

**Updated Assessment of GSA's Major Management Challenges**

**August 2004**

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# UPDATED ASSESSMENT OF GSA'S MAJOR MANAGEMENT CHALLENGES

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## **PROCUREMENT ACTIVITIES**

**ISSUE:** GSA provides Federal agencies with products and services valued in the billions of dollars through various types of contracts it establishes and administers. Among other contracting programs and vehicles, GSA is responsible for the Multiple Award Schedules (MAS) program, a significant number of Multiple Award Contracts (MACs), and the City Pair Airline contracts. Although our specific concerns vary somewhat depending on the contracting program or vehicle, management challenges in this area generally center around the contract evaluation and award process, and involve the often related issues of 1) competition, 2) pricing, and 3) implementation of statutory or regulatory compliance-type requirements.

The MAS Program provides Federal agencies with a simplified procurement process for the purchase of a diverse range of commercial supplies and services from multiple vendors at prices associated with volume buying. MAS contracts are awarded to contractors supplying the same generic types of items or services at varying prices for delivery within the same geographic areas. Federal agencies then simply order supplies or services from the schedules (or catalogs) at the prenegotiated prices and pay the contractors directly for their purchase. GSA administers over 60 schedules that produced sales of \$27 billion in FY 2003; and the volume is expected to continue to grow.

Our Office is concerned that, as the MAS program has grown, the importance of certain program fundamentals – including pricing objectives and other pricing tools – has diminished. These fundamentals, which are set out by regulation, include the mandate for most-favored customer (MFC) pricing, the requirement to perform meaningful price analysis when awarding or extending contracts, and the use of preaward audits to assist in negotiating contracts. MFC pricing ensures that MAS contract pricing harnesses the Federal Government's collective buying power for pricing purposes. Price analysis is the key substantive step a contracting officer performs for the purpose of arriving at fair and reasonable prices. Preaward audits are the main tool by which a contracting officer can be assured that a vendor's pricing is as represented. Such audits also provide contracting officers with additional details regarding a vendor's pricing and sales practices in anticipation of negotiations. In 2001, we issued an OIG white paper, reporting that FSS is not consistently negotiating most favored customer prices, many MAS contract extensions are accomplished without adequate price analysis, and available tools are not being used effectively to negotiate better MAS prices.

MACs are appropriate when the Government cannot predetermine, above a specified minimum, the precise quantities of supplies or specific services that will be required during the contract period. Using source selection procedures, GSA competitively awards multiple contracts covering the same scope of work and then, as needs are identified for specific tasks and products, agencies compete the task/delivery orders among the contract holders. The use of multiple award contracts is encouraged by the Federal Acquisition Streamlining Act of 1994 to promote best value and the fair

opportunity for contract awardees to compete among themselves. The competition is intended to lower prices, obtain better quality, reduce delivery time, and improve customer service. Each of GSA's three major Services has developed MACs. However, at times the opportunity to be considered for task orders has been unnecessarily limited, thus reducing the possibilities for lower prices, better quality, reduced delivery time, and improved customer service.

Airline City Pair contracts are awarded annually. The \$1 billion program provides federal travelers with below market fares and provides advantages over commercial restricted coach fares, including unrestricted and fully refundable fares, no penalties for cancellations or schedule changes, and stable fare prices. To ensure the best value possible for federal agencies, FSS needs to consider applying private sector practices when evaluating offers, make travelers aware of benefits of using dual fares, and ensure that measurement data is received from the airlines, banks and travel management centers.

