



# Audit Report



OIG-08-002

ACQUISITIONS: Although Weaknesses Still Exist, the Treasury Franchise Fund Improved Compliance With DOD Procurement Requirements

October 29, 2007

Office of  
Inspector General

Department of the Treasury



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## Abbreviations

ARC	Administrative Resource Center
BPD	Bureau of the Public Debt
CICA	Competition in Contracting Act
DFARS	Defense Federal Acquisition Regulations Supplement
DTAR	Department of the Treasury Acquisition Regulation
DOD	Department of Defense
FAR	Federal Acquisition Regulation
GAO	Government Accountability Office
IDIQ	indefinite delivery/indefinite quantity
IGCE	independent Government cost estimate
NDAA	National Defense Authorization Act
OIG	Office of Inspector General
QASP	quality assurance surveillance plan

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*The Department of the Treasury  
Office of Inspector General*

October 29, 2007

Van Zeck, Commissioner  
Bureau of the Public Debt

This report presents the results of our second audit of the Department of the Treasury's compliance with applicable laws and regulations for procurements made on behalf of the Department of Defense (DOD) through the Treasury franchise fund. Our second audit focused on fiscal year 2006 procurements. Both this audit and the prior one were conducted in coordination with the DOD Office of Inspector General (OIG).<sup>1</sup> The audits were mandated by the National Defense Authorization Act (NDAA) for Fiscal Year 2006.<sup>2</sup>

For this audit, we were again charged with determining whether Treasury was compliant with applicable requirements for procurements made on behalf of DOD. A determination of noncompliance would have significant implications for the Treasury franchise fund as DOD would be required to significantly curtail its use of Treasury for procurements. That said, it should also be noted that effective April 2007, responsibility for program direction and oversight of FedSource, the component of the Treasury franchise fund that directly serviced DOD, was transferred from the Treasury Deputy Chief Financial Officer to the Bureau of the Public Debt (BPD). BPD is to complete a controlled and orderly transition out of the FedSource business no later than September 30, 2008. BPD is to implement this transition in a manner that minimizes disruption to FedSource customers, employees, and vendors.

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<sup>1</sup> We reported the results of our first audit in *Acquisitions: Treasury Franchise Fund Needs to Improve Compliance With Department of Defense Procurement Requirements*, OIG-07-026 (Jan. 16, 2007). That audit focused, in accordance with the fiscal year 2006 NDAA, on Treasury franchise fund procurements on behalf of DOD during fiscal year 2005.

<sup>2</sup> Pub. L. No. 109-163, 119 Stat. 3136 (Jan. 6, 2006).

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We initiated this audit in October 2006, shortly after we completed work on the first audit. Our objective was to determine whether Treasury's procurement policies, procedures, and internal controls applicable to the procurement of property, products, and services on behalf of DOD and whether administration of applicable policies, procedures, and internal controls were adequate to ensure Treasury's compliance with laws and regulations applicable to procurements of property and services made on behalf of DOD. To accomplish this objective, we reviewed a sample of 28 task orders issued between July and September 2006. The sample task orders were from FedSource centers in Los Angeles, California; San Antonio, Texas; and Baltimore, Maryland. We also reviewed the files for the related multiple award contract and two blanket purchase agreements at BPD's Administrative Resource Center (ARC), which is another component of the Treasury franchise fund. Our objective, scope, and methodology are described in more detail in appendix 1.

Pursuant to the fiscal year 2006 NDAA, the DOD OIG and our office informed the Senate and House Committees on Armed Services in letters dated June 15, 2007, that we had determined that Treasury is compliant with DOD procurement requirements. In our letters, we also stated that while our review did identify some weaknesses with respect to market research and contractor surveillance, among others, overall we found that Treasury had made notable progress in addressing previously identified weaknesses. Additionally, we informed the Committees about Treasury's plans to transition out of FedSource by September 30, 2008.

## Results in Brief

FedSource made notable progress to address weaknesses found in prior audits, as evidenced by our findings of fewer exceptions in the areas of competition and price reasonableness. Also of note, we found no significant exceptions related to the proper use of DOD appropriations. In contrast, last year DOD OIG identified 21

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procurements made through FedSource during fiscal year 2005 that potentially violated the Antideficiency Act.<sup>3</sup>

FedSource also issued procedures that were responsive to our prior audit report and DOD directives. In December 2006, FedSource issued a procedure for conducting due diligence reviews on all orders awarded on behalf of DOD. The due diligence reviews are to include a cursory review of the appropriateness of the DOD funding source. In January 2007, FedSource established a procedure requiring customer agency project officers to sign designation letters that outline the responsibility of the project officer to develop the contractor surveillance procedures and to monitor contractor performance. As discussed later in this report, adequate contractor surveillance was one area that continued to be a significant problem. In November 2006, FedSource issued a procedure to implement recent DOD policy that, among other things, addressed limitations on performance periods for severable services (services that are continuing and recurring in nature).<sup>4</sup>

However, both DOD and Treasury have some continuing weaknesses, particularly with respect to market research and contractor surveillance, as well as other problems that need attention. Our review of 28 task orders issued by FedSource on behalf of DOD found the following exceptions:

- No market research was done for 26 task orders with a total value of \$12.4 million. DOD ordering facilities did not document their determinations that the use of FedSource was in the best interest of DOD. FedSource files also did not include

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<sup>3</sup> While the DOD OIG's findings were principally directed at DOD, we reported that they pointed to a need for FedSource to identify what due diligence it should perform when accepting orders to help prevent the use of incorrect appropriations. The fact that there were no significant exceptions found by our audit regarding use of DOD appropriations cannot be directly linked to any specific action by FedSource management. In this regard, it should be noted that DOD issued a number of internal policy directives over the last several years dealing with the proper use of appropriations for acquisitions, including acquisitions through non-DOD agencies such as FedSource.

<sup>4</sup> Under DOD procurement requirements, DOD may use funds available for a fiscal year to enter into a contract for severable services that begin during the fiscal year and end in the next fiscal year as long as the contract period does not exceed 1 year.

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documentation of market research before issuing the task orders.

