



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

# Audit of FAS's Greater Southwest Acquisition Center – Schedule 84 Pricing and Negotiation

*Report Number A120124/Q/A/P14001  
October 31, 2013*



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

## REPORT ABSTRACT

### Audit of FAS's Greater Southwest Acquisition Center – Schedule 84 Pricing and Negotiation

Report Number A120124/Q/A/P14001

October 31, 2013

#### WHAT WE FOUND

We identified the following during our audit:

Finding 1 – Schedule 84 negotiation procedures did not consistently adhere to federal regulations and FAS policy, reducing assurance of price reasonableness.

Finding 2 – Contracting officers achieved minimal cost savings despite contract audit recommendations.

Finding 3 – Price analyses lacked detail and substance causing unsupported price reasonableness determinations.

Finding 4 – Key information not maintained in the contract file subjects the contract to unnecessary risks.

Finding 5 – Temporary extensions executed with invalid justifications may lead to contract lapses and possibly entitle contractors to equitable adjustment.

Finding 6 – Excluded Parties List System checks were not consistently performed in accordance with federal regulations and policies, risking option award to excluded contractors.

#### WHAT WE RECOMMEND

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

1. Improve the strength and consistency of negotiation procedures by:
  - a. Implementing a risk-based approach for negotiating options.
  - b. Modifying existing internal contract reviews to include requirements for documenting option negotiations.
  - c. Using contract audit results as a key negotiation tool to achieve maximum cost savings and obtaining an understanding of circumstances when/why those results could not be achieved.
2. Issue guidance and implement changes to internal quality review procedures to ensure that price analyses are contract-specific, provide detailed reasoning, and reference supporting documentation in the contract file.
3. Revise existing temporary extension review procedures to ensure compliance with FAS Instructional Letter 2011-11 and examine the contracts with potentially invalid temporary extensions identified in this audit.
4. Issue a FAS Operational Notice to emphasize federal regulations governing the timeliness and documentation of excluded parties checks.

#### MANAGEMENT COMMENTS

The Commissioner of the Federal Acquisition Service concurred with the audit report findings and recommendations. Management's written comments to the draft report are included in their entirety as Appendix B.

#### OBJECTIVE

To determine if the price evaluation and negotiation of contracts and options awarded under the Greater Southwest Acquisition Center Schedule 84 comply with federal regulations and policies.

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

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DATE: October 31, 2013

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

FROM: Michelle L. Westrup *Michelle L. Westrup*  
Audit Manager, Acquisition Programs Audit Office (JA-A)

SUBJECT: Audit of FAS's Greater Southwest Acquisition Center – Schedule 84  
Pricing and Negotiation  
*Report Number A120124/Q/A/P14001*

This report presents the results of our audit of Schedule 84's pricing and negotiation within the Greater Southwest Acquisition Center. Our findings and recommendations are summarized in the Report Abstract. Instructions regarding the audit resolution process can be found in the email that transmitted this report.

Your written comments to the draft report are included in Appendix B of this report.

If you have any questions regarding this report, please contact me or any member of the audit team at the following:

Michelle Westrup	Audit Manager	<a href="mailto:michelle.westrup@gsaig.gov">michelle.westrup@gsaig.gov</a>	816-926-8605
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On behalf of the audit team, I would like to thank you and your staff for your assistance during this audit.