Client Support Centers. Over the past year and a half, we have identified improper contracting practices at the FTS Client Support Centers in several regions, and we have several other reviews in process. We identified numerous improper task order and contract awards. In making these awards, CSC officials breached government procurement laws and regulations, and, on a number of occasions, processed procurement transactions that totaled more than \$100 million of goods and services through the Information Technology Fund that were well outside the fund's legislatively authorized purposes. Inappropriate contracting practices included: improper sole source awards, misuse of small business contracts, allowing work outside the contract scope, improper order modifications, frequent inappropriate use of time and materials task orders, and not enforcing contract provisions. Several factors contributed to these problems—an ineffective system of internal management controls, personnel sacrificing adherence to proper procurement procedures in order to accommodate customers' preferences, and a culture that emphasized revenue growth. Our reports have received the attention of senior management, several congressional committees, the Office of Management and Budget, and the media. In addition, other federal agencies, particularly the Department of Defense, have initiated analyses of contract actions since these questionable procurement actions were done on behalf of work requests from other agencies.

## **AGENCY ACTIONS**

We are participating with FSS on a working group to review current MAS procurement practices, and analyze potential enhancements to program pricing activities. The group is comprised of representatives from the Office of Acquisition Policy, General Counsel, FSS acquisition, and the Office of Inspector General. On June 20, 2003, FSS issued a Procurement Information Bulletin (PIB) to provide guidance and instructions to contracting officers in requesting audit assistance from the OIG when making new awards exercising options to extend the term of a contract. The principles in the PIB also apply to audits of new MAS offers. The PIB should help contracting officers take better advantage of the assistance that can be provided by the OIG.

FSS is supporting Federal Acquisition Regulation changes that will require agencies acquiring services using the MAS services schedules to attempt to obtain better-than-negotiated pricing on large procurements. On June 18, 2004, the Federal Acquisition

Regulation Council issued a final ruling regarding ordering procedures under GSA's MAS contracting program. Among other things, the final rule requires ordering agencies to seek competition among MAS vendors, document their award decisions, and seek additional price reductions under Blanket Purchase Agreements (BPAs).

GSA worked with an interagency committee to develop a best practices guide, "Seven Steps to Performance-Based Services Acquisition." Additionally, a Center of Expertise has been established to gather sample statements of work and develop a template for performance-based service contracting solicitations.

The Agency conducted a study of FSS and FTS operations related to information technology offerings in order to enhance GSA's ability to provide best value to customer agencies. Three teams were established to develop business plans to combine and realign functional areas related to IT that are currently carried out separately in FSS and FTS, and expand expert assistance services, both technical and procurement, into other GSA products and services.

GSA streamlined its supply operations by consolidating its distribution centers at two locations. Recently, the Western Distribution Center moved to a more modern facility with an updated material handling system. The agency estimated savings through efficiencies and technology at \$9 million. A similar redesign is anticipated at the Eastern Distribution Center. An assessment of the validity of the estimated savings for the upgrades and modernization of the Western Distribution Center is currently underway.

In June 2004, GSA established a new Office of the Chief Acquisition Officer, aimed at ensuring compliance with federal contracting rules, fostering full and open competition for contracts, and strengthening accountability in contracting. The office absorbed many of the functions formerly in the Office of Governmentwide Policy.

On July 13, 2004, GSA unveiled a comprehensive plan designed to ensure improved contracting operations and proper use of GSA's contracting vehicles. The "Get it Right" plan aims to make acquisition policies, regulations, and procedures clear and explicit and improve the education/training of the federal acquisition workforce on the proper use of GSA contracting vehicles and services. GSA worked closely with other federal agencies, particularly the Department of Defense, in identifying actions necessary to ensure proper use of GSA contracting vehicles by GSA and other agencies. The plan will be a work in progress that will be continuously refined and updated.

## **CONTRACT MANAGEMENT**

**Issue:** GSA increasingly accomplishes its mission by using contractors to provide client services and products. In fiscal year 2002, GSA added new procurements valued at more than \$13 billion to its active contract inventory. While GSA gains tremendous advantage by leveraging its human capital to manage and arrange for work to be performed by contractors rather than doing the work itself, the corporate skill base necessary to effectively manage contracts is not keeping pace with the growth and complexity of this important activity.

