



OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## **Audit Report**

# **EPA Can Improve Use of Federal Supply Schedules When Procuring Services**

**Report No. 2003-P-00015**

**September 29, 2003**

**Report Contributors:**

Herb Maletz  
Tapati Bhattacharyya  
Richard Valliere  
Michael Petscavage

**Abbreviations**

AMR	Acquisition Management Review
CO	Contracting Officer
EPA	Environmental Protection Agency
FAR	Federal Acquisition Regulation
FSS	Federal Supply Schedule
GAO	General Accounting Office
GSA	General Services Administration
ICMS	Integrated Contract Management System
IGCE	Independent Government Cost Estimate
NIH	National Institutes of Health
OAM	Office of Acquisition Management
OARM	Office of Administration and Resources Management
OIG	Office of Inspector General
ORD	Office of Research and Development
PO	Project Officer
RFQ	Request for Quote
RTPPOD	Research Triangle Park Procurement Operations Division
SOW	Statement of Work
SPEDI	Small Purchase Electronic Data Interchange



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

OFFICE OF  
INSPECTOR GENERAL

September 29, 2003

**MEMORANDUM**

**SUBJECT:** EPA Can Improve Use of Federal Supply Schedules  
When Procuring Services  
Report No. 2003-P-00015

**FROM:** Robert Mitchell */signed/*  
Director for Contract Audits  
Office of Audit (2421T)

**TO:** Morris X. Winn  
Assistant Administrator  
Office of Administration and Resources Management (3101A)

This is our final report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This audit report contains findings that describe problems the OIG has identified and corrective actions the OIG recommends. This audit report represents the opinion of the OIG and the findings contained in this report do not necessarily represent the final EPA position. Final determinations on matters in this audit report will be made by EPA managers in accordance with established audit resolution procedures.

**Action Required**

In accordance with EPA Manual 2750, you are required to provide a written response to the findings and recommendations presented in this audit report within 90 calendar days of the date of this report. You should include a corrective actions plan for agreed-upon actions, including milestone dates. We have no objection to the further release of this report to the public. For your convenience, the report will be available at <http://www.epa.gov/oigearth/eroom.htm>.

If you or your staff have any questions regarding this report, please contact me at (202) 566-0891 or Mitchell.Robert@epa.gov.

cc: Judy Davis, Director, Office of Acquisition Management (3801R)  
Bernie Davis, Office of Administration and Resources Management (3102A)  
Arnold Bloom, Office of Research and Development (2450T)

# ***Executive Summary***

---

## **Purpose**

We conducted this audit to determine whether the Environmental Protection Agency (EPA) effectively utilized the General Services Administration's (GSA's) Federal Supply Schedule (FSS) to procure services at the best value. We considered the following questions:

- Did EPA obtain adequate competition for FSS task orders?
- Did the Agency follow established policies, procedures, and regulations in awarding FSS task orders to ensure EPA received fair and reasonable prices?
- Do EPA information systems provide adequate, reliable, and timely data for effectively tracking and managing FSS awards?

## **Results of Review**

EPA contracting and program office personnel can increase competition for FSS awards by seeking and obtaining competitive quotes from more than just incumbent contractors. Of the 39 task orders reviewed, 30 (\$62.5 million of \$72.3 million) were awarded without competing quotes. This occurred because of inadequate sole source justifications, inadequate planning, rushed procurements, inadequate market research, and providing contractors' limited time to submit quotes. Consequently, EPA has limited assurance that it is receiving the best value for the services acquired, since lack of competition can result in incumbents having little or no incentive to offer discounts or lower prices. Studies have shown that competition can save the Government between 15 and 50 percent of the costs of goods and services. Therefore, we believe EPA could have realized significant savings and promoted greater efficiency, innovation, and quality by receiving competing quotes for FSS orders.

EPA awarded FSS orders without always complying with established policies, procedures, and regulations. Specifically, statements of work were not always performance-based, requests for quotes lacked required evaluation factors, independent government cost estimates lacked necessary information, quotes were inadequately evaluated, best value and/or price reasonableness analyses were missing or inadequate, price reductions were not sought from contractors, and contractor performance was not evaluated for future selection consideration. These conditions were generally caused by inadequate procurement planning and insufficient knowledge of procedures. As a result, there was limited assurance that EPA received best value, and EPA potentially expended unnecessary funds.

FSS information generated by EPA's databases was often incomplete, inaccurate, and unreliable. Among other things, the primary systems used cannot report total annual FSS obligation and award amounts, or the total number of transactions. We also noted that information was often recorded in other than the primary systems. The conditions noted occurred because EPA has not developed and/or implemented a system that would allow the consistent recording, accumulation, and reporting of FSS award data. Unreliable procurement data affects information submitted to Congress and other stakeholders, and EPA itself did not have sufficient information to analyze workloads and support budget requests.

## **Recommendations**

We made various recommendations for the Assistant Administrator for the Office of Administration and Resources Management to require the Director of the Office of Acquisition Management to take steps to increase competition in FSS awards, improve compliance with regulations and procedures, and improve recording of FSS data.

## **Agency Comments and OIG Evaluation**

On July 25, 2003, we issued a draft report to the Office of Administration and Resources Management (OARM). Because our report includes findings that are specific to the Office of Research and Development (ORD), ORD was also furnished a copy of the draft report. On August 29, 2003, we received responses from OARM and ORD (see Appendices D and E, respectively). While the Agency did agree to with some of our recommendations, they disagreed with others. The Agency specific responses and our evaluation of their responses can be found in the individual chapters of the report.

# Table of Contents

---

Executive Summary .....	i
-------------------------	---

## Chapters

1	Introduction .....	1
2	EPA Can Increase Competition for FSS Awards .....	3
3	EPA Needs to Improve Compliance With Established Regulations and Procedures .....	15
4	EPA Needs to Improve Recording of Data .....	25

## Appendices

A	Sampled FSS Procurements .....	29
B	Details on Scope and Methodology .....	33
C	Task Order Checklist .....	35
D	OARM Response to the Draft Report .....	37
E	ORD Response to the Draft Report .....	45
F	Distribution .....	49



# Chapter 1

## Introduction

### Purpose

We conducted this audit to determine whether the Environmental Protection Agency (EPA) effectively utilized the General Services Administration's (GSA's) Federal Supply Schedule (FSS) to procure services at the best value. "Best value" is defined in the Federal Acquisition Regulation (FAR) as the expected outcome of an acquisition that, in the Government's estimation, provides the greatest overall benefit in response to the requirement. We considered the following questions:

- Did EPA obtain adequate competition for FSS task orders?
- Did the Agency follow established policies, procedures, and regulations in awarding FSS task orders to ensure EPA received fair and reasonable prices?
- Do EPA information systems provide adequate, reliable, and timely data for effectively tracking and managing FSS awards?

### Background

The FSS program, directed and managed by GSA, provides Federal agencies with a simplified process for obtaining commonly used commercial supplies and services at prices associated with volume buying. The GSA schedule contracting office issues FSSs with the information necessary for placing orders with contractors. Ordering agencies issue orders directly to these contractors for supplies and services.

FSS sales have increased significantly in recent years. Total government-wide FSS procurements increased from \$6.1 billion (in constant fiscal year 2001 dollars) in fiscal 1997 to almost \$22 billion in fiscal 2002. Based on available information, we estimate that EPA's FSS obligations increased from \$11.9 million in fiscal 1997 to \$75.6 million in fiscal 2002. (Chapter 4 of this report explains why accurate figures could not be obtained).

In 1998, GSA published special ordering procedures, as provided for in FAR 8.402. Also in 1998, GSA published "Ordering and Best Value Determination Guidelines." The special ordering procedures for orders between \$2,500 and the maximum order threshold (generally \$1 million) require agencies to: (1) prepare a request for quote (RFQ), (2) send the RFQ to at least three FSS contractors based on evaluating catalogs and price lists, and (3) evaluate quotes and select the contractor based on factors identified in the RFQ. These procedures require the

ordering agency to consider the level of effort and mix of labor proposed to perform specific tasks, and make a fair and reasonable price determination.

In addition, if the requirement exceeds the schedule’s maximum order threshold, the RFQ should be provided to additional sources and a price reduction sought. Responses should be evaluated against factors identified in the RFQ, and the contractor that represents the best value should be selected.

EPA’s Office of Acquisition Management (OAM) is responsible for policies, procedures, operations, and support of the Agency’s procurement and contracts management program. OAM’s Information Technology Service Center is responsible for managing the Integrated Contract Management System, Small Purchase Electronic Data Interchange, and other procurement information systems. With regard to the FSS, both OAM and EPA program offices with approved contracting personnel can issue FSS orders directly to GSA schedule contractors. In doing so, the ordering office is responsible for ensuring that its orders are compliant with applicable laws, regulations, and the GSA ordering procedures. For the cases we reviewed, EPA project officers (POs) submitted requests for FSS orders to EPA contracting officers (COs), who issued the orders.

## Scope and Methodology

We performed this audit in accordance with *Government Auditing Standards* (1994), issued by the Comptroller General of the United States. This audit included tests of program records and other auditing procedures. We reviewed FSS task orders with obligations from fiscal 2000 to 2002. Our review included a sample of 39 FSS awards from OAM Headquarters, the OAM Research Triangle Park Procurement Operations Division (RTPPOD), and the Office of Research and Development (ORD) Narragansett Laboratory. Those 39 awards are summarized in the following table and detailed in Appendix A. Further details on our scope and methodology, including sample selection and prior audit coverage, are in Appendix B.

**Table 1-1: FSS Awards Reviewed**

Location	No. of Awards Reviewed	Value of Awards Reviewed (millions)
OAM Headquarters	25	\$68.7
OAM RTPPOD	7	3.3
ORD - Narragansett Lab	7	0.3
Total	39	\$72.3

## Chapter 2

### EPA Can Increase Competition for FSS Awards

EPA contracting and program office personnel can increase competition for FSS awards by seeking and obtaining competitive quotes from more than just incumbent contractors. Of the 39 task orders reviewed, 30 (\$62.5 million of \$72.3 million) were awarded without competing quotes. This occurred because of:

- Inadequate sole source justifications.
- Inadequate program office acquisition planning and rushed procurement.
- Inadequate market research to determine best value contractors.
- Contractors' limited time to submit technical and cost data.

Consequently, EPA has limited assurance that it is receiving the best value for the services acquired. Lack of competing quotes can result in a higher price, since incumbent contractors will have little or no incentive to offer discounts or lower prices. Obtaining the best value (considering price and other factors) allows EPA to maximize the results achieved from its contract dollars. Studies have shown that, looking only at cost, competition can save an agency between 15 and 50 percent. Therefore, we believe EPA could have realized significant savings and promoted greater efficiency, innovation, and quality by receiving competing quotes for FSS orders.

#### Lack of Competition

FAR 8.404(a) states that FSS orders are considered to be issued using full and open competition, provided that the FAR ordering procedures are followed. FAR and GSA special ordering procedures require, for orders over \$2,500, an RFQ and Statement of Work (SOW) be sent to three schedule contractors, quotes be evaluated, and a best value selection made. However, we found that these procedures were not always followed, and even when they were, competing quotes were often not received.

