




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

DATE: March 25, 2014

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 Audits  
*Audit Memorandum Number A120050-4*

Since fiscal year (FY) 2010, my office has issued two memoranda of recurring issues within the Schedules Program as identified by our preaward audits of Multiple Award Schedule (MAS) contracts.<sup>1</sup> This memorandum details three issues identified during our FY 2012 preaward audits that require management attention.

- Nearly half of the contractors audited had inadequate sales monitoring and billing systems to ensure proper administration of the price reduction and billing provisions of their MAS contracts.
- Contractors continue to provide commercial sales practices disclosures that are not current, accurate, and/or complete to support their proposed prices.
- FAS contracting officers overwhelmingly agreed with the recommended cost avoidances identified in our preaward audits, but only achieved savings for 43 percent of the amount when the pending option periods were awarded.

## Results

In FY 2012, GSA Schedule sales exceeded \$38 billion. In this same year, we performed 39 MAS preaward contract audits with \$10.8 billion in estimated sales for their pending 5-year option periods. We recommended price and discount adjustments that, if realized, would allow for over \$566 million in cost avoidances. Additionally, we recommended approximately \$3 million in recoverable overcharges.

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<sup>1</sup> Audit memoranda dated September 26, 2011, and March 8, 2013.

## Observations from FY 2012 Audits

**Contractors have inadequate sales monitoring and billing systems to ensure the proper administration of the price reduction and billing provisions of their contracts.** Nearly half of the contractors audited in FY 2012 did not have adequate sales monitoring and billing systems. Further, two thirds of the audits identified specific sales and billing deficiencies which often resulted in recommended monetary recoveries.

*Contractors' sales monitoring and billing systems are inadequate.* During our preaward audits, we evaluate the adequacy of the contractor's sales monitoring and billing systems. Specifically, we determine whether the contractor: has sufficient controls in place to ensure recognition of GSA orders; appropriately bills GSA Schedule prices; complies with the billing provisions of the GSA contract; and properly administers the Price Reductions clause. Of the 39 audits performed in FY 2012, 19 (49 percent) identified contractors with inadequate sales monitoring and billing systems.

*Contractors are not billing in compliance with the terms and conditions of their contracts resulting in recommended recoveries.* Twenty-seven (69 percent) of our preaward audits identified 51 specific sales and billing findings, resulting in approximately \$2.6 million of recommended monetary recoveries. See *Table 1* for the occurrences of each finding type.

<b>Table 1 – Sales and Billings Findings from FY 2012 Preaward Audits</b>		
<b>Finding</b>	<b>Number of Instances Identified</b>	<b>Recommended Recovery Amount</b>
Overbillings	21	\$581,541
Ineffective Price Reductions Clause	14	\$0
Unreported Price Reductions	6	\$1,914,994
Other	5	\$0
Freight Charges	2	\$43,177
Sales Tax	2	\$2,031
Prompt Payment not Granted	<u>1</u>	<u>\$21,516</u>
<b>Total</b>	<b>51</b>	<b><u>\$2,563,258</u></b>

Six audits identified unreported price reductions, accounting for 75 percent of the recommended monetary recoveries. In addition, 14 audits reported the Price Reductions clause as ineffective. Examples in which the clause was determined to be ineffective include when the company has no sales to the basis of award customer or a basis of award customer was not identified.<sup>2</sup> In these instances, any potential cost savings afforded by the clause would never be realized. Auditors provided contracting

<sup>2</sup> Under the Price Reductions clause (GSAM 522.238-75), the contractor's discount relationship with the basis of award customer or category of customers is generally used as the basis for the discounts given to the Government. If the discounts given to these customers increase, the discounts given to the Government also increase.

officers information to increase the effectiveness of the price protections afforded by the clause for these 14 contracts. FAS's MAS Desk Reference identifies long term price reductions as a key benefit of the Schedules Program; however, with an ineffective Price Reductions clause, this benefit may never be attained.

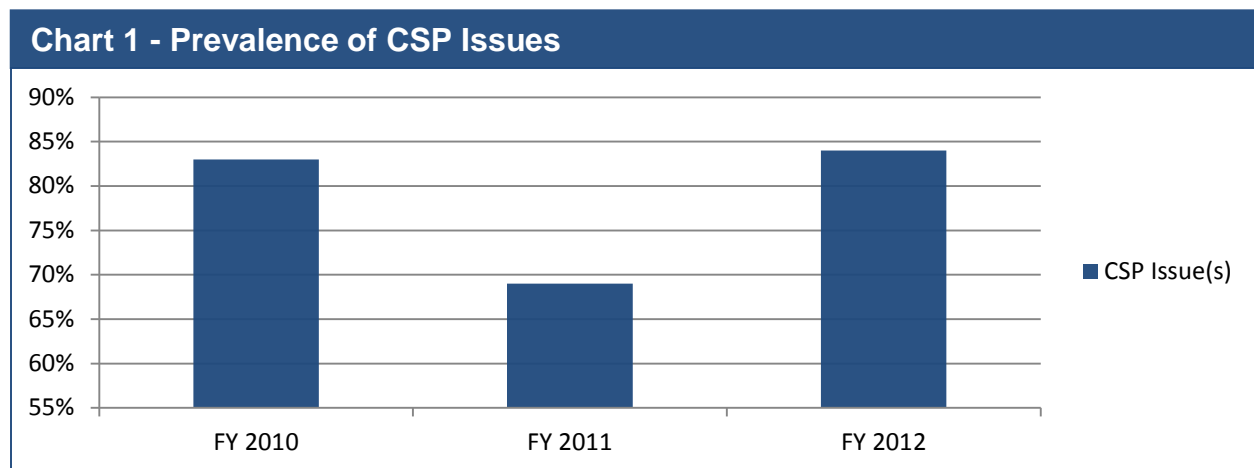
FAS should increase efforts to ensure contractors have adequate sales monitoring and billing systems to properly administer the price reduction and billing provisions of their MAS contracts.