Through a number of unrelated audits performed over recent years, we have observed certain trends that cause us to be concerned with contract management. Some points we have noted are:

- Weak selection criteria permit poor performing contractors to win awards, or projects were awarded to contractors with no expertise in the services needed. Task objectives were poorly crafted, milestone plans were missing, and unauthorized personnel issued some task orders. In addition, contracts were awarded without appropriate clauses to hold contractors responsible for protecting sensitive data from unauthorized release.
- Use of contract formats that offer no incentives to keep projects moving. Contractors often neglect to establish required quality control programs, or do not submit firm construction schedules meaning that delays are unknown until they become serious.
- GSA personnel are not providing project oversight, are slow in making project-critical decisions, and often do not inspect completed work projects prior to payment. Also, services were paid for but never provided, and authorizations to pay for services invoiced had no supporting documentation.
- GSA leasing officials did not monitor receipt of services required under leases and relied on tenant complaints for identifying service deficiencies rather than taking a proactive approach to ensuring required services are provided. We also noted a lack of documentation supporting whether identified fire and other safety conditions in leased facilities were corrected.

In our briefings to GSA senior management, we have emphasized that effective contract management starts with complete acquisition planning; relies on sound source selection criteria to select only the best contractors; requires clear and concise contract language; demands well trained contract administrators; and needs well defined work or task order requirements, including milestone plans with positive and negative incentives, and more importantly, assertive action to get wayward contracts promptly on track. There is a heightened need for improvement efforts as GSA's contracting workload continues to increase at a rapid rate. While many GSA contracts are well crafted and properly administered, we are finding weaknesses more often.

### **AGENCY ACTIONS**

GSA has provided training in source selection and related procurement issues for property development personnel. It has also established an on-line folder to post source selection best practices. Contracting officers are receiving classes in advanced source selection and refresher training on aspects of construction project administration such as critical path analysis, enforcement of clauses and scheduling, claims management, processing change orders, and linking the indirect costs of client directed changes back to clients.

### **INFORMATION TECHNOLOGY**

**ISSUE:** With the increased development and implementation of new Information Technology (IT) systems within GSA to perform its mission and manage its operations, challenges in this area continue to increase. Many of GSA's systems store and process sensitive information, including personal employee data, financial data, and contractors' proprietary information. Management challenges related to systems' requirements and

performance are faced at all phases of development, implementation, and operation. Further, it is critical that the IT Security Program adequately manage all IT security risks. GSA is the lead agency for five E-Government initiatives; two of the initiatives address Government to Business or Government to Citizen services and three initiatives are to provide services to other government departments and agencies. These IT applications, developed to better manage operations and interface with the public, also give rise to complex integration and security issues that must be addressed. Success is dependent upon breaking development into short-term manageable segments with performance-based deliverables consistent with system objectives.

Systems Development: GSA is in the process of replacing a number of its old systems, in keeping with technological advances and to meet current regulations. Many of the IT projects are designed to go beyond automating current business functions and create real change in the way that GSA does business. However, GSA has experienced recurring difficulty in deploying and maintaining structured system development practices that ensure the proper development of requirements as well as implementation of prescribed system processes. As a result, GSA systems commonly experience development schedule delays and cost overruns, need frequent redesign, and have difficulty sharing usable data between systems.

Many GSA IT projects attempt to minimize development cost and deployment schedules by developing systems based on existing commercial-off-the-shelf (COTS) software packages. COTS solutions offer agencies the ability to forgo lengthy development of core system functionality and the ability to adhere to industry information processing standards. However, the majority of COTS solutions do require modifications to meet unique Federal requirements. Moreover, new systems require interfaces with existing systems that are difficult to implement. Reviews by our office have shown this to be the case with GSA's new accounting system, Pegasys, the foundation of which is a COTS financial management product. During FY 2001, the Office of the Chief Financial Officer re-scoped Pegasys to focus on providing elements of the core financial functionality. As planned, on October 1, 2002, Pegasys became the Agency's official system for accounting records. While this is a key accomplishment, numerous challenges remain before completing full implementation of an integrated financial management system.