- Competition was inadequate for 4 task orders with a total value of \$2.8 million. The four task orders were related to FasTrac, a program intended to provide federal agencies the capability of e-learning and other computer- and web-enabling assistance. We determined that from February 2005 to March 2007, FedSource issued a total of 125 FasTrac task orders, with a total value of \$38.2 million, which were not adequately competed, lacked proper price analysis, and lacked award documentation.
- Price reasonableness support was either not documented or inadequate for 8 task orders with a total value of \$4.6 million. Three of the 8 task order files did not contain an independent Government cost estimate (IGCE). Five of the 8 task orders files, 3 of which were FasTrac task orders, contained IGCEs that were not dated or dated on or after the same day as the task order award.
- The basis for technical evaluation scores was inadequate for 16 task orders with a total value of \$8.4 million. Two FedSource centers lacked a standardized weighting system for scoring technical evaluations or a documented methodology for performing technical evaluations. One center inappropriately added points to its technical evaluation scores if the bidder proposed using DOD-suggested subcontractors or personnel.
- Quality assurance surveillance deficiencies were noted in all 28 task order files; however 26 task orders files with a total value of \$12.6 million inadequately documented surveillance. While FedSource files contained quality assurance surveillance plans (QASP) for all task orders, an improvement over last year, a variety of deficiencies were noted in the quality assurance surveillance process. These deficiencies included overly broad statements of work that did not lend themselves to measurable standards of performance.

The exceptions by task order are identified in appendix 2.



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In addition, we found the following:

- ARC compliance reviews of three FedSource centers during 2006 identified contracting deficiencies. However, ARC did not obtain detailed corrective actions plans and schedules to address the problems.
- Maximum values were exceeded for five contracts, in violation of competition requirements. The amount by which the ceilings on the five contracts was exceeded totaled nearly \$200 million. ARC and FedSource did not monitor task order awards against the contract ceilings in a coordinated manner. While additional controls were put in place, they may be inadequate.
- ARC did not adequately monitor small business contractors' compliance with requirements that at least 50 percent of the cost of services performed under such contracts be expended for services provided by the contractor's own employees.

As we reported in our first audit, management issued a number of policies and procedures to address recommendations made by the Government Accountability Office (GAO) in a July 2005 report on FedSource.<sup>5</sup> Many of the same types deficiencies noted by GAO were found in our testing of fiscal year 2005 procurements. This was not unexpected given the recency of FedSource's corrective actions. We did, however, make five recommendations in our prior audit to further improve FedSource compliance with DOD procurement requirements. These recommendations dealt with matters related to competition, task order file documentation, quality assurance surveillance plans, due diligence in accepting DOD funds, and performance periods for severable services. Management indicated that it had taken or planned actions that were generally responsive to our recommendations. Where we noted continuing weaknesses in our second audit, we are reaffirming our prior recommendations. Where appropriate, we made new recommendations to further refine our prior recommendations or to address additional weaknesses found during this audit.

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<sup>5</sup> GAO, *Interagency Contracting: Franchise Funds Provide Convenience, but Value to DOD Is Not Demonstrated*, GAO-05-456 (Washing, D.C.: July 29, 2005). The GAO report was based on fiscal year 2003 procurement activities. GAO also reported on DOD's use of GovWorks, a franchise fund run by the Department of the Interior.

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Specifically, as new recommendations, the Commissioner of BPD should: (1) issue guidance to FedSource as to the market research to be conducted and documented at the task order level, (2) ensure that future acquisitions under the FasTrac program use an appropriate contract vehicle and are competed, (3) ensure that IGCEs are prepared timely and dated accurately, (4) ensure a standard technical evaluation methodology is used in all FedSource centers, (5) ensure that task order statements of work allow the establishment of measurable standards and QASPs that correspond to statements of work, (6) ensure that QASPs clearly specify surveillance requirements and responsibilities, (7) assess whether additional controls are needed to prevent contract ceilings from being exceeded, (8) remind contracting personnel of requirements to ensure full and open competition, and (9) implement procedures to ensure that small business contractors comply with contractual requirements for work that must be provided by their own employees.

BPD concurred in general with the findings in our report. Its response noted that FedSource was instructed to suspend the issuance of new task orders effective October 1, 2007. As our recommendations apply to the administration of existing FedSource task orders and to current operations, BPD agreed to implement the recommendations. BPD's response is discussed in more detail in the Findings and Recommendations section of this report and the response is included as appendix 3.

## **Background**

### **Franchise Funds**

The Government Management Reform Act of 1994 authorized the Office of Management and Budget to establish franchise fund pilot programs at six executive branch agencies. Franchise funds are government-run, self-supporting, businesslike enterprises managed by federal employees. The funds provide a variety of common administrative services, such as payroll processing, information technology support, employee assistance programs, and

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contracting. Franchise funds are required to recover their full cost of doing business and are allowed to retain up to 4 percent of their annual income. To cover their costs, the funds charge fees for the services they provide.

Congress authorized the pilot programs because it expected that franchise funds would be able to provide common administrative services more efficiently than each federal agency on its own. In 1996 and 1997, the Office of Management and Budget established franchise fund pilot programs at the Departments of Commerce, Health and Human Services, the Interior, the Treasury, and Veterans Affairs and at the Environmental Protection Agency. These programs were to expire in 1999, 5 years after passage of the Government Management Reform Act. The Treasury franchise fund, however, was extended several times by other legislation. The Consolidated Appropriations Act of 2005 gave the Treasury franchise fund permanent status.

### **Treasury Franchise Fund Entities Used by DOD**

The Treasury franchise fund comprises the following entities: (1) FedSource, (2) ARC, (3) the Federal Consulting Group, and (4) Treasury Agency Services. Procurement services to DOD are provided through FedSource and ARC. During fiscal year 2006, FedSource issued 12,354 task orders on behalf of DOD with a total value of approximately \$166 million.

The acquisition process for the Treasury franchise fund originates at ARC, which is part of BPD and located in Parkersburg, West Virginia. ARC performs contract competitions and establishes master contract vehicles from which FedSource issues task orders to meet customer needs. In addition, ARC appoints FedSource's contracting officers, designates contracting officer's technical representatives, and conducts compliance reviews to determine whether Treasury franchise fund procurement activities are being carried out in accordance with applicable laws and regulations.

FedSource serves as a liaison between customers and contractors, develops comprehensive acquisition strategies, works with customers to develop statements of work, competes and awards

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task orders, develops and participates in QASPs, and closes out completed task orders. To procure property or services, DOD sends FedSource either a Military Interdepartmental Purchase Request or an interagency agreement. These funding documents should describe the type of property or services requested and identify the appropriation account of the funds being provided. Upon receipt of the funding documents, FedSource is to review them and, if they are acceptable, issue task orders against master contracts for the requested property or services. A funding document may fund more than one task order.

### **Key Laws and Regulations**

Procurement activities conducted by federal franchise funds are subject to the same laws and regulations to which other federal government procurement activities are subject, as well as to any additional regulations specific to the funding agency. Four of the principal legal authorities that govern the procurement activities of this review are the Competition in Contracting Act of 1984 (CICA), the Federal Acquisition Regulation (FAR), the Defense Federal Acquisition Regulations Supplement (DFARS), Department of the Treasury Acquisition Regulation (DTAR) , and the Antideficiency Act.

