

REVIEW OF THE VALUE PROPOSITION
OF MULTIPLE AWARD SCHEDULE LABOR RATES
INFORMATION TECHNOLOGY SCHEDULE 70
REPORT NUMBER A070049/Q/A/P08003
FEBRUARY 27, 2008

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Reply to

Attn of :Acquisition Programs Audit Office (JA-A)

Subject :Review of the Value Proposition of Multiple Award Schedule Labor Rates, Information Technology Schedule 70
Report Number A070049/Q/A/P08003

To :James A. Williams
Commissioner, Federal Acquisition Service (Q)
Attn: Michael N. O'Neill, Acting Director of Acquisition Operations, Office of Acquisition Operations (QTA)

This report presents the results of our survey of the Value Proposition of Multiple Award Schedule (MAS) Labor Rates, Information Technology (IT) Schedule 70. This review was included in the Office of Inspector General's (OIG) Fiscal Year (FY) 2007 Annual Audit Plan. The purpose of our survey was to determine if an audit of the subject area would benefit Federal Acquisition Service (FAS) management. For reasons discussed in this report, we have concluded that further audit work in this area is not necessary at this time.

Background

Under the MAS Program, GSA establishes long-term government-wide contracts with vendors to provide federal agencies with a simplified process for obtaining commercial supplies and services at volume discount pricing. The IT Schedule 70 assists federal agencies with the procurement of IT products, services, and solutions as needed to meet their missions.

FAS negotiates the MAS contracts with the objective of achieving the vendors' most favored customer (MFC) pricing/discounts under similar conditions. The MFC benchmark reflects GSA's mission to leverage the collective buying power of the government to obtain volume discounts. The MAS Program allows agencies to place orders directly with MAS vendors with the assurance that GSA has already determined pricing to be fair and reasonable¹ in accordance with Federal Acquisition Regulation (FAR) 15.4. Therefore, orders placed under the MAS program are considered to be issued using full and open competition and satisfy the requirement of the Competition in Contracting Act (Pub. Law 98-369) and FAR Part 5, Publicizing Contract Actions.

¹For services, GSA ordering guidelines requires the agencies to consider the level of effort and mix of labor proposed, and make determination that the total price is fair and reasonable.

Recent GSA OIG attestation reviews of MAS vendors and FAS Client Support Center reviews revealed that in some cases, IT Schedule 70 service vendors offer substantially reduced labor rates on individual task orders (e.g., as high as 40 to 60 percent in some cases). This suggests that the rates FAS negotiates for the MAS contracts may not be fair and reasonable, which diminishes the value FAS is providing to client agencies. Other audit work has also suggested that for vendors with other government contracts in addition to IT Schedule 70, there can be significant variances in contract rates for the same labor categories, which also reduces the value of MAS labor rates.

Objectives, Scope and Methodology

The objectives of our review were to determine to what extent MAS IT vendors (1) offer discounts from negotiated MAS contract labor rates on task orders and (2) have different labor rates under different contract vehicles for the same labor categories.

To accomplish these objectives, we:

- Reviewed task order documentation in GSA IT-Solutions (ITSS) for GSA orders placed with the top four vendors (see Survey Sample section for more information);
- Reviewed applicable standards, regulations, policies/procedures, and other guidance related to the establishment of MAS labor rates and categories;
- Reviewed a sample of FAS' Industrial Operations Analyst Contractor Assist Visit reports and Government-Wide Acquisition Contracts for the top four vendors; and
- Reviewed previous GSA OIG reviews of Schedule 70 vendors for issues related to labor pricing.

Survey Sample: FAS provided us with a listing of the top ten IT Schedule 70 vendor sales for Special Item Numbers (SINs) 132-51 (Information Technology Services) and 132-12 (Maintenance of Equipment) for the period of October 1, 2004 through June 27, 2007. Since the dollars associated with SIN 132-51 provided the greater area of risk (\$10.4 billion under SIN 132-51 versus \$1.7 billion under SIN 132-12), we limited our survey work to vendors with the most sales activity under SIN 132-51.

To select the survey sample for analysis of labor rates utilized on task orders, we obtained GSA ITSS data from FAS regarding all time-and-materials task orders awarded or modified during the period September 1, 2006 through August 31, 2007 for the top four vendors. The total value of these task orders is \$590,122,106. For the four vendors, we reviewed procurement documentation related to a random sample of twenty-four task orders valued at \$215,554,554 (36 percent of total \$590,122,106 sample dollars).

We conducted our review during the period of August 2007 through January 2008 in accordance with generally accepted government auditing standards.