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## **Table of Contents**

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<b>Introduction</b> .....	<b>1</b>
<b>Results</b>	
<i>Finding 1 – Schedule 84 negotiation procedures did not consistently adhere to federal regulations and FAS policy, reducing assurance of price reasonableness.</i> .....	<i>2</i>
<i>Recommendation 1a &amp; b</i> .....	<i>3</i>
<i>Management Comments</i> .....	<i>3</i>
<i>Finding 2 – Contracting officers achieved minimal cost savings despite contract audit recommendations</i> .....	<i>4</i>
<i>Recommendation 1c</i> .....	<i>4</i>
<i>Management Comments</i> .....	<i>4</i>
<i>Finding 3 – Price analyses lacked detail and substance causing unsupported price reasonableness determinations</i> .....	<i>4</i>
<i>Recommendation 2</i> .....	<i>6</i>
<i>Management Comments</i> .....	<i>6</i>
<i>Other Observations</i> .....	<i>6</i>
<i>Finding 4 – Key information not maintained in the contract file subjects the contract to unnecessary risks</i> .....	<i>6</i>
<i>Management Comments</i> .....	<i>7</i>
<i>Finding 5 – Temporary extensions executed with invalid justifications may lead to contract lapses and possibly entitle contractors to equitable adjustment</i> .....	<i>7</i>
<i>Recommendation 3</i> .....	<i>8</i>
<i>Management Comments</i> .....	<i>8</i>
<i>Finding 6 – Excluded Parties List System checks were not consistently performed in accordance with federal regulations and policies, risking option award to excluded contractors</i> .....	<i>8</i>
<i>Recommendation 4</i> .....	<i>9</i>
<i>Management Comments</i> .....	<i>9</i>
<b>Conclusion</b> .....	<b>10</b>
<b>Appendixes</b>	
<b>Appendix A – Purpose, Scope, and Methodology</b> .....	<b>A-1</b>
<b>Appendix B – Management Comments</b> .....	<b>B-1</b>
<b>Appendix C – Report Distribution</b> .....	<b>C-1</b>

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## ***Introduction***

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The Greater Southwest Acquisition Center is part of GSA's Federal Acquisition Service (FAS), Office of General Supplies and Services, Office of Acquisition Operations. As one of six regionally located acquisition centers, the Greater Southwest Acquisition Center manages five schedules, including Schedule 84. Schedule 84 provides total solutions for law enforcement, security, facilities management, fire, rescue, clothing, marine craft, and emergency disaster response. It is the highest revenue-producing schedule within the Greater Southwest Acquisition Center. In fiscal years (FY) 2011 and 2012, Schedule 84 averaged approximately 1,500 active contracts with collective annual sales greater than \$2.4 billion.

To leverage the Government's buying power and provide customer agencies with the best value, contracting officers are required to determine fair and reasonable pricing prior to awarding a GSA Schedule contract or exercising a contract option.<sup>1</sup> The Federal Acquisition Regulation (FAR) describes various techniques contracting officers can use to analyze prices in order to determine them as fair and reasonable. At a minimum, contracting officers must perform a price analysis to determine whether the prices of commercial items are reasonable.<sup>2</sup> Analyzing prices helps contracting officers develop a negotiation position that provides the Government and contractor an opportunity to reach agreement on a fair and reasonable price. The results of GSA Office of Inspector General (OIG) preaward audits are a reliable tool available to contracting officers for use in negotiations. Preward audits frequently identify price discounts that, if realized in negotiations, would result in substantial cost savings. The negotiated price should provide the contractor with the greatest incentive for efficient and economic performance.

The audit objective was to determine if the price evaluation and negotiation of contracts and options awarded under the Greater Southwest Acquisition Center's Schedule 84 comply with federal regulations and policies.

To accomplish this objective, we reviewed a judgmental sample of 15 contract files representing 30 percent of all FY 2011 Schedule 84 sales. The sample consisted of the largest contract assigned to each Schedule 84 contracting officer and/or contracting specialist. The contract file reviews focused on the most recent award or option period. In addition, we reviewed the audit resolution of Schedule 84 preaward audits issued during FYs 2011 and 2012. During this timeframe, GSA OIG performed 15 preaward audits of Schedule 84 contracts. Of those 15, 5 had completed the audit resolution process as of February 2013.

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

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<sup>1</sup> Schedule contracts typically have a 5-year base period with three 5-year option periods.

<sup>2</sup> Price analysis is the process of examining and evaluating a proposed price without evaluating its separate cost elements and proposed profit.

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## Results

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### **Finding 1 – Schedule 84 negotiation procedures did not consistently adhere to federal regulations and FAS policy, reducing assurance of price reasonableness.**

When negotiation procedures are not conducted and/or documented diligently, the contracting officer's price reasonableness determination is unsupported and there is no assurance that customer agencies are receiving the best price. Contracting officers did not consistently document negotiation procedures and in one case, did not perform them in accordance with federal regulations and FAS policy.

FAR 15.406-1 instructs contracting officers to prepare and document objectives when negotiating any pricing action, which includes contracts and some contract modifications.<sup>3</sup> FAR 15.406-3(a) requires that contracting officers document and address the required elements of negotiations. In addition, FAS issued Instructional Letter (IL) 2011-02 in November 2010, mandating the use of a pre-negotiation and price negotiation memoranda containing the required material for all price-related negotiations.