EPA received competing quotes for only 9 of 39 FSS awards reviewed. These nine were all for requirements where no incumbent was involved. However, the remaining 30 awards (29 of which were awarded to incumbent contractors) were made after receiving only a single quote. Of these 30, 17 were sole source awards (no competition sought). For the remaining 13, EPA sought three quotes but received only one. This means that out of \$72.3 million awarded, only \$9.8 million (13.6 percent) was awarded with competing quotes. Table 2-1 and Appendix A provide details.

**Table 2-1: Competition Received for Awards Reviewed**

Location	Awards With <u>More Than One Quote Received</u>		Awards With <u>No More Than One Quote Received</u>	
	No.	Value (millions)	No.	Value (millions)
OAM Headquarters	5	\$8.3	20	\$60.4
OAM RTPPOD	3	1.4	4	1.9
ORD - Narragansett Lab	1	0.1	6	0.2
Total	9	\$9.8	30	\$62.5

For example, for OAM Headquarters order 2W-0652-NBLX (\$1,000,000), to provide support for voluntary pollution prevention initiatives to reduce transportation-related emissions, the CO sent a November 27 RFQ to five contractors with a December 13 due date. However, in a November 29 memo, the PO indicated that “while other vendors may be able to do the work, we are not in a position at this time to hand over this work to a new vendor,” and that “a lapse in work time or a change in vendors will significantly affect our ability to meet senior management expectations.” The CO canceled the requests sent to the other four vendors, noted that best value was not documented since no other quotes were received, and indicated future orders will consider at least three firms.

***Inadequate Justification of Sole Source Orders***

EPA should provide better justification for sole source orders than it is currently providing to ensure it is receiving best value. While FAR 8.4 and GSA ordering procedures generally require requesting at least three quotes, they are silent on whether sole source orders are allowable for FSS orders exceeding \$2,500. The General Accounting Office (GAO) addressed this issue in a November 2000 report, *Not Following Procedures Undermines Best Pricing Under GSA’s Schedule*, stating that COs did not seek competitive quotes for services. GAO recommended to the Office of Federal Procurement Policy that the FAR should address whether FSS sole source orders for services are allowable, but this revision has not yet been finalized.

While not specifically addressing FSS orders, guidance does exist for sole source simplified acquisitions. OAM’s *Simplified Acquisitions Made Easy* (revised August 2002) states that sole source justifications should include why only one source can satisfy requirements, why other sources cannot, and measures taken to allow for future competition. A sample sole source justification (FAR 6.303-2) requires the specific exception to be checked, and a description of the contractor’s unique qualifications, efforts to ensure offers were solicited from as many sources as practicable, market research or reasons why research was not conducted, and

other factors supporting other than full and open competition. The PO and CO must certify that the justification is complete and accurate.

We believe EPA made sole source awards during fiscal 2000-2002 that were not always adequately justified. Program offices took varying approaches in preparing justifications to identify the exemption to the competition requirements being claimed. In some cases, officials provided a convincing rationale, such as by providing clear evidence that a service was unique and could only be performed by a certain contractor. However, in many cases, the rationales were less convincing. Furthermore, all 17 sole source justifications reviewed lacked the required PO and CO signed certifications. Two examples follow:

- For OAM Headquarters Order 2W-0653-NBLX (\$1,052,751), which provided energy performance indices and small business support, a PO memorandum asked the CO to send an RFQ to the incumbent, stating “continuity is critical” and a contractor change would result in “significant dis-economies.” The CO acknowledged no written sole source justification was prepared. He explained that “obtaining quotes from other vendors...would not have been meaningful” because the incumbent was involved with most tasks. He went on to say that in the future “real competition” will be allowed between the incumbent and other GSA vendors, market research will be used to identify “credible competition,” and offerors will be given substantial time to develop quotes.
- At ORD’s Narragansett Laboratory, for five sole source FSS task orders (totaling \$117,479) for AT&T phone and Octel Voice Mail System maintenance, only the incumbent vendor was given an opportunity to provide a quote. Each sole source justification stated only one source could satisfy the Agency’s requirement for the “proprietary hardware.” However, the CO expressed concern about the lack of competition, noting that other vendors maintain these voice mail systems and the program office should look for such firms. Regarding one procurement, the CO noted in a memo: “I am awarding this contract based on the IT Manager’s sole source agreement even though I feel the agreement is not strong enough to justify not seeking competition. I found several companies that offer this service for much less. . . . I don’t feel this service is ‘Proprietary.’ The firm has Partnering agreements with other telecommunications firms and also has agreements for them to provide services as well.” However, the CO reluctantly approved the sole source acquisitions due to time constraints.

OAM officials advised that on occasion a “short term” sole source award may be made to the incumbent to “bridge” the period until remaining tasks are completed and additional competition can be sought. While a few sole source orders might have been needed to complete remaining tasks, in most cases the new SOW involved all or mostly all new tasks and thus should have been competed.

OAM's own Acquisition Management Reviews (AMRs) of Headquarters and regional offices' FSS activities also identified inadequate sole source documentation. For example, the August 14, 2002, Region 3 AMR disclosed that most sole source justifications lacked sufficient detail regarding the need to solicit only one source. In those instances where the sole source justification stated market research was conducted, there was no information regarding the research. The AMR recommended that a form be provided for program offices to use in documenting sole source justifications.

### ***Inadequate Acquisition Planning and Rushed Procurement***

EPA's Five-Year Acquisition Plan and Acquisition Planning Forecast did not identify most of the FSS awards reviewed. Also, many awards were rushed because program offices generally did not provide required documents (e.g., procurement request, SOW) to allow COs adequate time to seek multiple quotes.

FAR 7.1 requires acquisition planning to promote and provide for full and open competition. EPA's five-year plan identifies acquisitions over \$100,000, and describes the (a) acquisition, (b) contract type, (c) procurement method (e.g., full and open competition, FSS, to be decided after market research), and (d) estimated dollar range. EPA's Acquisition Planning Forecast summarizes planned acquisitions for the first 2 years of the acquisition planning period. Senior Resource Officials must update the acquisition plan in April of each year. The Contract Management Manual (Chapter 1), *Acquisition and Contract Management Planning*, reiterates this guidance, and emphasizes that program offices should provide the CO a timely procurement request to meet the anticipated lead time (from submission of procurement request until award) for the acquisition. However, we found that none of the FSS awards over \$100,000 that we reviewed were included in plans.

We also noted that program offices did not provide COs sufficient time to seek competitive quotes for projects. For example, OAM Headquarters Order 2W-0195-NBLX (\$49,853) was a rushed sole source procurement awarded January 18, 2002, that replaced a task order that had already expired on December 31, 2001. On December 28, 2001 (3 days before contract expiration), the program office submitted an incomplete procurement request (missing signatures and dates). The program office had also submitted an incomplete SOW, independent government cost estimate (IGCE), and quote evaluation.

Program offices must improve their acquisition planning to identify specific needs, contract type, and procurement method in a timely manner. In addition, all required documents (e.g., procurement request, SOW, IGCE, and market research results) must be submitted to the CO in a reasonable time to review and modify, if necessary, these documents. COs should not process orders which, in their judgment, are substantially flawed.

### ***Inadequate Market Research***

We noted numerous instances in which market research was not adequately documented.

Documented market research is one of the first acquisition planning steps to identify capable contractors to meet the Agency's requirements. Market research includes reviewing GSA price lists for as many firms as practicable; contacting knowledgeable Government and industry individuals regarding capabilities to meet requirements; participating in interactive, on-line communication among industry, acquisition personnel, and customers; and obtaining source lists of similar items from other contracting activities or agencies. FAR 7.1 requires market research to promote and provide for open competition. Further, GSA Special Ordering Procedures and EPA Procurement Policy Notice 99-3 state that, based upon initial evaluation of at least three contractors' catalogs and price lists, ordering offices should identify those that appear to offer the best value.

Our review disclosed that award files generally did not contain evidence that GSA catalogs and price lists were reviewed. Specifically, we found that 20 of the 25 OAM Headquarters' awards did not adequately document required market research. Of these 20, no market research was done for the 11 sole source awards. For the remaining 9 awards, our review disclosed inadequate or no documentation showing the extent (if any) of market research. Documentation should show that at least three GSA Schedule price lists were reviewed, and RFQs were sent to those vendors that EPA believed would provide the best value. For the seven ORD Narragansett Laboratory orders in our review, we found that there was no market research documentation for six orders, and the documentation for the seventh was inadequate.

However, we did find that OAM's RTPPOD performed sufficient market research, as did the OAM Headquarters for five competitive orders. The proper steps followed for several OAM Headquarters instances are noted in the accompanying "Best Practices" box.

For OAM Headquarters Orders 2W-0255-NBSX and 2W-0265-YBSA (total amount of \$646,434), the PO conducted extensive research of more than 300 contractors listed on the MOBIS schedule and selected 10 potential candidates capable of performing SOW tasks. The PO also conducted telephone interviews to gather data on each of the contractors. The PO subsequently provided a list of six capable contractors. The CO sent RFQs to the four contractors deemed most capable, and received three quotes, from \$431,000 to \$590,000. The \$431,000 quote was accepted.

We acknowledge that additional market research will not always result in receiving multiple quotes, and adequate market research can be a time consuming process. However, adequate market research will generally result in more than one competitive quote, which could result in a better value for EPA (considering price and other factors).

### ***Limited Time to Respond to RFQs***

Our review of RFQ response time indicated that there appears to be a correlation between the number of days provided to respond to an RFQ and the number of quotes actually received. Generally, the greater the number of days provided to respond to an RFQ, the more offers received and significant savings achieved. We reviewed the response time allotted for 25 OAM Headquarters awards and 7 OAM RTPPOD awards, and found the following:

- At OAM Headquarters, 20 awards without competing quotes had an average response time of 9 business days, while the average response time for the 5 awards with competing quotes was 14 days.
- At OAM RTPPOD, 4 awards without competing quotes had an average response time of 6 business days, while the average response time for the 3 awards with competing quotes was 11 days.

For example, for OAM Headquarters Order 1W-1266-NBLX (\$280,307), the PO stated he was under “tremendous pressure to have a contract fast,” and indicated contracting with the incumbent sole source was the preferred procurement method. Although the CO sent out three RFQs, only 5 business days were allowed for response, and only the incumbent responded.

Reasonable and flexible response times should be established to help assure that competing quotes are received. EPA should err on the side of more rather than less time for contractors to prepare detailed cost and technical data. For each service order estimated to exceed \$100,000, we believe that, in most cases, a minimum of 15 business days should be allotted. For orders greater than

\$1 million, generally a minimum of 20 days should be considered. If less time is needed, the reason why should be documented in the CO's files. The examples in the "Best Practices" box demonstrate the value of providing sufficient time to respond to RFQs.