CICA generally requires that federal contracts be awarded on the basis of full and open competition. The purpose of the full and open competition requirement is to permit the federal government to rely on competitive market forces to obtain needed goods and services at fair and reasonable prices. Only when full and open competition would be impracticable, such as when needs are urgent or only one source is available, would full and open competition not be required. In such cases, the approach taken must be appropriately justified, approved, and documented.

The FAR is the primary regulation for use by all federal executive agencies in their acquisition of supplies and services with appropriated funds. It became effective on April 1, 1984, and is issued within applicable laws under the joint authorities of the Administrator of General Services, the Secretary of Defense, and the Administrator of the National Aeronautics and Space

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Administration, under the broad policy guidelines of the Administrator, Office of Federal Procurement Policy, Office of Management and Budget. According to the FAR, contracting officers, as a matter of policy and with certain limited exceptions, must promote and provide full and open competition in soliciting offers and awarding government contracts. Contracting officers are to do this through the use of competitive procedures and are to purchase supplies and services from responsible sources at fair and reasonable prices. The determination of price reasonableness is to be documented in the contract file.

DOD implements and supplements the FAR in the DFARS, under the authorization and subject to the authority, direction, and control of the Secretary of Defense. The DFARS requires, with certain exceptions, that each DOD procurement exceeding \$100,000 under a multiple award contract be made on a competitive basis. Multiple award contracts are contracts issued under the same solicitation to two or more sources. The sources to which multiple awards are issued must agree to provide the same or similar supplies and services at fixed prices during a fixed period, and the government agrees to purchase a minimum quantity from each contractor. For multiple award contracts, the contracting officer must fulfill the "competitive basis" requirement by providing fair notice to all contractors offering the required supplies or services and ensure that the contractors are afforded a fair opportunity to submit an offer and have that offer fairly considered.<sup>6</sup> For task orders under multiple award contracts, the FAR requires that contracting officers provide contractors fair opportunity to be considered for orders exceeding \$3,000. It also requires contracting officers to document in the contract file the rationale for placement and price of each order.

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<sup>6</sup> This DFARS provision implements section 803 of the NDAA for Fiscal Year 2002, enacted as Pub. L. No. 107-107 on December 28, 2001. As stated in the DFARS, exceptions to the fair opportunity process apply when (1) only one contractor is capable of providing the supplies or services required at the level of quality required because the supplies or services are unique or highly specialized or (2) the order must be issued on a sole source basis in the interest of economy and efficiency because it is a logical follow-on to an order already under the contract, provided that all awardees were given a fair opportunity to be considered for the original order.

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The DTAR is issued for Departmental guidance in accordance with the policy cited in FAR.<sup>7</sup> The DTAR establishes uniform Treasury policies and procedures for all acquisition activities within the Department of the Treasury, except the United States Mint. The DTAR is under the direct oversight and control of Treasury's Office of the Procurement Executive, which is responsible for evaluation, review, and issuance of all Department-wide acquisition regulations and guidance. The Treasury DTAR Council will review proposed revisions to the DTAR and make recommendations. Each bureau chief procurement officer may supplement the DTAR. Bureaus proposing to issue regulatory supplements or use solicitation and/or contract clauses on a repetitive basis must forward them to the Senior Procurement Executive for concurrence prior to publication in the Federal Register.

The Antideficiency Act prohibits federal government officials from making payments or committing the United States to make payments for goods or services unless Congress has appropriated sufficient funds to pay for the goods or services. Among other things, the law prohibits the federal government from using funds for other than their intended purpose or making or authorizing expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law.<sup>8</sup>

## Findings and Recommendations

### **Finding 1      DOD and FedSource Did Not Conduct Required Market Research and FedSource Awarded Certain Task Orders Without Adequate Competition**

We found no evidence that market research had been conducted by the DOD ordering facility or FedSource for the goods and services procured through 26 task orders, which had a total value of \$12.4 million. As a result, DOD was not assured that the goods and services were obtained at the best value. For four of these task

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<sup>7</sup> FAR 1.301

<sup>8</sup> 31 U.S.C. § 1341(a) (1) (A).

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orders, related to e-learning services under a program referred to as FasTrac, FedSource did not consider contract vehicles other than a multiple award contract established by ARC, which was inappropriate to fulfill DOD's need. It further limited competition to just 2 of the 9 available contractors without justification. In total, FedSource issued 125 task orders to the selected contractor for FasTrac with a total value of \$38.2 million. We determined they were inadequately competed.

The FAR requires that agencies perform acquisition planning and conduct market research for all acquisitions to ensure that the federal government meets its needs in the most effective, economical, and timely manner.<sup>9</sup> Agencies must use market research results to determine sources capable of satisfying agency requirements.<sup>10</sup> Accordingly, when placing orders for goods and services, it is incumbent on DOD to support its decision to use FedSource.<sup>11</sup> Also, when issuing task orders, FedSource must likewise determine the most appropriate sources and methods for acquiring the goods and services.

#### DOD Ordering Facilities Did Not Perform Market Research

The 26 task orders in our sample were issued on behalf of 14 DOD ordering facilities. We visited 6 of the ordering facilities to examine the contracting files. We also interviewed the DOD project officers for the remaining sampled task orders about their methods and documentation of market research. We found that none of the files reviewed contained evidence showing how the facility determined that using FedSource was in the best interest of DOD. Contracting staff at 2 of the facilities we visited told us that the reasons for using FedSource were discussed in meetings, but no documentation was maintained of these discussions. We interviewed contracting staff at the DOD ordering facilities we did

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<sup>9</sup> FAR 7.102.

<sup>10</sup> FAR 10.001(a) (3).

<sup>11</sup> In October 2004, military departments and defense agencies were directed by internal DOD policy to establish procedures for reviewing and approving the use of non-DOD contract vehicles, including those through non-DOD entities. Among other things, the procedures were to include an evaluation as to whether using a non-DOD contract was in the best interest of DOD.

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not visit and they told us that they had not conducted market research before placing orders through FedSource.

#### FedSource Did Not Perform Market Research at the Task Order Level

FedSource's files for the 26 task orders also lacked evidence of market research. In this regard, we determined that FedSource did not consider contract vehicles other than a multiple award, indefinite delivery/indefinite quantity (IDIQ) contract<sup>12</sup> established by ARC specifically for FedSource's use (referred to as the FedSource 9).<sup>13</sup>

#### FasTrac Tasks Orders Were Not Competed

Four task orders in our sample valued at \$2.8 million were related to FasTrac, a program intended to provide federal agencies the capability of e-learning and other computer- and web-enabling assistance. We determined that from February 2005 to March 2007, FedSource issued a total of 125 FasTrac task orders, with a total value of \$38.2 million, which were not adequately competed, lacked proper price analysis, and lacked award documentation.