Results of Review

After completion of the survey portion of our review, we determined that further audit work is not warranted at this time. Our review of task order documentation did not indicate a pattern of deep discounts from negotiated MAS contract labor rates. In addition, due to the differences between the IT Schedule 70 contracts and Government-Wide Acquisition Contracts (GWACs), we were unable to draw any conclusions as to whether different labor rates are offered by vendors for the same labor categories.

Review of Task Orders: Our review of task order documentation revealed that for seventeen out of the twenty-four task orders, vendors granted discounts from the established MAS contract labor rates, ranging from 0.37 percent to 22.8 percent. While we found an instance where a large discount was granted, the discount applied to a single labor category where the total labor hours associated with the individual labor category was not a major portion of the task order. Specifically, we found a labor category discounted at 49.86 percent, however, when we analyzed all of the labor proposed on the order, the discount on total labor was only 17.59 percent. The total hours associated with the labor category discounted at 49.86 percent was only 5,657 hours, which accounted for only 4 percent of the total 143,721 labor hours proposed for all labor categories. Other discounts granted for labor categories on this task order were not as large and represented a larger percentage of the total task order labor hours.

We did not contact the Ordering Contracting Officers (OCOs) or vendors regarding the specific discounts granted at the time the orders were placed because while the orders sampled were active during our review period, in many cases the orders were initiated several years in the past. Without knowing more about the specific circumstances of the orders, we cannot conclude that the discounts were not reasonable.

Review of Government-wide Acquisition Contracts: Government-wide Acquisition Contracts (GWACs) are multiple award, indefinite delivery/indefinite quantity contracts providing IT solutions established by one agency for government-wide use. Each GWAC is operated by an executive agent designated by the Office of Management and Budget pursuant to section 5112(e) of the Clinger-Cohen Act. GSA has been granted the authority for fifteen GWACs, including Applications and Support for Widely-diverse End User Requirements (ANSWER), Millennia, and Millennia Lite. We reviewed labor rates available on the respective top four IT Schedule 70 vendors' GWACs to observe if it appeared that the GWACs offered significantly different labor prices for the same labor categories that exist on the vendors' IT Schedule 70 contracts.

Based on the overall comparison of the GWACs to the IT Schedule 70 contracts, we determined that there are more differences than similarities between the contracts. While we attempted to map the labor categories used in the IT Schedule 70 contracts to those used on the GWACs, the elements of the contracts varied considerably, especially in areas such as maximum ceilings, periods of performance, geographical labor rates, and educational and experience qualifications. For example, we found that

comparison of labor pricing between the IT Schedule 70 contracts and the ANSWER GWACs was not possible due to the differences in the rates among geographical areas (i.e., ANSWER labor rates vary according to the location of the work, while the IT Schedule 70 reflects national labor rates²). In addition, a comparison of labor pricing between the IT Schedule 70 contracts and the Millennia GWACs was not possible due to the differences in labor rate computations (e.g., Millennia labor rates reflect the same rate per labor category regardless of where the work is performed, whereas IT Schedule 70 labor rates reflect Contractor-site and Government-site locations). While we found similarities between labor category descriptions (i.e., the associated duties were generally consistent), the education and/or experience requirements were not consistent between the contracts. For these reasons, we cannot conclude that different labor rates are being offered by vendors for the same labor categories.

Conclusion

Our preliminary assessment of twenty-four task orders did not illustrate an extensive pattern of deep discounting on negotiated MAS contract labor rates. Given that we did not determine the circumstances of specific discounts granted, we cannot conclude that these discounts were not reasonable. It may be that vendor pricing on individual task orders reflects a bottom-line pricing strategy where larger spot discounting of certain rates is strategically employed as a result of a competitive environment. In addition, we were unable to determine if different labor rates were being offered for the same labor categories due to the differences between the elements of the IT Schedule 70 contracts and GWACs. Therefore, we have concluded that further audit work in this area would not be beneficial to the program at this time.

This report does not contain any recommendations; therefore, neither a written reply is required nor is the report subject to the audit resolution process.

If you have any questions or would like additional information regarding this report, please contact Katina Beach (816-926-8613) or Lindsay Smith (703-603-0269).

Erin P. Priddy
Audit Manager
Acquisition Programs Audit Office

²ANSWER geographic coverage: Areas 1-6 represent different price areas within the Pacific Rim Region. The Pacific Rim Region consists of California, Nevada, Arizona, Hawaii, and Pacific Rim territories and countries. Additionally, specific areas in the District of Columbia, Virginia, Maryland and Georgia are also covered. Area 7, Nationwide, provides for pricing for the remainder of the country. Area 8 provides for pricing worldwide not covered in Areas 1-7. IT Schedule 70 geographic coverage: the 48 contiguous states, Washington, DC; Alaska, Hawaii, Puerto Rico, U.S. territories and other overseas locations.

APPENDIX

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