Information Technology Security: The Federal Information Security Management Act of 2002 permanently authorized the framework laid out in the earlier Government Information Security Reform Act (GISRA) emphasizing key principles for computer security for Federal programs and systems. With the OIG's latest program evaluation, we found that GSA continues to make progress in implementing its agency-wide IT Security Program. The Security Division within the Office of the Chief Information Officer has (1) issued security guidelines and revisions to the Agency-wide policy on IT security, and (2) taken steps to correct security weaknesses identified in GSA's Program Level Plan of Action and Milestones (POA&M). However, system-level POA&Ms are not consistently used to track and correct identified security weaknesses. Key systems security documentation was outdated or not complete; and contractors were granted access without appropriate background investigations.

## **AGENCY ACTIONS**

In January 2003, the CIO issued a new handbook on IT Security Policy to document and set forth GSA's IT Security Policy, an element required for meeting the goals of GSA's IT

Security Program. In addition, Milestone and Action Plans for improving security for 23 of GSA's major applications were provided to the Office of Management and Budget as required by statute.

## **MANAGEMENT CONTROLS**

**ISSUE:** Multiple management controls have been replaced, through reinvention initiatives, by fewer and broader controls, making it essential that the remaining controls be emphasized and consistently followed. The matter of weak internal controls underlies several of the other management challenges discussed elsewhere in this paper.

**Procurement:** Management has been emphasizing the use of purchase cards as a means of streamlining the procurement process. Individuals can charge any amount up to their spending authority. The Agency's emphasis on using purchase cards whenever possible significantly heightens the importance of adequate controls for purchase card transactions. Our concerns encompass whether speedy procurement is being attained at the expense of appropriate regulatory requirements and good management controls, whether charge cards are being used solely for appropriate Government purchases, and whether GSA is getting the best price.

Many agencies have availed themselves of the services available under GSA's governmentwide charge card program, yet some have failed to adequately implement controls over the use of the cards by their employees. While it is the responsibility of individual agencies to establish controls for their own cardholders, OMB and the Congress still look to GSA to take a leadership role in development of effective charge card program controls across the government. Within GSA, steps taken to strengthen controls over vehicle and travel cards appear to be effective since we seldom find instances of misuse by GSA cardholders. Although the key control over purchase cards, supervisory review of cardholders' transactions, is now more consistently followed, we do occasionally identify problems.

**Data Integrity:** In passing the Government Performance and Results Act of 1993 (Results Act), Congress emphasized that the usefulness of agencies' performance data depends, to a large degree, on the reliability and validity of those data. Past audit work has shown that the absence of controls or the non-compliance with existing controls has resulted in poor quality data at the operational levels of many GSA programs.

## **AGENCY ACTIONS**

GSA's Chief Financial Officer (CFO) is aware of the importance of adequate controls for charge card transactions and has worked with our office to strengthen those controls. New processes are in place that force reviewing officials to examine purchase transactions monthly. Cards are withdrawn from those who do not comply. GSA purchase cardholders and approving officials are required to complete refresher training every two years. In addition, the CFO periodically issues E-mail reminders to cardholders stressing their responsibilities for proper use of the cards. As a result, we have seen a substantial reduction of fraud stemming from card use. GSA is also a key participant in an OMB sponsored federal committee working to identify ways to improve the overall charge card control systems governmentwide.

The PBS Commissioner has taken action to improve the integrity of the data in IRIS, the Inventory Reporting Information System. Because this system is used to manage the Repair and Alterations Program, it is imperative that data in IRIS be reliable since PBS management decisions regarding the investment, repair, or disposal of assets could be significantly impaired. An IRIS based measure for the basic Repair and Alteration Program has been put in place and a contract was awarded for modification to import key financial project data from the Financial Management System.

In an effort to rein in the cost growth and bid busts on new construction projects, the commissioner has directed the national office to expand and strengthen its participation in the oversight of major projects and the development of the project teams working on them; develop a comprehensive project management manual; require senior management involvement where technical evaluation of projects plans find unresolved deficiencies and missing requirements before projects are advanced to OMB; and establish a design management evaluation process that includes an independent cost estimate at various design phase submissions.