In February 2005, FedSource issued the initial, no-cost FasTrac task order with a 1-year base period and three 1-year option periods. In February 2006, FedSource exercised the first option year. According to FedSource, the second option year has also been exercised, extending the period of performance to February 2008.

The FAR requires that contracting officers provide full and open competition through use of the competitive procedures that are best suited to the circumstances of the contract actions.<sup>14</sup> In addition, the fiscal year 2002 NDAA required that for all service

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<sup>12</sup> An IDIQ contract is a type of contract used when the precise amounts of supplies or services during a specific period cannot be determined.

<sup>13</sup> The FedSource 9 contract was developed to provide administrative support services. In total, there were 9 awardees, including three small business concerns. FedSource used this contract vehicle to solicit proposals when fulfilling customer agency needs for these types of services.

<sup>14</sup> FAR 6.101(b).



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orders exceeding \$100,000 placed under multiple award contracts (which applies to the four FasTrac task orders in our sample), the contracting officer should contact as many schedule holders as practical who are capable of performing the work, to ensure that at least three responses are received.<sup>15</sup>

Neither ARC nor FedSource files contained documentation supporting how the FasTrac task orders conformed to the FAR and other contracting requirements. For example, FedSource requested proposals for the FasTrac program from only two small business concerns under the FedSource 9 multiple award contract. The reason for limiting the request for proposals to just these small business concerns was not documented.

The ARC contracting officer involved with the initial task order award could not explain why ARC used the FedSource 9 contract vehicle for the FasTrac requirements. The current ARC contracting officer for the FasTrac program acknowledged that the FasTrac requirements were inconsistent with the FedSource 9 contractor's statement of work.

### **Recommendations**

Previously, we recommended that FedSource ensure that the contract files for all new task order awards and modifications to existing task orders include documentation of required competition, market research, and price reasonableness. In its response to the report, management concurred with the recommendation and stated that actions had been taken including the issuance of new policies and procedures and training.<sup>16</sup> This finding reaffirms the need for continued focus to ensure that these actions are implemented and effective.

Management also stated in its response that FedSource market research is done at the overarching contract level in the acquisition

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<sup>15</sup> National Defense Authorization Act for Fiscal Year 2002, § 803, Pub. L. No. 107-107 (Dec. 28, 2001).

<sup>16</sup> The management response was provided by the Treasury Deputy Chief Financial Officer to whom FedSource reported at that time. Effective April 2007, responsibility for program direction and oversight of FedSource was transferred to BPD.

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planning stages. We noted in our prior report that market research was still required to determine the best approach to acquire the specific services and property requested by DOD. The need for acquisition planning and market research at the task order level is clearly demonstrated by the problems noted with the FasTrac task orders. To avoid such problems in the future and to address contracting deficiencies for the FasTrac program, we are making two new recommendations.

Specifically, we recommend that the Commissioner of BPD should do the following:

1. issue guidance to FedSource as to the market research to be conducted and documented at the task order level.
2. take appropriate actions to ensure that that future e-learning products and services under the FasTrac program are acquired using an appropriate contract vehicle and adequately competed.

Management Response BPD instructed FedSource to suspend the issuance of new task orders effective October 1, 2007. Although FedSource is in the process of shutting down its procurement activities, BPD's Division of Procurement Services will implement these recommendations, as applicable, to existing FedSource task orders.

OIG Comment The actions proposed by the BPD, if implemented as described, satisfy the intent of the recommendations.

## **Finding 2      Task Order Files Lacked Adequate Evidence of Price Reasonableness**

Contracting officers are responsible for obtaining adequate information to evaluate price reasonableness and for documenting this information and how it was obtained.<sup>17</sup> Of the 28 task order files that we reviewed, we determined that 8, with a total value of \$4.6 million, did not contain adequate evidence of price reasonableness. Three of the 8 task order files did not contain an

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<sup>17</sup> FAR 15.402.

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independent Government cost estimate (IGCE), which is the Government's basis for comparing costs proposed by contractors. Five of the 8 task orders files, 3 of which were FasTrac task orders, contained IGCEs that were not dated or dated on or after the same day as the task order award.

The FAR states that before making the award the contracting officer must determine and document that the proposed price is fair and reasonable by competitive quotes or offers and if only one response is received, a statement of price reasonableness is included in the contract file. The contracting officer may base the price reasonableness on a combination of comparative analysis such as: (1) market research; (2) comparison of the proposed price with prices found reasonable on previous purchases; (3) current price list, catalogs, or advertisements; (4) a comparison of similar items in a related industry; (5) the contracting officer's personal knowledge of the item; (6) comparison of an IGCE; and (7) any other reasonable basis.<sup>18</sup> In accordance with FedSource Acquisition Procedure Memo 05-06, dated June 22, 2005, the IGCE is to be prepared in advance of receiving any information from the contractor, and is to be signed and dated by the preparer.

Our review of the task order files included determining whether two or more responsible proposals had been submitted to fulfill the task order requirement. If two or more proposals were received and the task order was awarded to the lowest bidder, we determined the pricing was based on adequate competition. If the award was made to a bidder other than lowest bidder, we looked at the technical evaluation, the IGCE, and other evidence supporting price reasonableness. We looked for reasonable sources of data used by the contracting officer, such as Department of Labor's wage determinations and General Services Administration price schedules, historical cost data, salary.com data, and market survey data. Such data should have been documented on the IGCE. If the IGCE was not included in the file, lacked such data, or the technical evaluation was flawed as discussed in Finding 3, we determined that the evidence of price reasonableness was not adequate. Additionally, if the IGCE included reasonable data but

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<sup>18</sup> FAR 13.106-3(a).

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was not properly dated and signed, we concluded that price reasonableness had not been timely determined.

### **Recommendation**

Previously, we recommended that FedSource ensure that the contract files for all new task order awards and modifications to existing task orders include documentation of price reasonableness. We reaffirm this recommendation. To address the deficiencies noted with IGCEs in this audit, we are making one new recommendation.

Specifically, we recommend that the Commissioner of BPD direct FedSource to ensure that IGCEs are prepared timely and dated accurately.

Management Response BPD instructed FedSource to suspend the issuance of new task orders effective October 1, 2007. Although FedSource is in the process of shutting down its procurement activities, BPD's Division of Procurement Services will implement this recommendation, as applicable, to existing FedSource task orders.

OIG Comment The actions proposed by the BPD, if implemented as described, satisfy the intent of the recommendations.

## **Finding 3**

### **FedSource Did Not Always Document Its Decision Process**

According to the FAR, the contracting officer shall document in the contracting file the rationale for placement and price of each task order, including the basis for award and the rationale for any tradeoffs among cost or price and non-cost considerations in making the award decision. That being said, this documentation need not quantify the tradeoffs that led to the award decision.<sup>19</sup>

Sixteen of the 28 task orders that we reviewed lacked adequate documentation to support their decision process. The 16 task

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<sup>19</sup> FAR 16.505

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orders, with a total value of \$8.4 million, were issued by two of the three FedSource centers from which we selected samples for review—Baltimore and Los Angeles.