<b>** Best Practice **</b>	<b><i>Response Time for RFQs</i></b>
OAM Headquarters COs for Orders 2W-1606 (\$1,079,000), 2W-0694 (\$1,139,342), and 1W-1943 (\$5,378,252) allowed 21, 14, and 12 business days to respond to an RFQ, respectively. As a result, six, five, and four competitive quotes were received, which resulted in significant EPA savings. Such savings can be seen by reviewing the four quotes for Order 1W-1943 that ranged between \$5,378,252 and \$10,327,857.	

Others in the Federal Government have noted the importance of adequate response time. In May 2002, the Department of Defense planned to require its COs to give contractors more time to respond to RFQs. The Pentagon's Acquisition Chief stated, "too often you see RFQs released on a Friday with the bids due on Monday. . . . It is well known in industry that when there is a shorter time frame, it often means that the customer knows who they want to award the contract to."

### **Small Awards Often Modified into Larger Awards**

It should be noted that an order that starts off as a small award can subsequently be modified to substantially increase the original award amount without competing quotes. Of the 25 OAM Headquarters orders reviewed, 7 awards (totaling \$3,384,918) were subsequently modified (to total obligations of \$6,236,828) to include new tasks not in the original SOW. Six of the seven original orders were awarded without competing quotes. For example, Order 1W-0695, which had an original award amount of \$774,485, had total obligations of \$1,995,112 after modifications. If this order had initially been awarded at the modified amount, other requirements would have been applicable (such as the need for additional RFQs to be sent and to negotiate a better price) since the \$1 million threshold was exceeded.

### **Actions Taken in Other Areas to Improve Competition**

EPA actions regarding competing for assistance agreements, as well as Department of Defense actions to increase competition for FSS orders, and should be considered for EPA FSS orders:

- As a result of concerns about the lack of competition for assistance agreements raised by Congress, GAO, and EPA's Office of Inspector General (OIG), the EPA Administrator issued EPA Order 5700.5, *Policy for Competition in Assistance Agreements* (September 12, 2002). The order

states that program offices should generally notify at least five potential applicants for eligible grant awards exceeding \$75,000. The Administrator further stated that the Office of Administration and Resources Management (OARM) should provide leadership in competition planning and guidance. Although this Order only applies to assistance agreements, we believe a similar competition requirement (at least for procurements exceeding \$100,000) should exist for FSS awards.

- Competition concerns prompted Congress in December 2001 to pass *Section 803 of the Fiscal 2002 Defense Authorization Act (Public Law 107-107)*, effective June 2002. It requires officials to provide a fair opportunity to as many contractors as practicable to bid, and to receive at least three bids for FSS services exceeding \$100,000. If the three required bids are not obtained, the CO must document that no additional qualified contractors could be identified despite reasonable efforts. The Pentagon’s Acquisition Chief stated in November 2002 that too many contracts were awarded without competition, and under the new Section 803 rules, officials would now keep solicitations open “for longer than just a few days.” Section 803 provides EPA an excellent basis to implement a similar procurement policy.

In addition to our review of the 39 orders in our sample, we became aware of a good example in Region 7 as to how significant savings can be achieved when competition is sought, market research is conducted, and ample time is allotted for responses. This example is discussed in the following “Best Practices” box.

<b>** Best Practice **</b>	<b>Response Time for RFQs</b>
<p>On June 27, 2001, Region 7 awarded a \$2,492,908 FSS order (1K-1796-YBWW) for ADP telephone and help desk services. Based on extensive market research, the Region sent RFQs to <u>five</u> contractors, and held a pre-bid conference to discuss the performance-based SOW. As a result, four of the five contractors submitted quotes (\$2.4 to \$3.8 million). Most of these contractors voluntarily provided price quotes below the GSA-approved rates. The quotes were evaluated against the detailed IGCE (\$3.5 million), and the lowest quote was selected (\$2.4 million). The award thus saved EPA more than \$1 million. The Region 7 CO stated a new <u>competitive</u> award would replace the current one.</p>	

## **Competition Can Result in Better Value Being Obtained**

A competitive award process will help ensure the best projects are funded at the least cost, eliminate the perception of preferential treatment of incumbent contractors, and afford potential applicants the opportunity to provide a quote for consideration.

Federal procurement policy is founded on giving every responsible supplier an equal opportunity to meet the Government’s needs. Separate studies by the

RAND Corporation, the Battelle Memorial Institute, and the Office of the Secretary of Defense concluded that a 25- to 30-percent reduction in contract prices can be realized when genuine price competition exists. Other studies have indicated that, looking to costs alone, competition can save the Government between 15 and 50 percent of what it ultimately pays for goods and services, and has enormous benefits for potential suppliers, Government officials, and taxpayers. Therefore, we estimate that for the 30 orders awarded without competing quotes (totaling \$62.5 million), EPA could have realized significant savings and promoted efficiency, innovation, and quality by receiving competing quotes. The following “Best Practice” example demonstrates how significant savings can be achieved by competing orders.

**\*\* Best Practice \*\***

### ***Savings Resulting from Competition***

For OAM Headquarters Order 1W-1943-NBLX, four quotes ranging from \$5.4 million to \$10.3 million were received. The two lowest quotes were below the GSA-competed rates that were considered to be fair and reasonable, and the awarded order represented an 11-percent discount from the GSA schedule. The contractor also proposed to hold each labor category cost constant rather than raise the rate 3.5 percent each year as provided for in the GSA contract.

## **Recommendations**

We recommend that the Assistant Administrator for the Office of Administration and Resources Management require the Director of the Office of Acquisition Management to:

- 2-1. Develop and implement policies or guidelines to assure FSS awards are competed to the maximum extent practicable. We suggest a mechanism similar to EPA Order 5700.5, or *Section 803 of the Fiscal 2002 Defense Authorization Act*, to:
  - For orders over \$100,000, send RFQs to as many vendors as practicable in order to increase the number of bids received.
  - Set goals for competing FSS awards and monitor success against the goals.
  - Address: market research; outreach efforts to encourage contractors to respond to RFQs; input from COs, POs, and contractors familiar with services requested; and GSA or industry officials’ assistance in locating specific vendors.
- 2-2. Develop and implement a coordinated program office procurement

planning strategy with Senior Resource Officials to avoid rushed FSS awards and allow more contractors an opportunity to bid for requested services. This strategy should ensure that all FSS orders exceeding \$100,000 are included in the acquisition plan, establish FSS competition goals, and monitor progress against those goals. This strategy should include:

- Reemphasizing the importance of market research, and requiring documentation of research efforts performed.
- Enforcing cut-off dates to submit procurement requests (e.g., 60 days before year end or contract expiration) or flexible time frames (i.e., minimum of 60 days for most acquisitions) to avoid rushed procurements.
- Establishing minimum response time for FSS orders (e.g., 15 business days for orders estimated to exceed \$100,000 and 20 days for orders exceeding \$1 million), that provide small and non-incumbent contractors ample opportunity to develop detailed quotes. If shorter time frames are used, the reason why should be documented in the file.
- Sending pre-solicitation notices or communicating with GSA schedule vendors to inform them of future EPA requirements.

- 2-3. Develop, implement, and enforce policies and procedures to ensure that FSS sole source awards are adequately justified. The justification must include the POs' and COs' signed certification of completeness and accuracy. Provide a format for program offices to use in documenting sole source justifications.

## **Agency Comments**

While OARM acknowledges that competition under FSS orders could be improved, they generally disagreed with most of our recommendations in this section. Specifically, OARM does not want to implement a policy that would either require that at least three quotes be received or require more than three quotes be solicited. Additionally, OARM did not agree with our recommendations to enforce cut-off dates to submit procurement requests, or to establish minimum response times for FSS orders, and wants to maintain the inherent flexibility of the FSS program. OARM does not want to implement a policy that it believes would effectively prohibit supportive customer service. Instead, OARM believes that it can increase competition for FSS orders by developing policy guidance to address FSS awards, providing additional outreach and training for project officers regarding market research, and developing considerations for determining appropriate time frames for receiving quotations.

OARM agreed with our recommendation regarding sole source justifications and stated that under its new Quality Assurance Plans it will encourage the OAM operational divisions to include a quality check of this area.

OARM's full response is included in this report as Appendix D. In addition, ORD commented on this report, since some of our findings involve issues related to ORD, and ORD's full response is included as Appendix E.

## **OIG Evaluation**

We recognize OARM's desire for sufficient flexibility in FSS policies and procedures to best meet customers' needs. However, given the findings in this report (30 of 39 orders awarded without receiving competing quotes, incumbent contractors being awarded most of the work, inadequate sole source justifications, etc.), we believe EPA must take additional actions to obtain the full benefits of competition. Of primary importance, OARM should establish competition goals for FSS orders (e.g., 75 percent of all FSS orders will have more than one quote), have an effective system for measuring success, and take corrective action when warranted. If the competition goals are not met, EPA will need to take other actions recommended above, such as lengthening the response times for quotes, which should allow interested parties other than incumbents, and small businesses in particular, a greater chance to be considered for award.



# Chapter 3

## EPA Needs to Improve Compliance With Established Regulations and Procedures

EPA awarded FSS orders without always complying with the FAR or GSA special ordering procedures. Specifically:

- SOWs were not always performance based.
- RFQs lacked required evaluation factors.
- IGCEs lacked necessary information.
- Quotes were inadequately evaluated.
- Best value and/or price reasonableness analyses were missing or inadequate.
- Price reductions from FSS contractors were not sought.
- Contractor performance was not evaluated for future selection consideration.

These conditions were generally caused by program offices' inadequate procurement planning (see Chapter 2), which limited the time to award new work or to replace an expiring contract. Also, COs and POs were not always aware of GSA ordering procedures or Agency guidelines. As a result, there was limited assurance that EPA received best value, and EPA potentially expended unnecessary funds.

### SOWs Not Performance Based

Only one of the 39 SOWs reviewed had the attributes of a performance-based SOW. Therefore, EPA has limited assurance that it is receiving the best value.

Performance-based contracts describe requirements in terms of results required rather than the methods of performing the work. Such contracts use measurable performance standards (e.g., terms of quality, timeliness, quantity) and quality assurance surveillance plans; specify procedures for fee reductions or reductions to fixed-price contracts when services are not performed or do not meet contract requirements; and include performance incentives where appropriate (FAR 37.601). Office of Management and Budget studies have shown that performance-based contracts save money and improve contractor performance.

FAR 37.1, Service Contracting, states that performance-based contracting is the preferred method for acquiring services, particularly as a firm-fixed-price contract or task order. The GSA Special Ordering Procedures state that a performance-based SOW is preferred. The SOW should outline work to be performed, location, period of performance, deliverable schedule, applicable standards, acceptance criteria, and special requirements (such as security clearances).

## RFQs Lacked Required Evaluation Criteria

Only 13 of 25 OAM Headquarters RFQs contained required evaluation factors, and none of the 7 ORD Narragansett Lab RFQs contained them. All seven of the RTPPOD RFQs contained the required evaluation factors.