### **AGING FEDERAL BUILDINGS**

**ISSUE:** GSA is being challenged to provide quality space to Federal agencies in a competitive environment with an aging, deteriorating inventory of buildings and critical budgetary limitations.

It is estimated that it would take over \$5 billion to bring the building inventory up to standard. Since the Federal Buildings Fund generates annual revenue of about \$8 billion, most of which is committed to leased space costs, operating expenditures, and construction of new courthouses, finding funds for needed repairs is a major problem.

GSA needs to determine which buildings represent the greatest risk from a safety and operational perspective, which buildings will yield the best return on investment, what the Government's future space requirements are, and how to fund the highest priority projects in a timely manner.

Prior reviews showed a need for PBS to improve the administrative aspects of asbestos management, develop a more comprehensive fire safety management system that focuses on a national fire safety strategy, evaluate the formula used to measure a building's net income, and improve profit and loss information to facilitate better property management decisions.

### **AGENCY ACTIONS**

PBS developed a strategy for restructuring the owned building inventory. The strategy envisions a combination of actions including disposals, exchanges, public/private partnerships, outleases, and new construction. With the Portfolio Restructuring Initiative, PBS has proposed a three-tiered approach in prioritizing the inventory, using a series of asset diagnostic tests or measures, each with a performance target or threshold that will assist in categorizing individual buildings. The first test simply seeks to determine



whether the property produces sufficient income to meet both operating expenses and a reserve for replacement. The second test measures an asset's financial performance in terms of return on investment. Other tests address operating efficiency, customer satisfaction, rental rate and vacancy levels, and current repair and replacement needs. After this performance review, each asset will be categorized as either performing, under-performing, or non-performing. GSA will consult with affected agencies on appropriate resolution strategies for each troubled asset. GSA has briefed congressional subcommittees with jurisdiction over GSA, and they are very supportive of this effort, as are OMB and GAO.

Management has developed a PBS-wide environmental system to become more proactive in how it views and acts on environmental issues and to address issues such as property contamination, compliance with Federal and state environmental laws and regulations, and liability for tenant activities. PBS also developed a more comprehensive fire safety strategy, which endeavors to provide a functional, safe, and healthful work environment, protect property, and promote client agency mission continuity.

PBS redesigned its policy for charging rent to customer agencies in FY 1997. The largest source of income to the Federal Buildings Fund is the rent charged by PBS to its customer agencies for the space they occupy in GSA controlled space. In FY 2003 this amount was estimated to be \$6.6 billion.

The construction excellence program was established to help PBS improve the management of its construction program and to complete new construction and major R&A projects timely and with minimal changes.

## **HUMAN CAPITAL**

**ISSUE:** Like many Federal agencies, GSA has an aging workforce and faces significant potential loss of institutional knowledge in the coming years. Since 1993, GSA has been downsizing and has focused on restructuring its financial and business efforts. The Agency workforce was reduced from 20,000 to 14,000 between 1993 and 1999. Much of the downsizing was accomplished through early retirement and buyout authority, and by filling job vacancies sparingly. In March 2003, a mass transfer of 1,268 employees to the Department of Homeland Security further reduced the workforce to approximately 12,800.

Since 1998, the OIG has consistently cited human capital management as one of the major management challenges facing GSA. Additionally, Congress and the Government Accountability Office (GAO) have identified human capital management policies as a missing link in the Government's performance management framework. GAO added this issue to its list of major management challenges facing Federal agencies. Human capital planning and organizational alignment, leadership continuity and succession planning, and recruitment and retention of staff with the right skills were identified as key areas needing attention.