Although not required but nevertheless a good practice, FedSource used a technical evaluation scoring process when awarding task orders. Neither the Baltimore nor the Los Angeles FedSource center, however, had a standardized weighting system for scoring technical evaluations or a documented methodology for performing technical evaluations. The two centers assigned numeric scores to express a vendor's ability to perform the required work, but the task order files lacked any documentation of the methodology used to derive the scores and no documentation was provided during the review. The task order files that we reviewed noted that technical evaluation criteria when combined are significantly more important than cost or price. When this is the case, the rationale or methodology should support the numerical scores.

We also found that the Baltimore center inappropriately added points to the technical evaluations of bidders who proposed using subcontractors and personnel that DOD had suggested. Nothing in FAR allows a contracting officer to give additional points to a bidder who proposes using a suggested source, and such a practice gives that bidder an unfair advantage.

Managers at both the Baltimore and Los Angeles FedSource centers said that they did not have a standard methodology for performing technical evaluations, but were in the process of updating their price negotiation memoranda procedure, which would include a methodology for technical evaluations. The lack of a standard process along with the lack of documentation to support what took place in this area can open the door to questions about whether the selection process followed applicable procedures and whether valid criteria were used to acquire the services and supplies DOD required.

The third FedSource center from which our sample was selected, San Antonio, used a standardized system for scoring and documenting technical evaluations. No exceptions with respect to

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technical evaluations were noted in the sampled task orders from the San Antonio center.

### **Recommendation**

We recommend that the Commissioner of BPD direct FedSource to ensure that a standard technical evaluation methodology is established and used for all task orders at all centers. This is a new recommendation.

Management Response BPD instructed FedSource to suspend the issuance of new task orders effective October 1, 2007. Although FedSource is in the process of shutting down its procurement activities, BPD's Division of Procurement Services will implement these recommendations, as applicable, to existing FedSource task orders.

OIG Comment The actions proposed by the BPD, if implemented as described, satisfy the intent of the recommendations.

## **Finding 4**

### **FedSource's Quality Assurance Surveillance Documentation Remains Inadequate**

Previously, we reported that FedSource task orders lacked adequate evidence of quality assurance surveillance. The DOD OIG, in its audit, also reported a lack of adequate evidence of quality assurance surveillance. Specifically, we found that not all task order files contained a surveillance plan. We observed improvement in this area since our prior audit—we found during this audit that QASPs had been developed for each task order in our sample. For 2 of the 28 task order files, surveillance was performed and documented. Overall, however, we identified continued deficiencies in contractor surveillance. Specifically we found the following:

- For 19 task orders, the frequency of surveillance as identified in the QASP did not correspond to the frequency of surveillance described in the statement of work.
- For 2 task orders, the QASP did not identify the frequency of surveillance.

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- For 11 task orders, the statements of work were written too broadly to create meaningful measures of performance in the related QASPs. Likewise, the performance standards in the QASPs were too broad to measure.
  - For 5 task orders, the QASPs lacked sufficiently specific performance standards. Three simply said, “see statement of work,” and two had deliverables that were not included in the statement of work.
  - For 26 task orders, FedSource’s files lacked documentation of surveillance.

We also noted for one task order, issued on August 25, 2006, for commercially available software licenses under the FasTrac program, the product was not received until October 12, 2006, 12 days after the period of availability of the DOD appropriation used to fund the order.<sup>20</sup> FedSource’s task order file did not show what follow-up was done to obtain the items before the end of the fiscal year. Under appropriations law, the concept of funds availability has three elements: purpose, time, and amount. All three must be observed for an obligation or expenditure to be legal. In that the licenses appeared to be ordered in sufficient time to be received before the end of the fiscal year and were in fact received shortly thereafter, we concluded that this was not a significant exception. However, FedSource needs to ensure commercial items ordered late in the fiscal year of funding are timely received.

During our audit, we interviewed the DOD project officers for the sampled task orders about their methods and documentation of surveillance. We also reviewed the project officers’ records at 4 DOD facilities covering 13 of sampled task orders. The project officers interviewed told us that they were generally unfamiliar of the QASPs but had independently developed their own methods of surveillance. For example, project officers for service-type task orders indicated that they approved contractor employee timecards and assessed contractor employee performance on a periodic basis. We consider the procedures as described by the project officers to be a reasonable approach for the particular task order. In the project officers’ files we reviewed, we saw some evidence of

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<sup>20</sup> LOS015623.

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surveillance including notes related to contractor employee performance, time worked, and products produced. However, there was generally lacking a standard approach to documenting surveillance by the DOD project officer and providing evidence of surveillance to FedSource. Without such evidence, FedSource lacks assurance that contractors are performing at acceptable levels.

### **Recommendations**

We reaffirm the recommendation in our prior audit report that FedSource work with DOD to establish controls to ensure that (a) quality assurance surveillance plans are established for all task orders; (b) contracting officer's technical representative designation letters clearly delineate who is responsible for performing monitoring, consistent with quality assurance surveillance plan instructions, and how monitoring is to be documented for each assigned task order; and (c) documented monitoring occurs before contractors are paid. To more explicitly address the problems with contractor surveillance noted during our second audit, we are making two new recommendations.

Specifically, we recommend that the Commissioner of BPD direct FedSource to do the following:

1. ensure that task order statements of work allow the establishment of measurable standards and QASPs that correspond to statements of work.
2. establish QASPs for DOD and other customer agencies as appropriate that specify: (a) all work requiring surveillance and the method of surveillance to be used, (b) areas of customer agency responsibility and areas of FedSource responsibility, and (c) when and in what form surveillance results should be provided by the customer agency to FedSource.

Management Response BPD recognizes the challenges and benefits of promoting the use of performance-based-acquisition criteria in all eligible service acquisitions. In support of that effort, BPD scheduled a performance-based work statement writing course in November 2007 for Division of Procurement Services personnel.



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Providing adequate surveillance of the remaining FedSource task orders also continues to be an area of concern. Acquisition Center Procedure Memo 07-03, dated January 19, 2007, was issued as a result of continued compliance findings related to surveillance. This policy requires that the designated Project Officer at each customer agency sign a letter of acceptance of responsibility for their role to monitor and report performance information to the contracting officer's technical representative at FedSource. As FedSource staffing levels decline, it is anticipated that BPD procurement personnel will become more involved in oversight and surveillance to supplement the staff on continuing orders through completion, currently scheduled to end no later than September 30, 2008.