GSA Ordering Procedures for Services state that the RFQ should describe the basis to be used to select the contractor, including whether contractors are technically qualified, and provide an explanation regarding the intended use of experience and/or past performance information. After responses have been evaluated against the factors identified in the request, the order should be placed with the contractor that represents the best value, according to FAR 8.404. The program office, in coordination with the CO, is responsible for developing evaluation factors. The SOW instructions should describe these evaluation factors, and the factors that are most important are to be identified, in accordance with the Contract Management Manual. Contractors must submit specific information to address each factor.

The importance of evaluation criteria was noted in a February 11, 2003, GAO Decision (Garner Multimedia, B-291651). A solicitation did not list evaluation criteria, and GAO recommended that the RFQ be amended to state the desired content of technical proposals and criteria to be applied in evaluating them and selecting the winner.

## IGCEs Need Improvement

Although EPA has initiated various actions to improve the preparation of IGCEs, further steps are necessary.

EPA's Contracts Management Manual (Chapter 2.9) describes IGCEs as detailed Government estimates of the cost for services or supplies to be acquired and the rationale supporting the cost. POs must submit IGCEs to COs for all contract actions with a value in excess of the FAR simplified acquisition threshold (\$100,000), and COs can require IGCEs for actions below \$100,000.

EPA's 1994 *Guide for Preparing Independent Government Cost Estimates* described the use of IGCEs for evaluating proposals and documenting award decisions, and it was updated in 1998 with the *Independent Government Estimate* guide. The latter notes the IGCE should highlight similarities and differences and be used to help determine a fair and reasonable price. The SOW should divide requirements into major tasks and subtasks. Division into subtasks helps identify staffing needs and schedule work and costs for the desired output. It permits the estimator to assign hours, disciplines, and labor category levels for required tasks and subtasks. EPA's fiscal 1998 Integrity Act Report designated Superfund IGCEs an Agency-level

weakness. A corrective action strategy included regional reviews to emphasize IGCEs, monitoring improvements, and providing additional IGCE training. EPA also developed an IGCE Estimating Handbook/Guidance Document to assist Superfund staff. OAM’s fiscal 2001 Assurance Letter noted the need for continued IGCE management attention “to ensure good cost control.”

Despite corrective actions taken by EPA, further steps are necessary. While all 7 RTPPOD orders included adequate IGCEs, both the ORD Narragansett orders which required IGCEs (2 out of 7), and 19 of 25 OAM Headquarters’ orders were awarded without the benefit of a complete IGCE. Specifically, these IGCEs did not always list labor categories and the associated rates, labor hours, or specific breakdowns for the individual tasks. A summary of the OAM Headquarters’ deficiencies follows:

Requirements	Instances
No breakdown by tasks	19
No breakdown by labor rates	7
No breakdown of labor hours	5
No breakdown of labor categories	6

For example, Orders 2W-0694-NBNX (\$1,139,342) and 2W-1806-NBSX (\$497,317) lacked a documented IGCE, even through the RFQs required quotes to list labor categories, rates, and hours for each task and other direct costs. The CO for 2W-0694-NBNX acknowledged that an IGCE was not developed, because he believed FSS was a simplified process to place orders against GSA reasonably priced contracts and an IGCE would not be of any use. The PO for 2W-1806-NBSX stated that an IGCE would have only included estimated labor hours and the sole source vendor’s GSA rates; contracting personnel were unaware that cost and technical evaluations should explain differences in labor mix and level of effort estimated and proposed.

## Quotes Inadequately Evaluated

For the majority of orders reviewed, evaluations of quotes were either not documented adequately or at all.

The GSA Special Ordering Procedures and Ordering and Best Value Determination Guidelines require that all contractor responses be evaluated against the factors identified in the RFQ. The PO is to submit to the CO a written evaluation of the technical and cost data submitted. The Contract Management Manual, paragraph 16.13(a), states technical evaluations should document strengths, weaknesses/ deficiencies, ratings, and scores, if appropriate. The manual’s technical evaluation form includes such evaluation factors as technical approach, schedule, staffing, cost

realism and reasonableness, and past performance against which each contractor should be rated. The evaluation should discuss labor mix, level of effort, and reasonableness of rates/costs.

OAM's RTPPOD evaluations were well documented. Generally, evaluation criteria was identified and rated, strengths and weaknesses of submissions were addressed, and differences between IGCEs and quotes were discussed. However, we found that 18 of 25 OAM Headquarters FSS awards and all 7 ORD Narragansetts Lab awards had inadequate or no documented evaluations. Specifically, evaluation factors were not always established and, when established, were not used. POs evaluated the cost or technical data, but not both. Differences in the proposed labor hours and labor mix, or strengths and weaknesses of technical data, were not discussed, and quotes were accepted without providing any details.

For example, OAM Headquarters Order 2W-0652-NBLX (\$1,000,000) was a rushed sole source procurement to replace an expiring contract. The PO's one sentence evaluation of the cost and technical data (submitted the next day) stated, "this quote is fine." The CO acknowledged that a detailed evaluation was not prepared, best value was not documented, and the RFQ omitted evaluation factors. For OAM Headquarters Order 2W-0653-NBLX (\$1,052,751), also a sole-source procurement, RFQ evaluation factors were not in the documented evaluation. The CO said he believed comparisons were made but had no documentation to support that position.

## **Best Value/Price Reasonableness Analyses Inadequate or Missing**

For the majority of orders reviewed, best value/price reasonableness determinations were not documented adequately or at all.

COs must document the reasonableness of the proposed price of the selected contractors. The documented fair and reasonable price/best value determination could be based on such items as comparison to IGCE data and effective competition from sources obtained. GSA's Ordering and Best Value Determination Guidelines require that COs make a best value determination before placing FSS service orders above \$2,500. The Guidelines provide a checklist that includes the questions:

- Did RFQs or the SOW state the basis for selecting the contractor?
- Was the RFQ provided to at least three sources? If requirement was in excess of the schedules' maximum order, did you provide the RFQ to additional sources and ask for a price reduction?
- Did you evaluate responses against RFQ factors and select the contractor that represents the best value? Indicate factors, other than price, considered in your best value decision (e.g., past performance).
- Have you documented evaluation of quotes that formed the basis for selecting the contractor and the rationale for trade-offs made?

The Guidelines further state that while GSA has determined that the hourly rate for a skill category awarded on a service schedule is fair and reasonable, GSA has not determined that the level of effort or mix of labor proposed represents the best value. When buying FSS services, the Agency makes the determination that the level of effort and mix of skills proposed represents the best value.

All 7 RTPPOD best value/price reasonableness determinations were adequate. However, 14 of the 25 OAM Headquarters' and all 7 of the ORD Narragansett best value or price reasonableness determinations were missing or inadequately documented. An ORD Narragansett Lab CO stated in a price reasonableness worksheet that the price was determined to be fair and reasonable by GSA and should not be changed. However, it should be noted that while the individual rates for labor categories are fixed, the labor *mix* (number of hours proposed for each labor category) is not, and should be considered.

We noted that various OAM AMRs disclosed similar concerns. The February 28, 2002, Region 1 AMR emphasized that price reasonableness determination is important, "particularly in those instances where there is little or no competition." We believe that contracting and program offices must do a better job of performing and documenting price reasonableness/best value determinations.

OAM recently changed the focus of the AMR process. Each division and regional office is now required to develop Quality Assurance Plans to assure acquisition problems are being identified and corrected. These Plans have various steps – including training/mentoring, management support, and oversight quality reviews – that provide a framework for ensuring quality acquisition processes. OAM will perform individual oversight reviews to determine how well these plans are being implemented.

## **GSA Contractor's Price Reductions Not Sought**

COs did not seek to obtain price reductions from GSA contractors, even in those instances when seeking to obtain a price reduction was required.

Above the maximum order threshold (generally \$1 million), COs are required to seek price reductions, and voluntary reductions can be sought for orders below the threshold. Schedule contractors can give one buyer a discount without passing the discount on to the entire Federal Government. This allows the contractor to offer, and the Government to avail itself of, spot pricing on the commercial market. GSA's ordering procedures and Best Value Determination Guidelines state contractors will "sharpen their pencils" for large orders to get the business, and it is a proven best practice for COs to seek out additional price discounts. By asking for price reductions, COs may be able to take advantage of competitive forces impacting technology changes, labor conditions, industry goals, and quantity or spot discounts.

Several GSA OIG audit reports noted a need for FSS ordering organizations to place greater emphasis on seeking price reductions. An August 2001 GSA OIG report noted that GSA negotiated most favored customer pricing in only 4 of 14 actions reviewed. Further, a January 2001 GSA OIG report disclosed COs were not always competing task orders and renegotiating GSA ceiling labor rates at the order level, and GSA supported a FAR change to require such an effort. The latter report emphasized that GSA's FSS rates are only ceiling rates, and while ordering offices should never pay more than the schedule rate, they could pay less. GSA noted some agencies were not aware they could request lower rates.

For the EPA transactions reviewed, we found that COs did not attempt to negotiate reductions from contractors' proposed rates for 16 of 25 OAM Headquarters awards, 5 of 7 RTPPOD awards, and all 7 ORD awards. Additionally, 3 of the 16 Headquarters and 1 of the 5 RTPPOD awards were in excess of the \$1 million maximum order threshold, and seeking a reduction was therefore required. The following "Best Practice" example shows how negotiations result in EPA saving millions of dollars.

<b>** Best Practice **</b>	<b><i>Negotiations Can Result in Savings</i></b>
The evaluation panel for OAM Headquarters Order 9W-3424-NBLX (\$17,456,392) determined the contractor's quote was "overwhelmingly inflated" and noted areas for negotiation. The incumbent had performed similar services for EPA for many years. Based on subsequent negotiations to arrive at a fair and reasonable price, the incumbent voluntarily reduced its labor rates. As a result, EPA negotiated savings of more than \$2 million.	

COs generally did not seek price reductions from contractors because they:

- Believed that since GSA already determined the contractor's pricing was fair and reasonable, there was no need to seek additional price reductions.
- Were unaware that GSA changed its regulation [FAR 8.404(b)(5)] and now schedule contractors can give one agency a discount without passing the discount on to the entire Government.
- Were unaware that they must attempt to negotiate a price reduction for orders exceeding the schedule's maximum ordering threshold (generally \$1 million).

GSA maximum allowable labor rates are subject to negotiation. As shown in the "best practice" example, where competition is achieved, EPA is more likely to receive contractor discounts, even if an incumbent is involved. However, even if only one quote is received, EPA should also attempt to negotiate discounts.

## **Contractor's Past Performance Not Documented**

Contractor past performance was not adequately documented. FAR 42.15 requires that agencies prepare an evaluation of contractor performance for each contract in excess of \$100,000. FAR 8.404(b) notes an FSS ordering office may consider past performance. Although EPA uses the National Institutes of Health (NIH) Contractor Performance System to evaluate past performance information, OAM's NIH liaison said EPA does not evaluate or record FSS vendors' past performance. When the NIH system was initiated in 1999, EPA only entered past performance data at the contract level, not the task order level. At that time, individual FSS amounts were not significant (\$12,000 maximum). Due to EPA's substantial increase in FSS orders, the liaison believes EPA should include FSS past performance in the NIH system, and we agree. This information will be beneficial for awarding future task orders, whether by EPA or another agency.