#### **Pre-Negotiation and Negotiation Procedures of Contract Option not in Accordance with Regulation and Policy**

Contracting officers did not prepare negotiation objectives or conduct negotiations for one contract option. FAR 15.406-1(b) requires that the contracting officer establish pre-negotiation objectives prior to negotiation of any pricing action. FAS IL 2011-15 required a Pre-Negotiation Clearance Panel be conducted for any contract option valued at or above \$700,000. This contract option was valued at over \$25 million, while the entire contract value exceeded \$72 million at the time of option.

A Pre-Negotiation Clearance Panel is a review procedure used to ensure quality contract actions, including initial contract awards, modifications, and the exercise of option periods. The goal of the panel is to ensure that the contracting officer is fully prepared for negotiations of high risk contracts and contract options. However, this contract quality review did not take place due to a documentation error.

FAS has revised IL 2011-15 to remove dollar value thresholds for Pre-Negotiation Clearance Panels. According to the policy revision, FAS requires a minimum of three panels per year for each schedule and that all contracting officers and specialists participate in at least one panel every 36 months. The selection of contracts for review is at the discretion of the Director of Acquisition Operations. By removing dollar thresholds for Pre-Negotiation Clearance Panels, FAS eliminated a control to negotiate all high dollar value contract options. We acknowledge that Pre-Negotiation Clearance Panels may not be feasible or appropriate for all high value contract options; however, the importance of negotiating these contract options remains.

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<sup>3</sup> Contract options are exercised as modifications.

### **Negotiation Documentation not in Accordance with Regulation and Policy**

Federal regulation and FAS policy require that negotiation procedures are thoroughly documented. Contracting officers conducted negotiations but did not document them, as required by FAR 15.406-3(a), for two of the contract options reviewed.

With the exception of those two options, Schedule 84 contracting personnel used templates to document the negotiation process for options. Despite template usage, contracting personnel did not consistently capture all the required elements of negotiation in the documented negotiation results, as required by FAR 15.406-3.

- For two contract options, contracting officers documented negotiations, but did not include one or more elements of negotiation.
- In four other contract options, contracting officers documented all of the required elements; however, not all of the elements were included in the results of negotiations.

In addition, the templates did not include all of the guidance detailed in FAS IL 2011-02, which reinforces the FAR requirements. For three contract options, contracting officers did not document pre-negotiation and/or negotiation procedures in accordance with this guidance.<sup>4</sup> When discussing the documentation with contracting personnel, they provided inconsistent responses as to whether an internal or FAS template was used to document the negotiation process for an option.

Contracting officers should conduct and document the entire negotiation process for options, as required by FAR and FAS policy, so that their decisions are clearly supported. In addition, mandatory use of negotiation templates, as outlined in FAS IL 2011-02, would minimize documentation inconsistencies. It would also increase the likelihood that all required information is detailed in the pre-negotiation and price negotiation memoranda.

### **Recommendation 1**

We recommend that the Commissioner of FAS:

1. Improve the strength and consistency of negotiation procedures by:
  - a. Implementing a risk-based approach for negotiating options.
  - b. Modifying existing internal contract reviews to include requirements for documenting option negotiations.

### **Management Comments**

The Commissioner of FAS concurred with the audit report finding and recommendation. Management's written comments to the draft report are included in their entirety as Appendix B.

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<sup>4</sup> Two of these contract options were also in violation of FAR 15.406-3 as detailed in the previous bullets.

## **Finding 2 – Contracting officers achieved minimal cost savings despite contract audit recommendations.**

Federal regulation and FAS guidance require contracting officers to determine fair and reasonable pricing for the Government. To determine fair and reasonable prices, contracting officers analyze proposed prices and conduct negotiations. While negotiations involve concessions from both the contractor and the Government, there is a risk that the contracting officer is not achieving best value when recommended cost avoidances are not achieved. Contracting officers, as stewards of taxpayer dollars, should take full advantage of preaward audit assistance in their effort to obtain best value.

The OIG performs preaward audits to assist contracting officers in determining fair and reasonable pricing for upcoming contract options. While advisory in nature, preaward audit reports provide contracting officers with an in-depth assessment of a contractor's pricing policies, procedures, and commercial discounts, and frequently identify potential cost savings.