OIG Comment The actions proposed by the BPD, if implemented as described, satisfy the intent of the recommendations.

## **Finding 5**

### **ARC Compliance Reviews of FedSource Identified Contracting Deficiencies But Did Not Ensure Corrective Action Was Taken**

In June 2004, ARC established a program whereby it would conduct "assistance visits" to FedSource's centers on a 3-year cycle for the purpose of encouraging and facilitating improved FedSource acquisition operations, fostering the use of industry best practices, and assessing the center's compliance with federal acquisition requirements. ARC also developed an extensive guide for conducting and reporting on the visits.<sup>21</sup>

We reviewed ARC's reports for assistance visits conducted during 2006 at FedSource's Baltimore, Los Angeles, and Seattle centers. The reports identified deficiencies that were consistent with our findings in the areas of price reasonableness, QASP documentation, and technical evaluations. In general, the reports evidenced that ARC's review process was substantive.

However, the reporting process described in the ARC guide was not followed for these reviews and action plans were not established to correct the noted deficiencies. In this regard, the

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<sup>21</sup> FedSource Acquisition Assistance Visit Guide dated June 8, 2004, Division of Procurement, ARC.

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ARC guide provides that the reviewer issue a draft report on each visit and obtain, within 30 days, the FedSource center's comments along with its corrective action plan and schedule for identified deficiencies. The reviewer is to then analyze the comments and the corrective action plans and schedules, and if considered satisfactory issue a final report within 14 days. The final report is to incorporate and address as appropriate the comments and corrective action plans and schedules.

We found that the three reports issued on the 2006 assistance visits did not include the FedSource centers' comments and corrective action plans and schedules. We also noted that the reports on the Los Angeles and Seattle centers were not dated, or indicated whether the reports were draft or final. The report on the Baltimore center was dated August 31, 2006, but the report was also not marked as either draft or final. ARC did receive comments from the Baltimore center dated November 2006. The comments, while disputing some of ARC's findings, did make a general statement that the center would implement ARC's recommendations. However, the comments did not include a detailed corrective action plan and schedule.

We interviewed ARC's lead reviewer for the 2006 assistance visits. The reviewer confirmed our observations that the reports did not include FedSource's comments. The reviewer stated that comments were not provided by the Los Angeles and Seattle centers, and ARC did not try to obtain the comments. Additionally, the reviewer stated that detailed corrective actions plans and schedules were not obtained from any of the 3 centers reviewed. The reviewer acknowledged that the Baltimore center's November 2006 comments did dispute some of the review findings; however, the reviewer considered the findings to be valid. We asked why the reporting process in the ARC guide was not followed for these reviews. The reviewer stated that while the process was the preferred way to go, ARC at the time did not have management authority over FedSource to force corrective action. The reviewer also stated that the areas found deficient in the 2006 reviews would be the initial focus of subsequent reviews.

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We also interviewed the ARC contracting officer with overall responsibility for the assistance visit program. The contracting officer stated in November 2006, the assistance visit program was put on hold when Treasury initiated a review of the FedSource model. In April 2007, Treasury decided to transition out of the FedSource business by September 2008 and further assistance visits are not contemplated. Accordingly, we are making no recommendations to address the weaknesses noted with the reporting process for the assistance visits. However, should ARC reinstitute this program, it should ensure that appropriate corrective actions plans and schedules are developed and implemented to address noted deficiencies.

## **Finding 6**

### **ARC and FedSource Did Not Have Adequate Controls to Prevent Contract Ceilings From Being Exceeded**

As discussed in our prior audit report, Treasury's Office of General Counsel informed the Department that contracting and budgetary control weaknesses exist in the franchise fund and may have allowed a potential violation of both the Competition in Contracting Act (CICA) and the Antideficiency Act for exceeding a contract ceiling without proper competition. The contract in question was an IDIQ contract for copiers and related services awarded by ARC in 2001 with a contract ceiling of \$50 million. FedSource issued task orders against the contract on behalf of its customer agencies. In October 2006, the Department referred the matter to the Treasury OIG Office of Investigations. The OIG investigation substantiated the CICA violation on the contract and identified three other contracts for which the contract ceiling had been exceeded. The investigation also determined that no crimes or serious employee misconduct had occurred. However, the investigation noted that either certain Treasury procurement and management officials lacked CICA knowledge or those who understood CICA requirements did not view a CICA violation as being a significant issue. These matters were communicated to the Commissioner of BPD by the Assistant Inspector General for Investigations in a memorandum dated April 18, 2007.

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CICA requires procurement through full and open competitive procedures. Contracting officers are required, with certain limited exceptions, to promote and provide for full and open competition in soliciting offers and awarding Government contracts.<sup>22</sup> For indefinite-quantity contracts, such as those ARC established for FedSource, the contracting officer should establish a reasonable maximum quantity based on market research, trends on recent contracts for similar supplies or services, survey of potential users, or any other rational basis. The solicitation and contract for an indefinite quantity must specify the total minimum and maximum quantity of supplies or services the Government will acquire under the contract.<sup>23</sup> The DTAR requires that all contract modifications increasing the estimated value of the contract by 50 percent or more must be approved by the Treasury bureau chief procurement officer prior to execution. The contracting officer must include in the contract file a determination that a proposed modification is within the general scope of the agreement. Additionally, the DTAR requires that legal counsel be consulted in doubtful or unusual situations such as when modifications, other than original contract options increase the total contract price by 20 percent or more.<sup>24</sup>

We expanded the scope of our review to determine whether the ceiling was exceeded on any additional ARC-awarded contracts. Our work did identify one additional contract where this deficiency occurred. The amount by which the ceilings on all five contracts were exceeded totaled nearly \$200 million as of August 2007. This amount included approximately \$47 million associated with the copier contract that was referred to Treasury OIG for investigation.

According to ARC and FedSource personnel, the violations occurred because neither FedSource nor ARC was monitoring task order awards against the contract ceilings in a coordinated manner. Both thought the other was tracking the contract ceiling. In fiscal years 2005 and 2006, ARC and FedSource were tracking contract ceilings through a combination of manual spreadsheets. The ARC spreadsheets tracked only task order base year obligations that FedSource was entering into BPD's accounting system. ARC did

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<sup>22</sup> FAR 6.101, which references competition requirements cited in 10 U.S.C. 2304 and 41 U.S.C. 253.

<sup>23</sup> FAR 16.504

<sup>24</sup> DTAR 1043.102

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not realize until early fiscal year 2005 that this was inadequate because the values in BPD's spreadsheets did not reflect substantial potential option year values of the FedSource task orders. ARC required that FedSource begin to track and report an "all options value" of its task orders within its system and report this to ARC. FedSource had to have its systems development contractor create a field within its database, which was populated with the all options values so that reports could be run. By late spring 2006, reports were being run that better tracked obligations associated with issued task orders against contract ceilings.