In May 2000, the Office of Federal Procurement Policy prepared a Best Practices guide to collect and use past performance information at the contract and task order level. Current performance assessment is a basic "best practice" for good contract administration and ensuring good contractor performance, and using past performance as a major evaluation factor in the award process is instrumental in making "best value" selections. The best practices for evaluating contractor performance are applicable to FSS orders. Each party must understand its role in assessing and recording contractor performance. Generally, the customer agency maintains current and past performance records on its contractors, and provides feedback to the servicing agency. The servicing agency should use this information when making future FSS contract awards.

## **Planning, Understanding of Requirements Need Improvement**

The above conditions occurred because program offices generally did not adequately plan their FSS orders and submit required documents in a timely manner. As a result, procurement requests and other required documents (e.g., IGCEs, SOWs) were submitted to COs for immediate awards to replace existing contracts or use Federal funds before year-end. Because of program "urgency," some COs may expedite the process to satisfy the customer without fully complying with FAR and GSA procedures. We previously noted RFQs lacked evaluation criteria and had incomplete IGCEs. As a result, quotes were inadequately evaluated and the awards lacked a best value or price reasonableness analyses. Moreover, because of the rushed awards and lack of knowledge of FSS requirements, COs generally did not seek price reductions. Although the FSS process is a streamlined acquisition method, it is imperative that contracting and program officials follow required procedures and fully document actions taken.

Also, during interviews and in e-mail responses, many COs indicated a lack of understanding of certain FSS requirements for service orders. Many COs and POs erroneously believed that GSA had already determined that contractors' prices were fair and reasonable and, therefore, a best value or price reasonableness determination was unnecessary. COs often erroneously believed that the GSA rates were fixed and non-negotiable. Although COs quoted FAR 8.4 statements during interviews or e-mail responses, no one mentioned or seemed aware of the GSA special ordering procedures that take precedence over the FAR. These special ordering procedures clarify FAR requirements in areas previously discussed. We believe that many COs were not aware of, or are confused by, these GSA procedures, and additional training in this area would be beneficial.

## **Compliance Helps Ensure Best Value Is Obtained**

To ensure that EPA obtains the best value for its FSS orders, it needs to improve its compliance with the FAR and GSA Special Ordering Procedures. Compliance with FAR and the GSA procedures can ensure that EPA saves money through the use of performance-based SOWs and the receipt of further price reductions. Best value will also be obtained by ensuring that evaluation criteria are used to evaluate quotes, IGCEs are prepared and compared to proposed amounts, and price reasonableness analyses are performed.

During our review, we noted that the OAM RTPPOD used several task order checklists to keep track of each task order and ensure the required actions took place (see Appendix C for an example). These checklists included whether a statement of work, IGCE, market research information, and technical evaluation were included. We believe the use of checklists was helpful, and that checklists similar to those used by RTPPOD should be used by all entities that issue FSS orders.

## **Recommendations**

Recommendation 2-2 of this report addresses improvements in procurement planning. Additionally, we recommend that the Assistant Administrator for the Office of Administration and Resources Management require the Director of the Office of Acquisition Management to:

- 3-1. Provide additional CO and PO training to emphasize FAR requirements and GSA special ordering procedures. Emphasis should include:
  - (a) Preparing performance based SOWs and complete IGCEs.
  - (b) Negotiating price reductions whenever practicable (e.g., for orders greater than \$2,500).

- (c) Documenting evaluations of quotes and best value or price reasonableness determinations (especially when one quote is received).
  - (d) Using some type of forum (i.e., meetings, memoranda, OAM Hot Tips) to communicate the most recent FSS award requirements.
  - (e) Providing samples of adequately prepared documents (SOWs, IGCEs, quote evaluations, best value, and price reasonable analyses) to assist COs and POs in preparing or approving such documents.
- 3-2. Periodically provide Senior Resource Officials, COs, and POs with information on actions taken in response to systemic or significant problems, and best practices identified from prior AMRs and current oversight reviews of individual quality assurance plan implementation.
- 3-3. Develop and distribute checklists for managing the processing of FSS task orders that ensure all FAR requirements and GSA special ordering procedures are followed.
- 3-4. Enter contractor's past performance appraisals for FSS orders over \$100,000 in the NIH system.

## **Agency Comments and OIG Evaluation**

OARM agreed with the findings and recommendations and included planned corrective actions. ORD also generally agreed with the findings in the report that are specific to Narragansett laboratory, and stated that several corrective actions have already been taken at Narragansett (e.g., CO is now requesting price reductions). Both OARM and ORD also provided additional information, and we clarified the report as needed. OARM's full response is included in this report as Appendix D, while ORD's full response is included as Appendix E.



## Chapter 4

### EPA Needs to Improve Recording of Data

FSS information generated by EPA's databases was often incomplete, inaccurate, and unreliable. Two primary systems are used by EPA to record FSS data:

- Integrated Contract Management System (ICMS)
- Small Purchase Electronic Data Interchange System (SPEDI)

However, among other things, these systems cannot report total annual FSS obligation and award amounts, or the total number of transactions. EPA has not developed or implemented a system that would allow the consistent recording, accumulation, and reporting of FSS award data. Also, the data entered into these systems were not reconciled to individual files and the Integrated Financial Management System. Unreliable procurement data affects information submitted to Congress and other stakeholders, and EPA itself did not have sufficient information to analyze workloads and support budget requests.

#### Total FSS Purchases Unavailable

During our audit, we requested a complete universe of EPA's FSS purchases. However, we were unsuccessful in obtaining this data because EPA's FSS transactions are recorded in several different databases and systems, which are largely not integrated with each other. Most of the transactions processed by OAM were recorded in SPEDI, which was designed to record FSS data. However, some offices recently elected to instead record FSS transactions in ICMS, and several program and regional offices do not have access to SPEDI. For example, the OAM RTPPOD recorded its FSS transactions in ICMS. Additionally, program offices and regions recorded some procurements in regional databases or logs. Furthermore, OAM officials advised us that many program offices made FSS awards through interagency agreements recorded in yet another system within the EPA Grants Office.

At our request, OAM's liaison contacted EPA's Office of the Chief Financial Officer and several program offices to obtain FSS awards not recorded in ICMS or SPEDI. OAM's discussions with six IFMS and Financial Data Warehouse experts disclosed various problems, including incomplete data and a lack of a uniform identifier for FSS transactions.

We attempted to obtain FSS universe data from four program offices: ORD, Office of Solid Waste and Emergency Response, Office of Air and Radiation, and Office of Enforcement and Compliance Assurance. We encountered various difficulties in obtaining this information, as summarized below.

- ORD officials had to perform a manual data call of all laboratories, since ORD's Management Information System did not include simplified acquisition data at remote sites. Eventually, ORD officials identified two FSS awards at its Narragansett laboratory, which we reviewed, in addition to five other awards (the seven Narragansett awards reviewed are listed in Appendix A).
- Office of Solid Waste and Emergency Response personnel could not provide FSS information from their purchasing agents, and data had to be requested from all offices. An interagency agreement report could not separate FSS awards from other awards.
- The Office of Air and Radiation could not provide the requested data, and had to solicit the information from each office. Most offices provided negative responses, but one program found five GSA interagency agreements with related orders.
- The Office of Enforcement and Compliance Assurance provided two awards that involved interagency agreements with GSA, one of which was actually an OAM-awarded FSS order.

Because of the lack of a reliable information system, there was no way to know whether the information provided by the program offices is accurate and complete.

## **SPEDI Has Limitations and Deficiencies**

Many OAM and regional COs stated that SPEDI has many limitations and is difficult to use. Specifically, SPEDI is limited to certain characters when writing the SOW. As a result, some COs used a typewriter rather than SPEDI to prepare documents. Also, SPEDI does not have an extensive clause list. An RTPPOD program analyst stated that SPEDI was not designed to enter conflict of interest and other unique clauses. OAM officials acknowledge that SPEDI is obsolete and not designed to capture simplified acquisition data for awards greater than \$25,000. The current simplified acquisition threshold is \$100,000. Furthermore, SPEDI is not compatible with the hardware configurations of some purchasing offices (notably ORD labs) and these offices are forced to enter this data into other systems.

Also, the amounts recorded in SPEDI were sometimes unreliable because of coding errors and other input errors. Our review of 25 OAM headquarters awards disclosed three instances where COs did not enter FSS obligations into SPEDI. In one case, an additional obligation for new tasks totaling \$1 million was not entered into SPEDI. These errors were not discovered or corrected because OAM does not reconcile entered financial data to individual files and the Integrated Financial Management System.

OAM's October 18, 1998, memoranda (Use of Automated Systems – ICMS and SPEDI) noted significant missing data, indicating that both systems either were not being used properly or were not being used for some contract and simplified acquisition actions. OAM's Director stated that all OAM managers should "take personal responsibility for ensuring that these systems are used and used properly." This Director emphasized the importance of collecting this data, since "it forms the basis for all our reports to Congress and other stakeholders and has a direct impact on our budget and full time equivalent allocation. Remember that the integrity of our data as an Agency is only as good as your individual diligence and attention to detail."

## **Maintaining Reliable Data Important**

EPA's use of the FSS has significantly increased in recent years. However, EPA's systems have not adapted to accommodate the increased usage. FSS information is recorded in numerous, nonintegrated systems that produce unreliable data. However, reliability of acquisition data is critical to accurately reporting to Congress and other stakeholders, and plays a key role in the budget process and appropriation of funds. Also, EPA itself does not have all information necessary to make informed decisions to improve short- and long-term program performance and meet its environmental mission and goals. Therefore, EPA should vigorously pursue periodic system upgrades, additional user training, and replacement of outdated systems to accurately record and report all FSS award data.

## **Recommendations**

We recommend that the Assistant Administrator for the Office of Administration and Resources Management require the Director of the Office of Acquisition Management to:

- 4-1. Convene a high level workgroup of OARM, OAM, and Program Office procurement and information technology personnel to review the databases used to record FSS information, and develop a plan for bringing a consolidated system online that permits all users to accurately and completely record information for FSS transactions.
- 4-2. Provide training on FSS data entry, and provide COs and program office personnel with user guides, checklists, and best practice examples to re-emphasize the importance of complete and reliable FSS data entry.
- 4-3. Periodically reconcile FSS data to the Integrated Financial Management System and source documents.

## **Agency Comments and OIG Evaluation**

OARM agreed with the findings and recommendations and included planned corrective action. In fact, OARM stated that it strongly supports our Recommendation 4-1, and OAM has been actively soliciting high level Agency support for an improved, consolidated procurement system. The full response from OARM can be found as Appendix D.

