November 10, 2009

MEMORANDUM FOR BRIAN D. MILLER
INSPECTOR GENERAL (J)

FROM: PAUL F. PROUTY
ACTING ADMINISTRATOR (A)

SUBJECT: Inspector General's Assessment of the U.S. General Services Administration's Major Challenges

Thank you for providing me with the opportunity to review your assessment of the major challenges currently facing the U.S. General Services Administration (GSA) and the agency's progress in addressing those specific challenges. We have continued to direct efforts toward the six major management challenges the Office of Inspector General (OIG) believes are facing GSA today: Acquisition Programs, Management Controls, Information Technology (IT), Human Capital, Protection of Federal Facilities and Personnel, and the Federal Buildings Fund. The attachment highlights and provides information and clarification on several items covered in the OIG's updated assessment.

GSA acknowledges these challenges and is implementing a broad range of measures to address the challenges, including migrating from existing FTS2001 contracts; mitigating the potential of invalid financial transactions; developing an IT Strategic Business Plan for FY 2010-2012; planning for Cloud Computing services; initiating the GSA "Lean Hiring" program; and thoroughly managing the American Recovery and Reinvestment Act of 2009.

GSA recognizes that the OIG can provide invaluable assistance to GSA management in our stewardship of taxpayer resources.

I look forward to continuing to work with the OIG to minimize, if not eliminate, waste, fraud, and abuse and promote greater Government effectiveness and efficiency.

Attachment

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Agency Management Comments on the Office of Inspector General's Assessment of GSA's Major Management Challenges

ACQUISITION PROGRAMS

ISSUE: *Challenges exist in the Multiple Awards Schedules Program pertaining to pricing and compliance.*

GSA's Federal Acquisition Service (FAS) takes some exception to the Office of the Inspector General's (OIG) characterization of the challenges that exist within the Multiple Award Schedules (MAS) program pertaining to pricing and compliance. While the MAS Program scope is broad and its impact far reaching, the program does consistently meet both its statutory and regulatory obligations relating to both pricing and compliance. The OIG's assessment makes broad assertions that there is a lack of emphasis on pricing and compliance with the terms and conditions of MAS contracts. More specifically, the assessment cites that fundamentals have been lacking regarding a mandate "to seek offeror's best price, Most Favored Customer (MFC) pricing, the requirement to perform meaningful price and cost analysis when awarding or extending contracts, and the use of field pricing to assist in negotiating." This statement mischaracterizes the actual challenge faced by FAS and the MAS program. Furthermore, the assessment fails to consider all relevant ongoing agency actions that affect MAS pricing and compliance, and dynamic changes ongoing within the program, many of which are in response to multiple audits tangentially or directly touching on pricing over the last few years.

The negotiation objectives for MAS contracts are set forth in General Services Administration Acquisition Regulation (GSAR) 538.270 which states, "The government will seek to obtain the offeror's best price (the best price given to the most favored customer). The government recognizes that the terms and conditions of commercial sales vary and there may be legitimate reasons why the best price is not achieved." This regulation directs GSA contracting officers (CO) to compare the terms and conditions of sale, as well as other key factors that may influence a determination of fair and reasonable pricing, the outcome of negotiations, and the ability of the government to achieve MFC, which includes not just price, but price related terms and conditions.

The overall best value for the government that the MAS program provides is achieved not only through the GSA COs' determination of fair and reasonable pricing (based on commercial practices, market research, and the terms and conditions of the contract), but also pursuant to the ordering activities' compliance with the Federal Acquisition Regulation (FAR) Subpart 8.4 ordering procedures. GSA's statutory authority for the MAS program, 41 U.S.C. 259(b)(3), states, "the procedures established by the Administrator for the multiple awards schedule program of the General Services Administration if--(A) participation in the program has been open to all responsible sources; and (B) orders and contracts under such procedures result in the lowest overall cost alternative to meet the needs of the government." The key phrase is that orders and contracts result in best value to the government; not just contracts, as the assessment asserts. Ordering activities are most often best able to leverage the government's buying power with a determination of best value for a specific scope and need. They can further leverage aggregate volume demand and further competition by establishing multiple Blanket Purchase Agreements. In addition, GSA provides other solutions that can leverage the government's aggregate buying power through efforts such as Strategic Sourcing, SmartBuy and the Global Supply program.

While FAS recognizes the importance of pricing in each of its programs, we also recognize the importance of competition and pricing at each level of the programs we administer. Further negotiation, competition and leverage exercised at the most appropriate time in the acquisition cycle will yield the best price for the government. We continue to refine our processes to effectively deliver products and services at competitive pricing taking into account the entire acquisition cycle.