### **AGENCY ACTIONS**

GSA has moved on several fronts to meet identified human capital challenges. The agency recently completed an agency-level workforce analysis that parallels GSA's Human Capital Strategic Goals that were developed as part of the strategic plan in August 2002. The report will assist management in making informed human capital decisions. Identified mission critical occupations are particularly emphasized in recruitment and retention strategies. The Office of the Chief People Officer selectively uses HR flexibilities to compete for employees. It has developed recruitment and retention strategies with the help of OPM and employee focus groups, and uses the "compelling job offer" technique to convince potential employees of the importance of the position.

GSA has a number of initiatives regarding employee orientation, engaging existing employees, and developing leaders within GSA. New employees are provided the opportunity to attend an intensive 2 ½ to 5-day "welcome to GSA", and orientation to the individual's specific organization.

GSA issued a contract with the Gallup Organization for administration of the Q12 survey that provides a snapshot of how well the agency is doing, where specific improvements can be made, and the level of employees' engagement at the workplace.

In its efforts to more accurately and consistently inventory its activities under the FAIR Act, GSA's competitive sourcing team oversees each Service's inventory and reports on any discrepancies or variances, and it established the Office of Performance Improvement that will oversee the competitive sourcing initiatives for GSA.

As part of its human capital strategy, and to address planning needs, the Office of the Chief People Officer launched the GSA Leadership Institute in February 2002 with the implementation of its premier program, Leadership for New Supervisors, designed to help new supervisors master skills to lead their workforce to achieving excellent results. Added in June 2002, the agency-wide competitive Advanced Leadership Development Program provides an opportunity for high potential GS-13s, 14s, and 15s to be selected into a program that will equip them for consideration for senior level positions. In December 2002, the Institute launched the Supervisory Toolbox, a nuts and bolts two-day workshop for all supervisors and managers on the human resources responsibilities, flexibilities and resources necessary to be effective supervisors. The Leading Edge Program, announced in April 2003, offers managers an opportunity to customize a development program keyed to GSA's leadership competencies, including a 360 assessment, executive coaching, and workshops. Additional programs are being crafted to help develop the agency's future leaders.

## **PROTECTION OF FEDERAL FACILITIES AND PERSONNEL**

**ISSUE:** Providing a safe, healthful, and secure environment for over 1 million workers and the visitors to over 8,600 owned and leased Federal facilities nationwide is a major multifaceted responsibility of GSA. The increased risks from terrorism have greatly expanded the range of vulnerabilities traditionally faced by building operations personnel. In March 2003, the Federal Protective Service (FPS) was transferred from GSA to the Department of Homeland Security (DHS). While FPS is no longer part of GSA, the Agency will have a continual need to closely interact with security personnel

due to GSA's mission of housing Federal agencies. GSA and FPS/DHS operate under a Memorandum of Agreement for obtaining services such as basic security for buildings, contract guards, law enforcement, background suitability determinations for contractors (including Child Care), pre-lease security checks, occupant emergency plan support and continuity of operations plan activation support. Ensuring that Federal employees have a secure work environment and that building assets are adequately safeguarded must remain a primary concern of GSA.

An additional concern relates to how to pay for the upgrades and replacement of the security countermeasure equipment that was initially obtained with \$140 million in funds provided directly by Congress. As equipment ages and technology advances, the cost to maintain the security of GSA's buildings could significantly impact availability of funds for other building needs, and could create significant issues if tenants object to higher rent costs resulting from upgraded security.

### **AGENCY ACTIONS**

As part of the FPS transition to the new department, a Memorandum of Agreement (MOA) was prepared, setting forth the support services GSA will provide to DHS and the security services DHS will provide to GSA. Such services include the continuation of the Federal Security Risk Manager Program, a risk assessment methodology that addresses potential threats to Federal facilities. This methodology was designed to link threats, risk levels and countermeasure recommendations, and address vulnerabilities and impact of loss should an incident occur. The desired goal is to reduce threats at each facility through specific countermeasures to address the risks.

In addition, as part of the increased focus on security, GSA is adopting a nation-wide uniform credential based on Smart Card technology. A smart chip embedded in the credential will identify each employee visually and electronically for both identification and physical access purposes.