## Sampled FSS Procurements

OAM Headquarters						
Award Date	Contract #	Amount	Sole Source	Tasks	Incumbent	
1 01/18/02	GS-35F-4863G 2W-0195-NBLX	\$49,853	YES	Continuing Development of Grants & Fellowship System	YES	
2 12/11/01	GS-23F-0115K 2W-0652-NBLX	\$1,000,000	YES	Transportation Efficiency Brand, Market Research & Marketing Support	YES	
3 11/08/01	GS23F-9751H 2W-0265-YBSA	\$221,434	3 Bidders	Develop SES Candidate Development program	N/A	
4 10/30/01	GS23F-8151H 2W-0255-NBSX	\$425,000	3 Bidders	Support SES Candidate Development Program	N/A	
5 12/17/01	GS-10F-0070J 2W-0653-NBLX	\$1,052,751	YES	Energy Performance Indices & Small Business Support	YES	
6 03/16/01	GS23F-0292K 1W-0695-NBLX	\$774,485	YES (1)	Superfund Website & OERR Development & Maintenance	YES	
7 09/17/01	GS-23F-0292K 1W-1822-NBSX	\$85,094	YES (1)	Internet Technology to bring Superfund Spatial data to EPA	YES	
8 11/28/00	GS-23F-0292K 1W-2245-NBLX	\$35,958	YES (1)	Website Design/Maintenance for WIN supporting EMPACT	YES	
9 08/08/01	GS-10F-0221J 1W-1266-NBLX	\$280,307	YES (1)	SPIM & SCAP Support	YES	
10 09/24/01	GS-10F-0221J 1W-1561-TBLX	\$698,523	YES (1)	Support EPA's Cleanup & reuse of contaminated properties	YES	
11 09/28/01	GS-35F-0105K 1W-1943-NBLX	\$5,378,252	4 Bidders	System Integration & Payroll Support for EPA's new Payroll, time and labor base	N/A	
12 09/27/01	GS-23F-8127H 1W-1547-NBLX	\$301,323	YES	Audit of WCF for FY 00-01	YES	
13 09/28/99	GS00K95AFS0004 9W-3424-NBLX	\$17,456,392	YES (1)	Support to develop/enhance software interface to IFMS	YES	
14 10/31/00	GS-35F-4797H	\$992,307	YES	Enhancements to IRMS in	YES	

### OAM Headquarters

Award Date	Contract #	Amount	Sole Source	Tasks	Incumbent
	1W-2242-NBLX			OPPTS	
15 09/28/99	GS00K95AFS0004 9W-3428-NBLX	\$33,593,724	YES (1)	Support services for IFMS software	YES
16 04/03/02	GS-23F-9755H 2W-2347-NBLX	\$497,014	YES (1)	SPEDI Replacement	N/A
17 09/17/01	GS-35F-4863G 1W-1926-NBLX	\$66,070	YES	Development of Grants and Fellowship System (GFS)	YES
18 07/31/01	GS-10F-0274L 1W-1307-YASX	\$1,997,576	YES	Support services-EPA's Energy Star program	YES
19 05/03/01	GS-IOF-0124J 1W-2489-NBLX	\$300,643	YES	Support of Transportation Vehicle Miles Traveled/Greenhouse Gas Inventors & Assessment of Transportation Strategies	YES
20 04/03/01	GS-10F-0124J 1W-2486-NBLX	\$218,166	YES	Support for Freight Management Initiative	YES
21 09/26/01	GS-35F-0430K 1W-1981-YBSW	\$351,080	YES	IT and infrastructure on-site support	YES
22 02/27/02	GS-23F-9718H 2W-1606-NBLX	\$1,079,000	6 Bidders	Support EPA's Strategic Planning Service	N/A
23 11/26/01	GS-35F-4717G 2W-1806-NBSX	\$497,317	YES	Office of Pesticide Program Information Network (OPPIN)	YES
24 03/11/02	GS00F-0007M 2W-0694-NBNX	\$1,139,342	5 Bidders	Strategic Market Planning, Research Communications, Mega Task B	N/A
25 05/08/02	GS10F-02245 2W-0421-NBLX	\$177,000	YES (1)	Economic Analysis & Training in support of Enforcement actions	YES
<b>TOTAL</b>		<b>\$68,668,611</b>			

(1) Request for 3 or more bids - 1 response

**OAM RTPPOD**

<b>Award Date</b>	<b>Contract #</b>	<b>Amount</b>	<b>Sole Source</b>	<b>Tasks</b>	<b>Incumbent</b>
1 9/17/02	GS-10F-0030K	\$135,221	YES (1)	Air Program Workshop	YES
2 8/15/02	GS-10F-0181K TO-1316	\$537,471	2 Bidders	PM 2.5 Air Quality Forecasting for USA Today Cities	YES
3 5/11/01	GS-10F-0181K TO-1302	\$149,945	YES (1)	Improvements to AIR NOW Public Awareness Program	YES
4 2/1/02	GS-10F-0181K TO 1306	\$1,449,134	YES (1)	Operating, Maintaining & Enhancing AIR NOW Data Collection Center & Air Quality Forecasting System	YES
5 9/25/01	GS-10F-0181K TO 1303	\$69,467	2 Bidders	Enhancing AQI Reporting - Particulate Matter Forecasting Study	YES
6 4/19/01	GS-35F-0667J TO 1301	\$131,073	YES (1)	Enhancements to Maps for OAR	YES
7 3/7/02	GS-35F-0667J TO 1310	\$822,814	2 Bidders	Enhancements to MAPS for OAR	YES
<b>TOTAL</b>		<b>\$3,295,125</b>			

(1) Request for 3 or more bids - 1 response

**ORD - Narragansett Lab**

<b>Award Date</b>	<b>Contract #</b>	<b>Amount</b>	<b>Sole Source</b>	<b>Tasks</b>	<b>Incumbent</b>
1 10/20/99	0N-0050-NALX	\$7,096	YES	Voicemail Maintenance-FY00	YES
2 10/20/99	0N-0051-NDLX	\$24,549	YES	Telephone Maintenance-FY00	YES
3 10/3/00	1N-0025-NDLX	\$33,944	YES	Telephone/Voicemail Maintenance-FY01	YES
4 10/18/01	2B-6043-NBLX	\$24,677	YES	Telephone/Voicemail Maintenance-FY02	YES
5 9/30/02	2N-0103-NBLX	\$27,213	YES	Telephone/Voicemail Maintenance-FY03	YES
6 12/4/00	1N-0032-YBWW	\$105,554	3 Bidders	Library Service-FY01	YES
7 11/28/01	2N-0015-YBWW	\$110,425	YES	Library Service-FY02	YES
<b>Total</b>		<b>\$333,458</b>			

## ***Details on Scope and Methodology***

At the start of this assignment, we focused on such alternative contracting vehicles as Government-Wide Agency Contracts, Multiple Award Contracts, and FSS awards. Based on preliminary results, we concentrated on FSS orders because we found several areas of concern.

We reviewed management controls and procedures specifically related to our objectives, as well as procurement requirements in the FAR, EPA Acquisition Regulations, EPA Contract Management Manual, task order provisions, and GSA special ordering procedures. We did not review internal controls associated with inputting and processing information in EPA's tracking systems or verify the accuracy of this data.

We conducted our fieldwork from March to December 2002 at EPA's OAM Headquarters in Washington, DC; various Headquarters program offices; OAM RTPPOD; and ORD's Narragansett Laboratory. We interviewed COs and POs at these locations. Additionally, we interviewed contracting personnel in Regions 1, 2, and 7.

To determine whether EPA was obtaining adequate competition for FSS orders, we analyzed the: (a) extent of market research using GSA Advantage or other sources; (b) number of contractors requested to submit quotes, and rationales for their selection; (c) time allotted to submit quotes; (d) number of quotes received and reasons for non-submittal; (e) sole source justifications; and (f) awards made to incumbent contractors.

To determine whether the Agency followed established policies, procedures, and regulations in awarding FSS orders, we reviewed: (a) SOWs to determine whether they were performance based and contained a clear description of the tasks to be performed; (b) factors/criteria used to evaluate the quotes and whether the vendors were apprized of such criteria; (c) IGCEs to determine whether they included labor categories/rates and hours broken down by tasks; (d) PO's evaluations and CO's best value and price reasonableness analyses; and (e) attempts to seek price reductions from GSA ceiling prices.

To determine whether EPA systems provided adequate, reliable, and timely FSS data we: (a) reviewed EPA tracking systems in an attempt to determine the FSS universe; (b) interviewed various OAM and program officials to determine reasons for using different systems to record obligations; (c) reviewed internal management review findings and other correspondence; and (d) compared obligation and other reported data to award files.

### **Sample Selection**

As discussed in Chapter 4, there were problems with EPA's systems to record FSS data. To develop a sampling methodology, we attempted to obtain EPA's FSS transactions for the last two fiscal years. OAM personnel advised us to review ICMS and SPEDI tracking reports. After reviewing

these reports, interviewing OAM officials, and reading OAM’s management reviews, it became clear that we could not obtain a complete and accurate universe of all FSS awards.

Since it was not feasible to use a statistical or random sampling methodology, we used judgmental sampling and reviewed large obligated dollar amounts (more than \$30,000) for the initial award or subsequent modifications at OAM Headquarters and OAM RTPPOD, and both above and below \$30,000 at ORD Narragansett Laboratory (due to the limited number above that amount). We selected a sample representing various program offices, different vendors, and different types of services. We reviewed 39 FSS orders for fiscal 2000 through 2002 obligations: 25 from OAM Headquarters, 7 from OAM RTPPOD, and 7 from the ORD Narragansett Laboratory.

## Prior Audit Coverage

The following GAO, Department of Defense, and GSA audits and Congressional testimony include findings and concerns relating to multiple award contracts and FSS orders. These reports generally discuss weaknesses pertaining to obtaining competition.