During FYs 2011 and 2012, the OIG performed 15 preaward audits on Schedule 84 contracts. For the five contracts for which the audit resolution process was completed, the total dollars audited equaled \$643,986,837. Auditors recommended cost avoidances totaling \$84,015,355. However, after negotiations, contracting officers only achieved savings of \$2,957,074 (3.52% of the recommended cost avoidances).

### Recommendation 1

We recommend that the Commissioner of FAS:

1. Improve the strength and consistency of negotiation procedures by:
  - c. Using contract audit results as a key negotiation tool to achieve maximum cost savings and obtain an understanding of circumstances when/why those results could not be achieved.

### Management Comments

The Commissioner of FAS concurred with the audit report finding and recommendation. Management's written comments to the draft report are included in their entirety as Appendix B.

## **Finding 3 – Price analyses lacked detail and substance causing unsupported price reasonableness determinations.**

When price analysis is not sufficiently detailed or documented, contract files do not fully support the contracting officer's fair and reasonable price determination. Contracting officers use internal templates to document price analysis for an option. However, the templates contain standard language and lack sufficient detail. In many cases,



contracting personnel did not change the provided boilerplate language, nor add any contract-specific details to support the price analysis. Additionally, contract files did not consistently contain supporting documentation for the price analysis used to determine fair and reasonable pricing.

FAR 4.801 states that documentation in the contract file shall provide a complete background as a basis for informed decisions, to support actions taken, and to provide information for reviews and investigations. In 11 contract files, contracting officers did not provide contract-specific detail in the analysis and/or include documents to support the price analysis performed. In our review, contracting officers generally performed a market analysis to determine price reasonableness prior to exercising an option. During a market analysis, the contractor's proposed prices are typically compared to similar items offered in the open market and on GSA Advantage.<sup>5</sup> Contracting officers did not specifically identify which items were compared or the prices of those items. Due to limited details in the price analysis description and lack of supporting documentation, we could not verify fair and reasonable pricing determinations.

FAR 4.801 also requires the contracting officer to provide support for all contract actions.<sup>6</sup> In one contract file, the contracting officer's determination to exercise the option was based on the contractor's Commercial Sales Practice information. However, the sales practice information was not in the contract file and could not be located by contracting personnel. The contractor's Commercial Sales Practice form provides the contractor's annual sales and serves as the contractor's main submission of commercial practices and discounts offered to commercial customers. Without the sales practice information in the contract file, we could not examine how negotiation objectives were developed or how the discounts offered to the Government compare to those offered commercially.

FAR 15.403-3(c)(1) requires the contracting officer to perform a price analysis to determine fair and reasonable pricing whenever acquiring a commercial item. Additionally, Procurement Information Bulletin 05-4 states data and information related to the contracting officer's fair and reasonable price determination should be included in the contract file. In one file, the contracting officer did not perform a price analysis prior to exercising the option. When asked for a price analysis, the contracting officer stated that there is little comparison between similar services offered on Schedule.

In order to determine fair and reasonable pricing for a commercial item, contracting officers must perform a price analysis. To support the analysis, the contracting officer must specifically document the steps performed and explain the results in detail. Furthermore, the contracting officer must file any documents used during the analysis to support their determination. Without detail, the contract file does not fully support the actions taken by the contracting officer.

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<sup>5</sup> GSA Advantage is an online shopping and ordering system used by customer agencies to purchase products and services from a variety of approved government contractors.

<sup>6</sup> Support for contract actions should contain a level of detail that would allow an independent reviewer to understand the basis and rationale for specific actions.

## Recommendation 2

We recommend that the Commissioner of FAS:

2. Issue guidance and implement changes to internal quality review procedures to ensure that price analyses are contract-specific, provide detailed reasoning, and reference supporting documentation in the contract file.

## Management Comments

The Commissioner of FAS concurred with the audit report finding and recommendation. Management's written comments to the draft report are included in their entirety as Appendix B.