Despite this control procedure, contract ceilings are still at risk of being exceeded according to a January 2007 study by Treasury's Office of the Procurement Executive. This can occur if FedSource is invoiced for rendered services in an amount that exceeds the amount that FedSource obligated for the task order. FedSource and ARC management told us that they agreed this risk existed and that corrective action is needed.

### **Recommendations**

We recommend that the Commissioner of BPD do the following:

1. direct ARC and FedSource to assess whether additional controls are necessary to ensure amounts obligated for FedSource task orders more closely match the amounts expected to be invoiced for work done under those task orders. The purpose of this recommendation is to address the risk identified by the Office of the Procurement Executive that contract ceilings could still be exceeded as contractors submit invoices to FedSource for payment.
2. ensure that ARC and FedSource contracting personnel are reminded of requirements to ensure full and open competition in accordance with CICA.

These are new recommendations.

Management Response On November 6, 2006, BPD implemented a daily reporting strategy called the Control Model Process, which

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requires every order transaction anticipated by FedSource to be reported prior to award to BPD for approval and tracking against contract ceilings. Additionally, effective October 1, 2007, FedSource has not awarded any new task orders. Consequently, competition training is not scheduled for FedSource personnel. However, Competition in Contracting Act training is scheduled for all BPD contracting officers in December 2007. There are no future excesses anticipated as a result of the control model tracking.

OIG Comment The actions taken or proposed by BPD, if implemented as described; satisfy the intent of the recommendations.

## **Finding 7                    ARC Does Not Know If Small Business Contractors Complied With Requirements Governing Use of Personnel**

During our audit, we found that ARC does not know whether two of its three small business contractors under the FedSource 9 multiple award contracts are meeting the requirement that 50 percent of the cost of services performed under such contracts be expended for services provided by the contractor's own employees. Specifically, the FAR requires that entities awarded small business set-aside contracts,<sup>25</sup> or procurements for which they have claimed a 10 percent small disadvantaged business price evaluation preference,<sup>26</sup> agree that, in the case of service contracts (except construction), at least 50 percent of the contract cost for personnel will be for services provided by its own employees.<sup>27</sup> FAR makes it the contracting officer's responsibility to ensure compliance with this requirement.<sup>28</sup>

ARC has three small business contractors under the FedSource 9 multiple award contract. For the contractors to report compliance with the 50 percent requirement, the ARC contracting officer

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<sup>25</sup> Set-asides are procurements reserved totally or partly for a certain type of contractor, such as small businesses.

<sup>26</sup> Small businesses that have been certified by the Small Business Administration as small disadvantaged businesses may qualify for a price evaluation adjustment of up to 10 percent when they submit bids on certain competitively awarded federal contracts.

<sup>27</sup> FAR 52.219-14.

<sup>28</sup> FAR 1.602-2.

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provided each with a spreadsheet on which to enter the percentages of personnel service costs billed by the prime contractor and by subcontractors. ARC's unwritten process calls for follow-up by the contracting officer only if a contractor reports that it has not met the 50 percent requirement. ARC's unwritten process did not include verification of spreadsheet reports submitted.

To date, only one of the three small business contractors has provided ARC with a completed spreadsheet. The other two have not submitted the spreadsheet to report percentages of personnel cost for the past 4 years. According to the ARC contracting officer, Treasury has no idea whether these two contractors are complying with the 50 percent rule. We asked the contracting officer why ARC had not done anything more to obtain the information. The contracting officer stated only that she sent them the spreadsheet, they did not respond, and she did not follow up.

If Treasury does not enforce small business contractors' with the 50 percent requirement, it is not ensuring that the objectives of the Government's small business program are being achieved.

### **Recommendation**

We recommend that the Commissioner of BPD instruct ARC to develop and implement written procedures to ensure that small business contractors are complying with contractual requirements for the percentage of work that must be provided by their own employees. This is a new recommendation.

Management Response Guidance has been issued internally to BPD's Division of Procurement regarding monitoring and reporting procedures to be applied to all appropriate small business contracts. Language has been drafted and a form is now provided to small businesses responsible for reporting under the Limitations on Subcontracting clause 52.219-14, to ensure appropriate tracking of performance percentages on applicable contracts.

OIG Comment The actions taken by BPD, if implemented as described, satisfy the intent of our recommendation.

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We appreciate the courtesies and cooperation extended to our staff during this audit. The major contributors to this report are identified in appendix 5. If you have any questions, please contact me at (202) 927-4879.

Cynthia S. Milanez  
Acting Director, Manufacturing and Procurement Audits



The Treasury franchise fund, through its FedSource and Administrative Resources Center components, provides contracting assistance to the Department of Defense (DOD) for a fee. As required by section 811 of the National Defense Authorization Act (NDAA) for Fiscal Year 2006, the DOD Office of Inspector General (OIG) and our office jointly reviewed the procurement policies, procedures, and internal controls of the Treasury franchise fund. Our objective, stated in the law, was to determine whether Treasury is or is not compliant with DOD procurement requirements based on its fiscal year 2006 procurement of property and services on behalf of DOD. In accordance with NDAA we previously audited Treasury compliance with DOD procurement requirements during fiscal year 2005. We determined in our prior audit that Treasury was not compliant with DOD procurement requirements but had a program to significantly improve compliance.<sup>29</sup>

We reviewed applicable DOD appropriations laws and applicable Federal Acquisition Regulation and DOD regulations and procurement requirements. Additionally, we reviewed FedSource's procurement policies, procedures, and internal controls applicable to the procurement of property and services on behalf of DOD, including policies and procedures established in response to our previous report. We also interviewed Treasury franchise fund officials and staff.

To test compliance with DOD procurement requirements, DOD OIG identified a universe of 143 FedSource task orders representing high dollar amounts and DOD ordering offices with high volume transactions between July 1 and September 30, 2006 and selected a sample of 57 task orders from this universe for detailed testing. We concurred with DOD OIG's approach and reviewed FedSource's files for 28 of the 57 task orders. We also interviewed the DOD project officers for the task orders and for 13 task orders, visited the DOD ordering facility to review the project officers' files.<sup>30</sup> The amount funded by DOD for the 28 task orders totaled \$12.9 million and were awarded by FedSource's centers in Baltimore, Maryland; San Antonio, Texas; and Los Angeles, California. We examined the

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<sup>29</sup> OIG-07-026.

<sup>30</sup> DOD OIG concurrently reviewed 29 of the 57 sample task orders using the same methodology.

files for documentation supporting compliance with applicable Federal Acquisition Regulation and DOD procurement requirements, specifically requirements related to market research, competition, price reasonableness, funding, and contractor surveillance.