<b>Prior Audit Coverage</b>
GAO Report (GAO/NSIAD-98-215), September 30, 1998: <i>Multiple-award Contracting at Six Federal Organizations</i>
GAO Report (GAO/NSIAD-00-56), March 20, 2000: <i>Few Competing Proposals for Large DOD Information Technology Orders</i>
GAO Report (GAO-01-125), November 29, 2000: <i>Not Following Procedures Undermines Best Pricing Under GSA’s Schedule</i>
GAO Testimony (GAO-02-560T), April 11, 2002: <i>Roles and Responsibilities of the Federal Supply Service and Federal Technology Service</i>
GAO Testimony (GAO-02-499T), March 7, 2002: <i>Taking a Strategic Approach to Improving Service Acquisitions</i>
GAO Testimony (GAO-02-469T), February 27, 2002: <i>DOD Faces Challenges in Implementing Best Practices</i> (pages 18-20)
GSA OIG Report, August 24, 2001: <i>MAS Pricing Practices: Is FSS Observing Regulatory Provisions Regarding Pricing?</i>
GSA OIG Report (A0008971F131V0I002), January 9, 2001: <i>Limited Audit of Federal Supply Services’ Contracting for Services</i>
Department of Defense OIG Report (D-2001-129), May 30, 2001: <i>Contracting Offices Determinations of Price Reasonableness When Cost or Pricing Data Were Not Obtained</i>

TASK ORDER CHECKLIST							
DCN NUMBER				TASK ORDER NUMBER/MOD NUMBER			
PROGRAM OFFICE							
PROJECT OFFICER/ORIGINATOR:				PHONE NUMBER:			
CONTRACTOR				PHONE NUMBER			
ADDRESS				AMOUNT			
TITLE OF ACQUISITION				PERIOD OF PERFORMANCE			
TAB NO.	DOCUMENT	A T T	N/A	TAB NO.	DOCUMENT	A T T	N/A
1	PURCHASE REQUEST (w/appropriate approvals, i.e., SIRMO and Facilities)			10	RFP		
2	STATEMENT OF WORK			11	CORRESPONDENCE		
3	IGCE			12	TECHNICAL EVALUATION		
4	(As appropriate) 4a. SOLE SOURCE DETERMINATION (FAR Part 6) 4b. AAS/PIN 4c. COI 4d. CBI References for 4b,45c, and 4d: PPN 99-03, CMM Chap. 2, FAR Part 37 (37.204, 37.205, & 37.504), and GWACS and Other Alternative Contractual Vehicles			13	UNSUCCESSFUL PROPOSAL		
5	Market Research Information (If Applicable)			14	SUCCESSFUL PROPOSAL		
6	WAGE DETERMINATION/D&F for WAIVER OF WAGE DETERMINATION			15	TASK ORDER FILE DOCUMENTATION, ABSTRACT, PRICE REASONABLENESS WORKSHEET AND ANY SUPPORTING DOCUMENTATION		
7	DETERMINATIONS & FINDINGS			16	SOURCE SELECTION MEMO/BEST VALUE DETERMINATION		
8	1900-65			17	TASK ORDER/MOD		
9	Questionnaire						

**ADVISORY & ASSISTANCE SERVICES APPROVAL:**

In accordance with Agency policy, approval is required for all task orders through \$4,999,999 involving services designated as advisory and assistance services as defined in Chapter 2 of the Contracts Management Manual. In accordance with FAR Part 37.204 and 37.205 a determination has been made regarding the availability of sufficient personnel.

\_\_\_\_\_  
Contracting Officer

\_\_\_\_\_  
Date

\_\_\_\_\_  
Manager, OAR Service Center

\_\_\_\_\_  
Date

\_\_\_\_\_  
Director, RTP Procurement Operations Division

\_\_\_\_\_  
Date





UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

OFFICE OF  
ADMINISTRATION  
AND RESOURCES  
MANAGEMENT

August 29, 2003

**MEMORANDUM**

**SUBJECT:** Draft Audit Report:  
EPA Can Improve Use of Federal Supply Schedules When Procuring  
Services  
Project No. 2002-000589

**FROM:** Morris X. Winn /s/ *David J. O'Connor* for  
Assistant Administrator

**TO:** Robert Mitchell  
Director for Contracts Audit  
Office of Inspector General

Thank you for the opportunity to submit our comments on the draft report entitled "EPA Can Improve Use of Federal Supply Schedules When Procuring Services." Detailed comments on the report are provided below. We are in general agreement with the draft report. However, we take exception to several statements regarding perceived lack of competition. Our responses are discussed by subject in the order of appearance in the report.

**COMMENTS ON SPECIFIC FINDINGS**

**Chapter 2, Pages 3 and 4. Finding: Lack of Competition**

The OIG implies that the Agency did not follow FAR ordering procedures with regard to competing Federal Supply Schedule (FSS) awards. We do not agree with this assertion. For example, for Office of Acquisition Management (OAM) Headquarters, nine (9) orders are listed in Appendix A as "sole source" with the footnote that three (3) or more bids were solicited but only one (1) quote was received. According to the FAR, sole source acquisition means a contract for the purchase of supplies or services that is entered into or proposed to be entered into by an agency

after soliciting and negotiating with only one source. Although we only received one quote, we solicited quotes from three or more vendors. These orders were issued in accordance with FAR ordering procedures, and are not sole source awards. While circumstances may have prevented other offerors from proposing, every effort was made to seek competition.

If these nine (9) actions, totaling \$53,598,497, are added to the \$8,243,028 the OIG identified as competitive, the total competitively awarded dollars would then equal \$61,841,525 or 90% of the total dollars reviewed at Headquarters.

#### **Chapter 2, Pages 5, 6. Finding: Inadequate Justification of Sole Source Orders**

We agree with the OIG finding that the sole source justification for order 2W-0653-NBLX, awarded as a bridge to an existing contract, was deficient. However, corrective action has been taken in award of a follow-on contract, which was an FSS competitive multiple award.

In general, we concur that the documentation for sole source awards, including certifications by the Project Officers (POs) and Contracting Officers (COs), could be improved. OAM is in the process of developing procurement policy on Alternative Contracting Vehicles, including GSA Schedules, and will emphasize the importance of proper file documentation to support a sole source determination. We expect our guidance to be issued in the first half of FY 2004.

#### **Chapter 2, Page 6. Finding: Inadequate Acquisition Planning and Rushed Procurement**

We agree that many FSS awards over \$100K are not included in five-year acquisition plans or in EPA's acquisition forecast. In our acquisition strategy and customer service meetings with our programs, we continue to encourage program offices to include all requirements over \$100K in their plans. We cannot always determine early in the acquisition process whether the requirement will result in an FSS award and, thus, may not be able to identify it as such in the acquisition forecast. We will make every effort to obtain this information and include it in the forecast.

#### **Chapter 2, Page 8. Finding: Limited Time to Respond to RFPs**

The average response time for Headquarter's FSS solicitations listed in the report was nine (9) business days, or essentially two (2) weeks. We believe this is adequate response time for small, non-complex actions. Contractor response time is typically determined by the estimated value, complexity of the statement of work, and any other mitigating factors, including the extent of market research. We believe that imposing a minimum fifteen (15) business day response time for actions between \$101,000 and \$1 million is counter to streamlining initiatives, jeopardizes our ability to provide fast and efficient customer service, and limits contracting officer flexibility.

### **RECOMMENDATIONS**

The OIG recommends that the Assistant Administrator for the Office of Administration and Resources Management require the Director of the Office of Acquisition Management to:

## **RECOMMENDATION 2-1**

OIG: Develop and implement policies or guidelines to assure FSS awards are competed to the maximum extent practicable. We suggest a mechanism similar to EPA Order 5700.5, or *Section 803 of the Fiscal 2002 Defense Authorization Act*, to:

- For orders over \$100,000, send RFPs to as many vendors as practicable in order to increase the number of bids received.
- Set goals for competing FSS awards and monitor success against the goals, and,
- Address market research; outreach efforts to encourage contractors to respond to RFPs; input from COs, POs and contractors familiar with services requested; and GSA or industry officials' assistance in locating specific vendors.

OARM's Response: We agree that OAM should develop and implement policy guidance to address FSS awards and encourage increased competition in the process. However, we do not believe the samples suggested, EPA Order 5700.5, or *Section 803 of the Fiscal 2002 Defense Authorization Act*, are appropriate, as they exceed the federal requirements related to FSS, and may act to undermine the benefits of the program. OAM will prepare Contract Management Manual (CMM) coverage of the FSS program to address both program and OAM responsibilities, and to ensure compliance with FSS special ordering procedures. We expect the CMM coverage to become effective in FY 2004.

As part of OAM's oversight function, operational compliance with the regulations governing FSS awards is regularly reviewed. It is through this mechanism that we monitor our success in this area.

We believe that additional outreach and training for project officers is needed on conducting market research, and OAM is focusing on this area in classes taught by this office. In many cases, program personnel have impacted competition by their conduct of market research, prior to a procurement request ever being received in OAM. Nonetheless, except in isolated instances, our contracting officers compete FSS awards to the maximum extent practicable.

## **Recommendation 2-2**

OIG: Develop and implement a coordinated program office procurement planning strategy with Senior Resource Officials to avoid rushed FSS awards and allow more contractors an opportunity to bid for requested services. This strategy should ensure that all FSS orders exceeding \$100,000 are included in the acquisition plan, establish FSS competition goals, and monitor progress against those goals. This strategy should include:

- Re-emphasizing the importance of market research, and requiring documentation of research efforts performed.

- Enforcing cut-off dates to submit procurement requests (e.g., 60 days before year end or contract expiration) or flexible time frames (i.e., minimum of 60 days for most acquisitions) to avoid rushed procurements.
- Establishing minimum response time for FSS orders (e.g., 15 business days for orders estimated to exceed \$100,000 and 20 days for orders exceeding \$1 million), that provide small and non-incumbent contractors ample opportunity to develop detailed proposals. If shorter time frames are used, the reason why should be documented in the file.
- Sending pre-solicitation notices or communicating with GSA schedule vendors to inform them of future EPA requirements.

OARM's Response: We agree that OAM should increase efforts to develop a coordinated planning program, but we disagree with many of the suggested elements of such a program. For example:

We currently discuss acquisition time frames with our programs during acquisition strategy and customer service outreach meetings. Based on the OIG finding, at these meetings we will also emphasize the importance of, and the appropriate methods of, conducting market research and preparing the related documentation. In addition, the Director and Deputy Director, Office of Acquisition Management, will stress the importance of procurement planning, to include FSS orders during their customer service visits with Senior Resource Officials.

OAM has established optimum time frames for submission or procurement requests, and has mandatory due dates for end-of-fiscal-year requests. Nonetheless, we always seek to provide procurement services to meet the Agency mission, regardless of whether cut off dates are met. We recognize the importance of proper procurement planning, and certainly stress the necessity of procurement planning to our program counterparts. But despite proper planning, unforeseen needs will arise or other circumstances will require quick procurements, and OAM does not believe we should implement policy which would effectively prohibit supportive customer service.

We believe that an appropriate response time for receipt of quotes under an FSS procurement is variable and that minimums should not be mandated. Small, non-complex actions require simple statements of work and permit quick quoting on the part of the contractor. By design, the ease and speed of solicitation and award is an element of the FSS program, and is not necessarily an impediment to competition. Contractor response time is typically determined by the estimated value, complexity of the statement of work, and many other relevant factors. For this reason, we support retaining the time flexibilities inherent in the system. Nonetheless, our forthcoming guidance will address considerations for determining appropriate time frames for receipt of quotations.

### **Recommendation 2-3**

OIG: Develop, implement, and enforce policies and procedures to ensure that FSS sole source awards are adequately justified. The justification must include the PO's and CO's signed

certification of completeness and accuracy. Provide a format for program offices to use in documenting sole source justifications.

OARM's Response: We concur with this recommendation. Samples of documentation for sole source justifications will be provided to program offices with a reminder to the POs and COs of the requirement for a signed justification for sole source awards. Under our new quality assurance oversight program, we are encouraging the OAM operational divisions to include a quality check in their Quality Assurance Plans (QAP). When an oversight review reveals that FSS orders are not receiving adequate review at the Division level, recommendations are made for changes to the QAP. This process serves to monitor FSS awards in general, and to ensure that sole source justifications are prepared in accordance with OAM policy.