## **Other Observations**

### **Finding 4 – Key information not maintained in the contract file subjects the contract to unnecessary risks.**

The contracting officer's actions and contract history risk being unsupported when key contract documents are not included in contract files. Schedule 84 contract documents are prepared and maintained electronically outside the official contract file. Once these documents are completed and finalized, they are then uploaded to the official electronic contract file. However, some contract files did not contain key documentation relating to the most recent option period. As a result, these contract files did not support the contracting officer's actions and did not illustrate a full depiction of the contract history.

FAR 4.801 requires the contract file to be sufficiently documented in order to provide a complete background of the contract and support all actions taken by the contracting officer. A complete contract file supports procurement decisions and provides information for reviews and investigations and furnishes important facts in the event of litigation or congressional inquiries. In eight of the contract files reviewed, personnel failed to file at least one essential contract document in the official file. The audit team requested these documents, but personnel were only able to locate them outside of the official file. These documents, specifically mentioned by FAR 4.803(a) as records normally contained in a contract file, included, but were not limited to:

- results of negotiation,
- Pre-Negotiation Clearance Panel documents,
- a preaward audit report,
- audit decision records,
- modifications for temporary extensions, and
- the contracting officer's finalized determination to exercise an option.

Contract files must provide adequate documentation to comprise a complete history of all contractual actions. Contract reviews, disputes, and protests are based on

documents in the contract file. Complete contract file documentation provides contracting officers with a means to support their decisions. Without it they risk the integrity of acquisitions.

### Management Comments

The Commissioner of FAS concurred with the audit report finding. Management's written comments to the draft report are included in their entirety as Appendix B.

### **Finding 5 – Temporary extensions executed with invalid justifications may lead to contract lapses and possibly entitle contractors to equitable adjustment.**

Invalid temporary extensions may result in contract lapses and entitle contractors to an equitable adjustment. Despite previous OIG audit reports, contracting officers are unaware of current guidance. This has resulted in invalid temporary extensions.

The OIG Office of Audits previously reported on similar findings regarding temporary extensions in *Review of Consistency in Implementing Policy Across Acquisition Centers - Temporary Extensions*.<sup>7</sup> The report recommended that the FAS Commissioner establish centralized policies and procedures regarding the proper use of contract clauses by acquisition centers. In response, FAS management issued Instructional Letter 2011-11, providing instruction on the use of temporary extensions. In accordance with this instructional letter, temporary extensions must be issued citing either FAR 52.217-8 or FAR 52.212-4, which grants authority for the extension.

The majority of schedule contracts consist of a 5-year base period with three 5-year option periods. Both the base and option periods can be temporarily extended if properly authorized. These temporary extensions are issued as either a bilateral or unilateral modification to the contract.

We reviewed 12 temporary extensions which were associated with 8 options in our sample. In 11 of those extensions, the contracting officer either omitted or used incorrect clauses to extend the contract, rendering the extension invalid.

- For two of the temporary extensions, contracting officers cited expired GSA Acquisition Regulation clause 552.243-72.
- In one unilateral modification for a temporary extension, the contracting officer cited a clause that only applied to bilateral modifications.
- For one temporary extension, the contracting officer cited a clause that granted authority to exercise an option rather than a temporary extension.
- For the remaining seven temporary extensions, the contracting officer unilaterally extended the contract without citing a clause that permitted the extension.

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<sup>7</sup> Report Number A100204/Q/A/P11005, March 31, 2011

Contracting officers must ensure that they follow the proper authorities and procedures to temporarily extend contract options. Otherwise, invalid extensions can result in the contractor's entitlement to equitable adjustment and/or cause lapses in contract performance.

### Recommendation 3

We recommend that the Commissioner of FAS:

3. Revise existing temporary extension review procedures to ensure compliance with FAS Instructional Letter 2011-11 and examine the contracts with potentially invalid temporary extensions identified in this audit.

### Management Comments

The Commissioner of FAS concurred with the audit report finding and recommendation. Management's written comments to the draft report are included in their entirety as Appendix B.

### **Finding 6 – Excluded Parties List System checks were not consistently performed in accordance with federal regulations and policies, risking option award to excluded contractors.**

The determination of contractor responsibility is unsupported if Excluded Parties List System (EPLS) reviews are not performed and/or documented.<sup>8</sup> If the required EPLS checks are untimely, the Government risks awarding or extending a contract to an excluded contractor. We did not identify any instances of this occurring, but the risk should be addressed.