Furthermore, the OIG's assessment cites pre-award and post-award audits as the main basis for assertion over flaws in vendor proposal information and lack of contract compliance with MAS contract terms and conditions. However, the OIG conducts these audits on the behalf of FAS, and FAS seeks audit assistance from the OIG because these contracts are the most high dollar value and riskiest MAS contracts. These contract audits do not occur on enough offers and contracts to be statistically significant and are derived from a nonrepresentative based sample of the total population. Accordingly, valid conclusions cannot be drawn from this information and more information is required before it would be proper to conclude that these issues exist across the program. This year, the GSA FY 2010 audit plan notes plans for only 60 to 65 audits down from 70 the previous year from a potential pool of 17,000 contracts.

There are several ongoing agency actions addressing this management challenge that the OIG assessment fails to address. Currently, there is a GSAR case that is rewriting General Services Administration Acquisition Manual (GSAM) Subpart 538-Federal Supply Schedule Contracting, the regulatory foundation of the program. This case updates the MAS policies that affect pricing and compliance. Additionally, a FAR case has been opened to implement Section 863 of the FY 2009 National Defense Authorization Act (NDAA), which statutorily requires additional competition requirements government-wide for schedule orders over the simplified acquisition threshold. Lastly, GSA has established a MAS Advisory Panel, which is providing independent advice and recommendations to the GSA Acting Administrator on pricing and price reduction provisions of the MAS program.

FAS is also improving its Performance Measurement program, which was instituted eight years ago and has experienced few changes over the years. Given the limited changes, the performance measures on the balanced scorecards have not kept pace with the organizational goals and strategic priorities of FAS. For FY 2010, the Office of Strategic Business Planning and Process Improvement is working to reduce the quantity of measures and increase the quality and strategic focus of the measures. Additionally, it is obtaining an independent review of the Performance Measures program to determine what program changes should take place beginning with the FY 2011 cycle to ensure scorecards remain relevant to the FAS strategies and foster portfolio and employee participation toward common goals, including contract quality.

Particular to the MAS program, the Office of Strategic Business Planning and Process Improvement is partnering with the MAS Program Office and the MAS Governance Council in the development of a MAS strategic plan that will include long-term goals and objectives to improve the program and to ensure it continues to provide best value for the government and the taxpayer. Metrics will be developed to gauge progress of the program toward the goals and objectives laid out in this plan and they will balance process, compliance and financials as they roll up to the MAS and FAS strategic goals.

All considered, these agency actions will institute substantial changes to the MAS program to include how it approaches pricing and compliance.

ISSUE: *GSA needs to ensure agencies transition to Networx in a timely manner.*

FAS has amended this OIG section to provide more detailed information, and the last two paragraphs under Agency Actions expand on the actions FAS is taking.

The transition of government agencies from the FTS2001 and Crossover contracts to the Networx contracts (Universal and Enterprise) is one of the largest telecommunications services transition ever undertaken by the federal government. It will involve more than 135 agencies, in more than 150 countries, more than 50 services, and thousands of voice and data circuits. The Networx contracts are valued at $68.2 billion, divided between Networx Universal and Networx Enterprise.

In May 2009 meetings, management stated they are on target with regard to budgeting; however, Agencies' transition progress needs to accelerate to ensure their transition is complete prior to the expiration of the FTS2001 and Crossover contracts – May/June 2011. As of August 2009, GSA officials stated that only half of the contractor selections had been made despite the September 2008 deadline for completing all fair opportunity decisions. The transition could require significant additional coordination between agencies, their components, GSA, and a host of telecommunications contractors and additional resources if agencies delay transition until the last few months prior to the expiration of the FTS2001 and Crossover contracts.

AGENCY ACTIONS: In an effort to decrease the immediate transition burden on agencies migrating from the existing FTS2001 contracts, GSA awarded bridge contracts that provide for continued service beyond the expiration of FTS2001 in 2006 and 2007. The bridge/crossover contracts are set to expire in May and June 2010; however, continuity-of-service contract provisions allow the contracts to be extended until May/June 2011.

GSA, in partnership with agencies, has established a Transition Cost Reimbursement Fund with critical milestones to incentivize transition progress and has developed, in partnership with agencies, a myriad of tools and transition guidelines to enable a smooth and timely transition.