### **Recommendation 3-1**

OIG: Provide additional CO and PO training to emphasize FAR requirements and GSA special ordering procedures. Emphasis should include:

- (a) Preparing performance based SOWs and complete IGCEs.
- (b) Negotiating price reductions whenever practicable (e.g., for orders greater than \$2,500).
- (c) Documenting evaluations of bids and best value or price reasonableness determinations (especially when one bid is received).
- (d) Using some type of forum (i.e., meetings, memoranda, OAM Hot Tips) to communicate the most recent FSS award requirements.
- (e) Providing samples of adequately prepared documents (SOWs, IGCEs, proposal evaluations, best value, and price reasonable analyses) to assist COs and POs in preparing or approving such documents.

OARM's Response: OAM agrees with the recommendation, and will provide training in conjunction with the release of policy guidance on FSS Orders. This training is expected to begin in the second quarter of FY 2004, and will emphasize items a - e of the recommendation. Over the last few years, OAM has provided training in a number of venues on Federal Supply Schedule (FSS) contracts offered by GSA, as well specific training on Performance-Based Service Acquisitions (PBSA), and Preparation of IGCEs. The OAM sponsored Contracting Officer's Representative (COR) Training course, which is required for program personnel prior to appointment as a COR for the first time, addresses FSS in Chapter 1 and PBSA in Chapter 4. Every 3 years, prior to expiration of the COR appointment, CORs are required to be recertified by taking the COR Recertification Training Course offered by OAM. In this course, Chapters 5 and 4 address the topics of FSS and PBSA, respectively.

OAM has provided mini-training sessions for OAM personnel on various related topics including: Alternative Contract Vehicles including FSS, technical evaluations, best value, IGCEs and PBSA.

OAM's policy Web Page, located at <http://intranet.epa.gov/oamintra/policy/index.htm>, has links to acquisition guidance on GWACS and Other Alternative Contract Vehicles. At the FY 2001 and 2002 Acquisition Conferences, OAM provided training on Alternative Contract Vehicles, PBSA, Best Value, Technical Evaluation Criteria and Fixed Price Statements of Work.

OAM will continue to provide training to its staff as well as program personnel in the form of COR Training, COR Recertification, mini-training sessions, specialized topic presentations for program offices, as well as other various venues deemed appropriate. OAM again plans to offer training on Alternative Contract Vehicles at the Acquisition Conference to be held in November, 2003.

### **Recommendation 3-2**

OIG: Periodically provide Senior Resource Officials, COs, and POs with information on actions taken in response to systemic or significant problems, and best practices identified from prior AMRs and current oversight reviews of individual quality assurance plan implementation.

OARM's Response: It has always been our practice to identify best practices and deficiencies following every Quality Assurance Review (which recently replaced AMRs). Corrective action is required for deficiencies noted. Best practices are shared with others who could potentially benefit. Our Hot Tips publication is broadly distributed to an audience which includes the SRO, CO, and PO communities, and we will use this forum for articles on best practices in using FSS.

### **Recommendation 3-3**

OIG: Develop and distribute checklists for managing the processing of FSS task orders that ensure all FAR requirements and GSA special ordering procedures are followed.

OARM's Response: We concur with this recommendation. OAM will make distribution of the sample checklist developed by the RTP Procurement Operations Division (Appendix C to the Draft Audit Report). We plan to incorporate the checklist in the formal CMM coverage to be issued in the first half of FY 2004.

### **Recommendation 3-4**

OIG: Enter contractor's past performance appraisals for FSS orders over \$100,000 in the NIH system.

OARM's Response: We concur with this recommendation. Although the original government-wide use of the National Institutes of Health (NIH) past performance system envisioned that GSA would be responsible for recording performance of schedule contractors at a contract level, in practice, this has proved impractical. Consequently, OAM plans to amend the Environmental Protection Agency Regulation (EPAAR) to provide for the evaluation of FSS orders over \$100,000 in the NIH Contractor Performance System. The formal rule-making process will begin the first quarter of FY 2004.

#### **Recommendation 4-1**

OIG: Convene a high level workgroup of OARM, OAM, and Program Office procurement and information technology personnel to review the databases used to record FSS information, and develop a plan for bringing a consolidated system online that permits all users to accurately and completely record information for FSS transactions.

OARM's Response: We strongly support the IG's recommendation, and OAM has been actively soliciting high level Agency support for an improved, consolidated procurement system. We would appreciate any support from the OIG in this endeavor, as a new procurement system is essential to the effective operation of the Agency as a whole, not just OAM.

We recognize that reliable data is essential to the effective management of our procurement program, and to our ability to respond to stakeholders. Every effort is made to ensure the integrity of the data in our automated procurement systems. While the Agency continues to be challenged by use of procurement systems which are outdated, our primary system, the Integrated Contracts Management System (ICMS), does have the capability to record and report FSS information to the Federal Procurement Data System (FPDS). Current OAM policy is in place requiring the use of ICMS for limited alternative contracting vehicles and, based upon the IG's findings, we will investigate the feasibility of expanding existing coverage to require ICMS entry for all FSS orders.

#### **Recommendation 4-2**

OIG: Provide training on FSS data entry, and provide COs and program office personnel with user guides, checklists, and best practice examples to re-emphasize the importance of complete and reliable FSS data entry.

OARM's Response: OAM recognizes the integrity of our data is only as good as the attention to detail of data entry. We currently provide training, which includes data input, on our automated procurement systems. Furthermore, we frequently validate our system data to ensure accuracy. Our policy will address the importance of proper data entry, and a single collection point in ICMS should serve to improve the accuracy.

#### **Recommendation 4-3**

OIG: Periodically reconcile FSS data to the Integrated Financial Management System and source documents.

OARM's Response: OAM conducts periodic exercises to ensure that ICMS data is reconciled to IFMS data. Our future exercises will emphasize verification of FSS data.

#### **COMMENTS ON ADMINISTRATIVE ITEMS**

In addition, we note a few administrative errors which should be corrected in the final report:

- OAM's Automation Service Center (ASC) is now known as the Information Technology Service Center (ITSC).

- References to the RTP Service Center should be replaced by RTP Procurement Operations Division (RTPPOD).

- Technically, FSS guidance requires use of a Request for Quotes. Therefore, the term 'bid', used throughout, should be replaced with 'quote'. This is significant, particularly with respect to allowing sufficient time for contractors to respond. We are requesting a quote rather than a bid/proposal.

We appreciate the opportunity to review the draft report and hope that our comments will be taken into consideration, and that they will result in changes to the final report. While OAM strongly supports the notion of competition in all procurement actions, we differ significantly in our interpretation of what constitutes competition under an FSS order. We believe that the draft report understates the true extent of competition for FSS requirements.

Again, thank you for the opportunity to provide comments on the draft report. If you have any questions, or comments, please call Judy Davis, Director, Office of Acquisition Management, at 564-4310, or Leigh Pomponio, Manager, Policy and Oversight Service Center, at 564-4364.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

OFFICE OF  
RESEARCH AND DEVELOPMENT

August 19, 2003

**MEMORANDUM**

**SUBJECT:** Response to the Office of Inspector General's Draft Audit Report #2002-000589

**FROM:** Paul Gilman /s/ *Henry L. Longest II* for  
Assistant Administrator (8101R)

**TO:** Morris X. Winn  
Assistant Administrator  
Office of Administration and Resources Management (3101A)

Thank you for the opportunity to include ORD's comments with your Office's response to the Office of Inspector General's (OIG) draft report on Federal Supply Schedule Services Procurement. We value the contributions and services that our Simplified Acquisition Contracting Officers (SACOs) provide to our outlying laboratories and are always seeking ways to improve these services. We are, of course, equally concerned that the services provided by our SACOs be in compliance with regulations and procedures, and in this case, specifically those which increase competition and ultimately result in better utilization of our resources.

In general, we agree with the findings in the report that are specific to our Narragansett laboratory. We only request one change, which is a point of factual clarification. This change can be found on the attached page.

In addition, it should be noted that several corrective actions, as outlined below, have already been taken at Narragansett, since the audit.

- The National Health and Environmental Effects Research Laboratory (NHEERL) is working closely with the new SACO, hired at the Narragansett laboratory in the summer of 2002, to ensure that she is adequately trained.
- The SACO is now requesting, and will continue to request, price reductions to Federal

Supply Schedule orders.

- In pursuit of furthering competition, the SACO has identified that the voice mail and phone service be separate requirements, with only one being proprietary. She is exploring competition options for the non-proprietary service.
- The Atlantic Ecology Division's (AED) Funds Control Officer and SACO now send reminders to the initiators of Purchase Requests (PR's) for maintenance contracts several months in advance of the renewal due date to determine whether a follow-on contract is needed and to allow adequate lead time to process the procurement.
- Training initiated by NHEERL and AED is designed to improve the Division's performance by stressing the need for adequate procurement planning in advance of immediate needs, providing adequate lead times, adhering to due dates, and proper documentation.

Our reading of the recommendations cited in the report indicates that the actions are directed to OARM/OAM. It is our opinion that these are sound recommendations and we will work with OARM/OAM to fine tune the plan to implement them. We agree that better and more advanced planning and increased measures to seek competition are needed.

Again, thank you for the opportunity to comment on the draft report.

Attachment

cc: Henry Longest  
Lek Kadeli  
Jim Morant  
Alice Sabatini  
Arnold Bloom  
Lawrence Reiter  
John Jones  
Steve Hedtke  
Patricia M. Jackson  
Jonathan Garber  
Karen Dean  
Judy Davis  
Bernie Davis

**Consolidated NHEERL Comments**  
**on**  
**OIG Draft Audit Report**  
**EPA Can Improve Use of Federal Supply Schedules When Procuring Services**  
**Project No. 2002-000589**  
**Received on July 25, 2003**

1. On page 15, paragraph 2\_, line \_2, the draft report states:

“While all 7 RTP orders included adequate IGCEs, no IGCEs were prepared for the 7 ORD Narragansett awards, and 19 of the 25 OAM Headquarters’ orders were awarded without benefit of a complete IGCE.”

RESPONSE: We request the following change to this portion of the draft report:

“While all 7 RTP orders included adequate IGCEs, both the ORD Narragansett orders which required an IGCE (2 out of 7), and 19 of the 25 OAM Headquarters’ orders were awarded without benefit of a complete IGCE.”

Discussion: EPA Contracts Management Manual Chapter 2.9 states that “POs shall submit IGCEs for all contract actions with a potential value in excess of the FAR threshold for “simplified acquisitions.” While it later states that “COs may also require IGCEs for actions below the FAR threshold for “simplified acquisitions” if deemed necessary and appropriate.” It does not appear that the Narragansett SACO made this requirement; therefore, only the 2 awards over \$100,000 were required by the FAR to have IGCEs.



## ***Distribution***

Assistant Administrator for Administration and Resources Management  
Assistant Administrator for Research and Development  
Agency Follow-up Official  
Agency Audit Follow-up Coordinator  
Associate Administrator for Congressional and Intergovernmental Relations  
Associate Administrator for Public Affairs  
Director, Office of Acquisition Management  
Audit Liaison, Office of Administration and Resources Management  
Inspector General (2410)