Federal regulation and policy require that the Government not conduct business with excluded contractors. In order to help enforce this practice, contracting officers must diligently review federal procurement systems for excluded parties at the required points in time during the acquisition process. It is also necessary that they document these searches of contractors in the official contract file as support for their decisions in accordance with FAR 4.801.

Contracting officers consistently stated during interviews that they checked EPLS within 30 days prior to exercising an option. However, this practice did not comply with regulation and policies. The FAR and federal policies required the contracting officer review EPLS when the contractor chooses to pursue a new option and immediately prior to exercising the option.

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<sup>8</sup> The System for Award Management, which combines several federal procurement systems, replaced EPLS on November 22, 2012. This system contains information on entities excluded from conducting business with the Federal Government.

For 11 contract files, contracting officers did not perform and document EPLS reviews in accordance with federal regulations and policies for the option period reviewed. These regulations and policies include FAR 9.405(d)(1) and (4), FAR 17.207, FAR 4.801, GSA Office of Governmentwide Policy Acquisition Alert 2010-01, and FAS IL 2012-06.

- For nine options, the contracting officer did not conduct a second or final EPLS search immediately prior to exercising the option. In six of those nine options, the contract file only documented the first EPLS search. The other three options had documentation of both EPLS searches; however, the second search was not performed immediately prior to exercising the option.
- For one other option, the contracting officer did not document the first EPLS search.
- One contract file had no EPLS documentation for the option.

#### Recommendation 4

We recommend that the Commissioner of FAS:

4. Issue a FAS Operational Notice to emphasize federal regulations governing the timeliness and documentation of excluded parties checks.

#### Management Comments

The Commissioner of FAS concurred with the audit report finding and recommendation. Management's written comments to the draft report are included in their entirety as Appendix B.

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## **Conclusion**

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We identified multiple instances in which contracting staff did not adhere to federal regulations or FAS policies throughout the negotiation process. While we found that price evaluations generally complied with federal regulations and policies, improvements should be made when documenting the price evaluation. The purpose of the price evaluation or analysis is to support the procurement decision and develop a negotiation position that enables the contracting officer to obtain a fair and reasonable price. Contracting officers should clearly depict the analysis conducted, the concluded position, and reference any supporting documentation for the analysis in preparation for negotiations.

Contracting officers should always conduct and document all required components of the negotiation process and adhere to FAS policies for additional guidance. Further, contracting officers should take full advantage of preaward audit assistance to achieve greater cost savings. If the price analysis and negotiation procedures are not conducted diligently and documented in detail, then assurance that customer agencies are receiving best value is at risk.

The audit noted other observations for the contract options reviewed, including incomplete contract file documentation, invalid temporary extensions, and missing EPLS reviews. Contracting officers did not always ensure documents significant to the contract's record were filed. We also identified many instances in which contracting officers used invalid justifications for temporary extensions. Finally, we noted that contracting officers did not routinely conduct and document EPLS searches in accordance with federal regulations. Correcting these issues is necessary to ensure contracting officer actions and the corresponding contract files are supported, valid, and responsible.

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## ***Appendix A – Purpose, Scope, and Methodology***

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### **Purpose**

The General Services Administration Office of Inspector General included this audit in its fiscal year (FY) 2012 Audit Plan.

### **Scope**

The audit scope was limited to the largest value contract assigned to each Schedule 84 contracting officer and/or contracting specialist in order to evaluate risk and obtain a general representation of Schedule 84 contracting activities. To evaluate preaward audit cost savings, the audit team examined all FYs 2011 and 2012 Schedule 84 Office of Inspector General preaward audits resolved as of February 2013.

### **Methodology**

To accomplish our objective, we:

- Reviewed the Federal Acquisition Regulation and Federal Acquisition Service policies pertaining to contract pricing, contract file documentation, and negotiations.
- Reviewed the Greater Southwest Acquisition Center's internal guidance and Schedule 84 policies and procedures.
- Obtained a universe of all active FY 2011 Schedule 84 contracts and developed a risk-based judgmental sample based on contract sales and varying contracting officers. The sample consisted of 15 contracts, totaling \$787 million in FY 2011 sales.
- Obtained the official contract file for all contracts in the sample and reviewed documents related to the most recent award or option period.
- Reviewed the audit resolution of Schedule 84 preaward audits issued during FYs 2011 and 2012.
- Interviewed Schedule 84 management and contracting employees regarding Greater Southwest Acquisition Center procedures and contract file documentation.
- Obtained input from Federal Acquisition Service Office of Acquisition Management officials and Office of Governmentwide Policy Acquisition Policy officials regarding the importance of negotiation and price evaluation documentation in the contract file.
- Reviewed Federal Acquisition Service guidance on temporary contract extensions and an Office of Governmentwide Policy Acquisition Alert on the Excluded Parties List System.