**Commercial Sales Practices disclosures are not current, accurate and/or complete.** In FY 2012, an overwhelming majority of audited contractors submitted flawed commercial sales practices (CSP) disclosures to FAS's contracting officers. The reliance on flawed CSPs in awarding contracts greatly reduces the contracting officer's ability to obtain fair and reasonable pricing.

Of 39 FY 2012 preaward audits, we evaluated proposed prices for 25 contractors using the submitted CSP disclosures. CSPs contained non-current, inaccurate, and/or incomplete information in 21 of those audits (84 percent). Using current, accurate, and complete CSP information, we calculated potential cost savings of \$188.5 million if negotiated by FAS contracting officers.

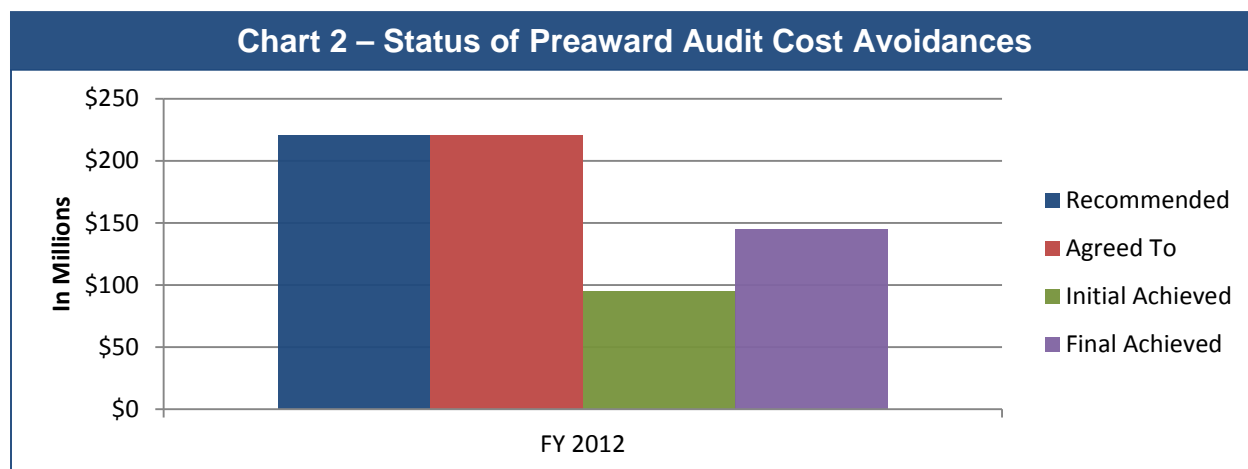
In one instance, the contractor did not submit proposed pricing for installation services on its CSP because the service is performed by dealers. However, the contractor provided free installation services for two of the three national account agreements we reviewed. If the contracting officer negotiates the same free installation, the Government could realize up to \$21.4 million in cost savings.

*Chart 1* outlines the prevalence of CSP issues, as identified by our preaward audits, over the past three fiscal years. In FY 2012, the occurrence of deficient CSPs increased by 15 percent. FAS needs to increase its attention to these continued CSP deficiencies as this information is essential to achieving the best value for customer agencies, and ultimately, the American taxpayer.



**Contracting officers only achieved 43 percent of cost avoidances identified by preaward audits.** Although FAS contracting officers overwhelmingly agreed with the recommended cost avoidances identified in our preaward audits, they only achieved savings for 43 percent of the amount when the pending option periods were awarded.<sup>3</sup> This is only a slight improvement from the 36 percent that FAS contracting officers achieved from the recommended savings identified in our FY 2011 preaward audits.

In one instance, we noted that FAS used a flawed negotiation technique to award the contract option. This resulted in achieving zero percent of the agreed to recommended cost savings. We brought this to the attention of FAS management. As a result, FAS reopened negotiations achieving \$49.6 million in additional savings, representing 100 percent of the auditor recommended cost savings for this audit. This additional amount raised the overall savings achieved from 43 to 65 percent. The recommended, agreed to, and achieved cost avoidance amounts are depicted in *Chart 2*.



While the FY 2012 results showed marginal improvement, additional efforts are needed to maximize cost savings.

### Conclusion

The Schedules Program, with over \$38 billion in sales in FY 2012, is the largest interagency contracting vehicle in the Federal Government. The three issues reported in this memorandum require management attention. FAS should focus on ensuring contractors properly administer the price reduction and billing provisions of their contracts, the continued prevalence of CSP issues, and achieving a greater portion of recommended cost savings. Improvements in these areas will strengthen the integrity and cost effectiveness of the Schedules Program.

<sup>3</sup> As of October 21, 2013, 21 of the 39 contract options audited in FY 2012 have been awarded.

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

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