We also reviewed contract files at the Administrative Resource Center, located at the Bureau of the Public Debt in Parkersburg, West Virginia, for the multiple-award contract and two blanket purchase agreements that were master contract vehicles under which FedSource awarded the 28 task orders we tested. We also reviewed additional contracts to determine whether Treasury had exceeded the contract ceilings.

We reviewed the policies and procedures established by ARC to perform compliance monitoring of FedSource procurement activities. We also reviewed ARC's reports on compliance reviews that had been completed at the FedSource Baltimore, Los Angeles, and Seattle centers during 2006.

We performed our audit fieldwork between October 2006 and April 2007. Our audit was conducted in accordance with generally accepted government auditing standards.

Appendix 2  
Schedule of Task Order Exceptions

Task Order No.	Amount	Market Research	Competition	Price Reasonableness	Technical Evaluation	Quality Assurance Surveillance Plan
BAL119918	\$248,309	X			X	X - 3,5
BAL119945	161,888	X			X	X - 1,3,4,5
BAL119880	352,260	X		X	X	X - 1,5
BAL119863	51,425	X			X	X - 1,3,5
BAL119858	238,000			X	X	X - 4,5
BAL119946	258,229				X	X - 1,5
BAL119908	320,055	X			X	X - 1,5
BAL119886	300,000	X		X	X	X - 1,2,5
LOS015545	329,179	X			X	X - 3,5
LOS015648	898,728	X		X	X	X - 1,3,5
LOS015595	6,666	X			X	X - 4,5
LOS015694	2,390,480	X			X	X - 3,5
LOS015627	42,677	X				X - 1,3^
LOS015635	276,350	X				X - 1,2,3^
LOS015699*	1,694,620	X	X	X	X	X - 5
LOS015634*	518,118	X	X	X	X	X - 3,5
LOS015623*	179,250	X	X	X	X	X - 1,5
LOS015714*	414,644	X	X	X	X	X - 3,5
SAN009018	143,780	X				X - 1,5
SAN008986	1,773,134	X				X - 1,3,5
SAN009002	212,060	X				X - 1,5
SAN009022	518,601	X				X - 1,5
SAN008978	84,691	X				X - 1,5
SAN009016	885,725	X				X - 1,4,5
SAN009013	268,410	X				X - 1,5
SAN009014	105,730	X				X - 4,5
SAN009000	148,617	X				X - 1,5
SAN008992	108,180	X				X - 1,5
<b>Totals</b>	<b>\$12,929,806</b>	<b>26</b>	<b>4</b>	<b>8</b>	<b>16</b>	<b>28</b>

**Legend:**

- X - Exception to procurement requirements noted.
- \* - Task order was part of the FasTrac program.
- 1 - The frequency of surveillance method as identified in the quality assurance surveillance plan (QASP) did not correspond to the frequency of surveillance described in the statement of work.
- 2 - The QASP did not identify the frequency of surveillance.
- 3 - The statement of work was written too broadly to create meaningful measures of performance in the related QASP. Likewise, the performance standards in the QASP were too broad to measure.
- 4 - The QASP lacked sufficiently specific performance standards.
- 5 - FedSource's files lacked documentation of surveillance.
- ^ - Task orders files that documented surveillance.

Appendix 3  
Management Response



DEPARTMENT OF THE TREASURY  
BUREAU OF THE PUBLIC DEBT  
WASHINGTON, DC 20239-0001

October 19, 2007

Cynthia S. Milanez  
Acting Director, Manufacturing and Procurement Audits  
Department of the Treasury  
Office of the Inspector General  
740 15<sup>th</sup> Street, N.W.  
Washington, DC 20220

Dear Ms. Milanez:

Thank you for providing us with the opportunity to respond to your Office of the Inspector General's (OIG) draft report dated September 21, 2007. In general, we concur with the findings from the report. For findings 1 through 3, and finding 5, while we concur with the OIG's recommendations with respect to the administration of existing FedSource task orders, Public Debt instructed FedSource to suspend the issuance of any new task orders effective October 1, 2007. Although FedSource is in the process of shutting down its procurement activities, Public Debt's Division of Procurement Services (DPS) will implement these recommendations, as applicable, to existing FedSource task orders.

In response to finding 4 on the inadequate documentation of quality assurance surveillance plans, Public Debt recognizes the challenges and benefits of promoting the use of Performance Based Acquisition (PBA) criteria in all eligible service acquisitions. In support of that effort, a Performance-Based Work Statement writing course is scheduled in November 2007 for DPS personnel. Providing adequate surveillance of the remaining FedSource task orders also continues to be an area of concern. Most recently, Acquisition Center Procedure Memo 07-03, dated January 19, 2007, was issued as a result of continued compliance findings related to surveillance. This policy requires that the designated Project Officer at each customer agency sign a letter of acceptance of responsibility for their role to monitor and report performance information to the Contracting Officer's Technical Representative (COTR) at FedSource. As FedSource staffing levels decline, it is anticipated that Public Debt procurement personnel will become more involved in oversight and surveillance to supplement the COTR staff on continuing orders through completion, currently scheduled to end no later than September 30, 2008.

In response to finding 6, on November 6, 2006, we implemented a daily reporting strategy called the Control Model Process, which requires every order transaction anticipated by FedSource to be reported prior to award to Public Debt for approval and tracking against contract ceilings. As discussed above, effective October 1, 2007, FedSource has not awarded any new task orders.

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Appendix 3  
Management Response

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Consequently, competition training is not scheduled for FedSource personnel. However, Competition in Contracting Act training is scheduled for all Public Debt Contracting Officers in December 2007. There are no future excesses anticipated as a result of the control model tracking.

In response to finding 7, guidance has been issued internally to Public Debt's DPS regarding monitoring and reporting procedures to be applied to all appropriate small business contracts. Language has been drafted and a form is now provided to small businesses responsible for reporting under the Limitations on Subcontracting clause 52.219-14, to ensure appropriate tracking of performance percentages on applicable contracts.

In summary, Public Debt concurs with the findings of the OIG and will certainly continue to implement new procedures and strategies internally with regard to the use of PBA criteria in eligible acquisitions, monitoring contract ceilings appropriately, promoting full and open competition, and monitoring of small business subcontracting limitations.

Sincerely,



Van Zeck  
Commissioner

Appendix 4  
Major Contributors to This Report

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**Department of the Treasury**

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**Bureau of the Public Debt**

Commissioner  
Assistant Commissioner

**Treasury Franchise Fund**

Managing Director  
Chief Executive Officer, FedSource

**Department of Defense**

Inspector General

**Office of Management and Budget**

OIG Budget Examiner

**The Congress**

U.S. Senate, Committee on Armed Services  
U.S. House of Representatives, Committee on Armed Services