We conducted the audit between April 2012 and February 2013 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Internal Controls**

Our audit was limited in scope; therefore, our evaluation of internal controls was limited to items discussed in the Results section of this report.



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## Appendix B – Management Comments

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October 8, 2013

MEMORANDUM FOR BARBARA E. BOULDIN  
PROGRAM DIRECTOR  
ACQUISITION PROGRAMS AUDIT OFFICE (JA-A)

FROM: THOMAS A. SHARPE, JR.  
COMMISSIONER (Q)

SUBJECT: Audit of FAS's Greater Southwest Acquisition Center --  
Schedule 84 Pricing and Negotiation  
Report Number A120124

Thank you for your willingness to work with FAS and the Greater Southwest Acquisition Center (GSAC) and for the opportunity to provide comments on this report.

We are pleased that you found price evaluations generally complied with federal regulations and policies, and agree that improvements should be made when documenting the price evaluation.

FAS has carefully reviewed the draft audit report and concurs with the findings noted therein. Management comments to the individual findings are attached and we will begin creating action plans to address the recommendations noted in the report.

Please call me at 703-605-5400 if you have any questions.

Attachment

U.S. General Services Administration

**Federal Acquisition Service Comments on the OIG Draft Report:  
“Audit of FAS’s Greater Southwest Acquisition Center – Schedule 84  
Pricing and Negotiation” (A120124)**

Management comments to the individual findings are addressed below:

Finding No. 1

**Schedule 84 negotiation procedures did not consistently adhere to federal regulations and FAS policy, reducing assurance of price reasonableness.**

FAS concurs with this finding. A brief recap of the detailed audit findings and our comments for Finding Number 1 are outlined below:

**Finding A:** Did not prepare negotiation objectives or conduct negotiations for the option

**A Comments** – The current OPEN process (Instructional Letter (IL) 2012-06 dated 1/26/12) allows options to be exercised without negotiations when prior pricing actions are found fair and reasonable and the contractor has certified that no changes in the commercial sales practices have occurred. This practice will be addressed in the corrective action plan to ensure options clearly document actions that are based upon prior price analysis accomplished.

Finding B: One PNCP was required but not conducted.

**B Comments** – In June 2011, new PNCP guidelines were issued via IL 2011-15 lowering PNCP thresholds from \$35 Million to \$700,000. Due to the much lower thresholds, these guidelines created significant increases in PNCP workload for GSAC. As a result, communications were immediately initiated to obtain clarification and request relief to the lowered thresholds. Subsequent PNCP guidelines were issued dated April 2012 revising the thresholds to manageable levels. GSAC was in continual communication regarding the new guidelines being drafted during this time and inadvertently processed an option in March 2012 under the new draft guidelines one month prior to the actual April 2012 effective date. The corrective action plan will identify processes to ensure PNCP's are conducted in accordance with applicable policy in effect at the time.

Attachment – Management Comments  
Audit Number A120124

**Finding C:** Negotiations took place for one option, but were not documented.

**C Comments** - Negotiations were conducted and documented however the correct template was not utilized. Use of correct template will be addressed in the corrective action plan to ensure that negotiation documentation is clearly identifiable and consistently labeled within the contract file.

**Finding D:** Elements of negotiations not fully documented for two contract options and in four contract options not all of the elements were included in the results of the negotiations.

**D Comments** - Instances were found where the Price Negotiation Memorandum for Pre-negotiation objectives did not fully document the purpose of negotiations, description of acquisition or participant information in all documents. This will be addressed in the corrective action plan being developed to ensure the all required elements are fully addressed in the templates used.

#### Finding No. 2

**Contracting offices achieved minimal cost savings despite contract audit recommendations.**

Finding 2 comments - FAS concurs with this finding. Detailed findings outlined that total dollars audited equaled \$643,986,837. Auditors recommended cost avoidances totaling \$84,015,355, respectively. However, after negotiations, contracting officers only achieved savings of \$2,957,074.