GSA is increasing direct transition support to agencies in order to accelerate the pace of transition. Under the "Realizing the Rewards" initiative GSA has/is:

- Engaged direct agency CIO involvement in the transition describing the lack of transition progress and the cost associated with failure of the agencies to complete the transition within the timeline available.
- Established an Inter-Agency Management Council Executive Steering Committee to elevate CIO participation and support of Agencies' transition activities.
- Offered agencies direct assistance in the areas of acquisition, technical and operational support.
- Reinvigorated monthly Agency Transition Working Group meetings with a focus on measuring and reporting transition progress and resolving common issues.
- Offering to complete all transition activities for very small agencies.
- Reviewing and streamlining all GSA transition activities.
- Making transparent all measures of agency transition progress.

FINANCIAL REPORTING

The Financial Reporting discussion in the report states that the auditors have reported since FY 2004 that there are deficiencies with GSA's financial management systems, processes and "substantial transaction errors resulting from insufficient controls related to reporting of budgetary accounts and balances."

While there may be insufficient "automated" controls built into the systems, there are significant manual controls that help ensure that the reporting is accurate. The statement that our controls are "insufficient" is misleading.

The report notes that the root cause of the issues identified relate to the agency's business feeder systems and reliance on "costly compensating processes". It goes on to state that "GSA systems, including its financial system of record, Pegasys, continue to have deficiencies in interoperability and interfaces." However, the "Agency Action" section only mentions short term work around actions and does not mention the major systems modernization effort under way, Lean Sigma Six effort to reduce worksheet adjustments, establishment of the Financial Management Enterprise Architecture or the development of the Standard Acquisition Interface.

While GSA does employ certain manual controls instead of automated controls, we believe we have an appropriate mix of automated and manual controls given our current resource and system environments. Given our history of unqualified audit opinions, no current material weaknesses, and a history of early annual report submissions before the November 15 deadline, we respectively assert that our current control environment is not only sufficient, but superior to many control environments found in the federal financial industry.

INFORMATION TECHNOLOGY

GSA Services and Staff Offices have requested funding for new information technology (IT) programs and initiatives, as part of the Agency's FY 2010 Budget. These new IT programs and initiatives seek to better manage GSA's legacy systems environment. An example is the Public Buildings Service, E-Gov initiatives. The PBS-CIO requested funds are actually in the amount of $12.5 million; $9.5 million for the System for Tracking and Administering Real Property (STAR) replacement; $1.5 million for a Pegasys-Comprizon interface; and $1.5 million to implement the Billing and Accounts Receivable (BAAR) solution.

AGENCY ACTIONS: The Cloud Computing team, not the IT Infrastructure Line of Business team, is working with the Office of Management and Budget's E-Government and budget offices to ensure consistency with related federal IT programs such as the Federal Enterprise Architecture Program Office, Strategic Sourcing and the Information Systems Security Line of Business. Additionally, this team is supporting government-wide cloud computing initiatives. As part of this effort, the team will assist with: developing a strategic approach for the federal cloud(s); addressing barriers and compliance issues; developing mechanisms to purchase infrastructure as a service; identifying and providing access to standard collaboration and communication tools, and allow agencies to acquire cloud services as a commodity.

HUMAN CAPITAL

The assessment properly points out GSA's challenges with its retirement-eligible workforce, its attrition rate, and the federal hiring process. However, in its "Agency Actions" section, the OIG does not discuss:

1. GSA’s designation as one of the top places to work in the government. The assessment states that GSA must take action to set itself apart as an employer of choice, yet GSA has had its top 10 rating for a number of years. Further, it is one of leading agencies in telework policy and practice—a very attractive recruitment and retention tool.

2. GSA's employee retention. The OIG references the eight percent GSA attrition rate but does not discuss what makes up that rate—agency transfers, retirements, removals (note that the FAS attrition rate was seven percent for FY 2009). GSA's efforts to improve hiring will continue to be a management challenge unless similar efforts are established to focus on the existing workforce.

3. GSA's actions to utilize Direct Hire Authority (DHA) for its 1102 workforce in Washington, D.C., New York City, Philadelphia, and Fort Worth. FAS has increased its workforce in FY 2009 through the use of many hiring authorities (interns, merit promotion, veterans, DHA, Peace Corps).

4. The opportunities to maximize the human resource (HR) workforce with the transfer of function to the Office of the Chief Human Capital Officer. It is vital that this now national HR resource pool is established and managed in such a way that it reduces existing traditional stove piped HR officers’ lines of control so that work can be redirected to address changing customer needs.

PROTECTION OF FEDERAL FACILITIES AND PERSONNEL

GSA management has no additional comments on the Public Buildings Service.

FEDERAL BUILDING FUND

GSA management has no additional comments on the Public Buildings Service.