendors (36 percent) that did not properly compute the IFF. In one audit, over 12 percent of the GSA sales in the sample were not reported as such. As a result, we estimated that the vendor underpaid IFF over the life of the contract by approximately $84,000. While this case may not seem significant, the recurrence of this issue throughout the Schedules Program would have a major monetary impact. FAS management should strengthen controls to ensure schedule vendors have adequate systems to accumulate and report schedule sales and ensure proper IFF payments.

Contracting officers fully agree with recommended cost avoidances but only achieved savings for a portion of them. In FY 2011, FAS contracting officers agreed with all of the auditors' recommended cost avoidances but only achieved savings for 36 percent of this amount when the pending option periods were awarded (see *Table 1*).[3]

Table 1 -- Status of FY 2011 Recommended Cost Avoidances

Category	Dollars	Percent
Auditors' Recommended Cost Avoidances	$240,177,868	--
Contracting Officers' Agreement to Recommended Cost Avoidances	$240,177,868	100%
Contracting Officers' Achieved Cost Avoidances	$85,716,396	36%

The contracting officer's agreement represents his or her intent to use the audit findings in establishing pre-negotiation objectives. We understand that negotiations involve concessions on both sides; however, the Schedules Program represents billions of dollars per year in government spending. While we commend the contracting officers for their intent to use those figures in preparation for negotiations, we question the achieved amount given the extent of their agreement.

[3] The calculations in this section were based upon auditors' calculations and negotiation information provided by contracting officers for 33 audits as of October 1, 2012.

Conclusion

The Schedules Program, with over $38 billion in sales in FY 2011, is the largest interagency contracting vehicle in the Federal Government. It is imperative that FAS maximize the buying power of the United States. Based on the MAS preaward audits performed in FY 2011, the prevalence of CSP issues and limited commercial sales have improved since our September 26, 2011, memorandum. However, these problems continue to exist, and further efforts are needed to provide optimum benefits for GSA customers and the taxpayer. In addition, FAS should address the prevalence of IFF issues and the rate of cost avoidances agreed upon versus the achieved savings. Addressing the issues raised in this memorandum will assist FAS in strengthening the effectiveness of the Schedules Program.

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

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