The potential cost savings identified in the audits settled during this review were incorporated into the negotiation objectives developed and discussed in the PNCP panels along with auditor's active participation. However these were maximum objective goals. There were also minimum objective goals established. Pricing within that range was considered fair and reasonable and was accepted. In the audits, the final resolutions were shared with audit and H1C explaining cost savings realized or the reason they were not.

FAS must narrow the gap between the audit savings we agree with and outcomes achieved. This includes analyzing the auditor recommendations earlier in the process, and also obtaining supplemental information from the vendor before preparing FAS's position. This may require more time for FAS to respond with the decision record. It may include additional negotiation training, and documenting in greater detail what savings were achieved and in what way. These issues will be addressed in the corrective action plan.

Attachment – Management Comments  
Audit Number A120124

### Finding No. 3

#### **Price analyses lacked detail and substance causing unsupported price reasonableness determinations.**

Finding 3 comments - FAS concurs with this finding. A brief recap of the detailed audit findings provided in support of finding 3 included concerns in the following areas: Did not provide contract specific detail in the analysis or include documents in the file to support analysis; no documentation of price analysis performed prior to awarding option; the CSP-1 used as basis was not in file. The corrective action plan will address the need for increased focus on documenting and filing the contract specific details outlining the price analysis conducted. Issues identified with missing documents in the file are an ongoing concern that has also been identified in internal contract reviews. While issues are being encountered with the electronic processes that are supposed to automatically move documentation to the electronic file, there are also issues attributed to human errors that do not conform to guidance and internal training. Both of these factors will be addressed in the corrective action plan to ensure improvement going forward.

### Finding No. 4

#### **Key information not maintained in the contract file subjects the contract to unnecessary risks.**

Finding 4 comments - FAS concurs with this finding. Detailed audit findings indicated that contractual documents were located outside of the official contract file rather than correctly filed within the electronic contract file. The Image Now electronic contract filing system previously in use within GSAC did not allow for automated filing of pertinent contractual documents concurrently with the approval action required in ORS/FSS Online system. Thus, filing required manual scanning of contractual documents into the Image Now system resulting in filing issues. GSAC internal review procedures were revised to place increased emphasis on filing to ensure improvement was attained in this area.

Additionally, with the implementation of Electronic Contract Files (ECF) and the OPEN process there are now processes in place that allow for automatic filing of mandatory documents. Significant issues remain with ECF and the automatic filing process, as a result, continued oversight of this area will be outlined in the Corrective Action plan to ensure contract files contain adequate documentation to comprise a complete history of the contractual actions and identify any systemic issues for appropriate resolution.

Attachment – Management Comments  
Audit Number A120124

Finding No. 5

**Temporary extensions executed with invalid justifications may lead to contract lapses and possibly entitle contractors to equitable adjustment.**

Finding 5 comments - FAS concurs with this finding. Detailed audit findings indicated that contracting officers extended contracts without citing a clause or cited the incorrect clause that permitted the extension. The contracts identified with incorrect temporary extensions have been reviewed and modifications to exercise the contract option have been issued in accordance with the appropriate FSS Clause I-FSS-163. Training was also conducted upon issuance of IL 2011-11 to ensure that contracting officers were utilizing the correct authority for temporary extensions.

Finding No. 6

**Excluded Parties List System checks were not consistently performed in accordance with federal regulations and policies, risking option award to excluded contractors.**

Finding 6 comments - FAS concurs with this finding. FAS notes, however, that an effective and reliable control is already in place in which a daily check of all newly debarred, suspended vendors and vendors proposed for debarment or suspension is conducted against all current MAS contract holders. This 100% verification and notification system significantly reduces the potential of exercising an option on a debarred or suspended vendor; therefore minimizing any potential risk to the Government.

Attachment – Management Comments  
Audit Number A120124

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## ***Appendix C – Report Distribution***

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Commissioner, Federal Acquisition Service (Q)

Deputy Commissioner, Federal Acquisition Service (Q1)

Chief of Staff, Federal Acquisition Service (Q0A)

Controller, Federal Acquisition Service Financial Services (BF)

Acting Regional Administrator, Greater Southwest Region (7A)

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