GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

REPORT ON THE CONTRACT FOR THE INVENTORY OF THE CAPITAL ASSETS OF THE DISTRICT OF COLUMBIA

CHARLES J. WILLOUGHBY
INSPECTOR GENERAL

OIG No. 08-1-26AT(a) **December 16, 2010**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

December 16, 2010

Natwar M. Gandhi, Ph.D.
Chief Financial Officer
Office of the Chief Financial Officer
1350 Pennsylvania Avenue, N.W., Room 209
Washington, D.C. 20004

Dear Dr. Gandhi:

Enclosed is the final report summarizing the results of the Office of the Inspector General's (OIG) *Report on the Contract for the Inventory of the Capital Assets of the District of Columbia* (OIG No. 08-1-26AT(a)). We issued a Management Alert Report (MAR) *Contract for Inventory for the District's Capital Assets,* OIG MAR No. 10-A-02 to you on July 16, 2010, as a part of our overall audit work on contracting and procurement operations at the Office of the Chief Financial Officer (OCFO). Audit field work is continuing and additional report(s) will be issued when all field work is complete.

As a result of the MAR, we directed a recommendation to the OCFO contracting office to terminate the existing contract for inventory services and issue a new solicitation for the fiscal year 2010 physical inventory. We received OCFO's written response to the draft MAR dated August 18, 2010. The OCFO concurred with the recommendation. We consider the actions taken by OCFO to be responsive and meet the intent of the recommendation. However, OCFO had several concerns and did not agree with some of our conclusions.

Based upon the response from OCFO, we reexamined our facts and conclusions and determined that the MAR is presented fairly. Our comments to the OCFO response are included at Exhibit B. The full text of OCFO's response is included at Exhibit C.

We appreciate the cooperation and courtesies extended to our staff by OCFO staff. If you have any questions, please contact me or Ronald W. King, Assistant Inspector General for Audits at 202-727-2540.

Sincerely,

Charles J. Willoughby
Inspector General

Enclosure

CJW/bb

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REPORT ON THE CONTRACT FOR THE INVENTORY OF THE CAPITAL ASSETS OF THE DISTRICT OF COLUMBIA

ACRONYMS/ABBREVIATIONS/SHORT TITLES

OCFO	Office of the Chief Financial Officer
COTS	Commercial-Off-The-Shelf
DCMR	District of Columbia Municipal Regulations
FY	Fiscal Year
GASB	Government Accounting Standards Board
IFB	Invitation for Bid
MA	Management Approach
MAR	Management Alert Report
OIG	Office of the Inspector General
SSEB	Source Selection Evaluation Board
TA	Technical Approach

REPORT ON THE CONTRACT FOR THE INVENTORY OF THE CAPITAL ASSETS OF THE DISTRICT OF COLUMBIA

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EXECUTIVE SUMMARY

OVERVIEW

Enclosed is the final report summarizing the results of the Office of Inspector General's (OIG) Management Alert Report (MAR) on the contract for the physical inventory of the District's capital assets. This report resulted from a review of one of the contracts included in our audit of Contracting and Procurement Operations of the Office of the Chief Financial Officer (OIG Project No. 08-1-26AT). The overall objectives of the audit are to determine the efficiency and effectiveness of contracting and procurement operations and to assess the effectiveness of internal controls and adherence to applicable laws and regulations.[1]

However, during the course of our review, we identified a contract that we concluded was not in the best interest of the District and required immediate action on the part of the Office of the Chief Financial Officer (OCFO) contracting office. As a result, we issued a MAR to focus on Contract No. CFOPD-08-C-032, a contract for the annual inventory of the District's Capital Assets[2] for fiscal year (FY) 2008 through FY 2012. The contract was awarded to Contractor A[3] on July 9, 2008, in the amount of $508,538 for the base year and $502,938 for each of the 4 option years for a total contract price of $2.5 million. Two other contractors submitted bids. Contractor B's bid price was $285,000 per year, for a total contract price of $1,425,000;[4] and Contractor C's bid was $157,185 for the base year with a total price of $753,325 for the base year and the 4 option years.

CONCLUSION

The contract selection and award process for the FY 08 inventory of capital assets did not comply with the District's procurement regulations. The source selection team that performed the technical review did not provide any documentation to support its conclusions regarding the two proposals it found to be nonresponsive. Also, the contracting officer failed to perform a detailed price analysis to determine price reasonableness, even though the contractor selected for award submitted a bid price that was more than double the price bid by the other two contractors. In addition, the two low bid contractors both specialized in inventory services, with one having performed inventories for major corporations on a world-wide scale, and the other being SAS 70 Type II certified, while the winning contractor possessed neither of these qualifications.

[1] Audit work in this regard continues, and an additional report will be issued summarizing the results of the overall audit.
[2] A capitalized asset has a unit cost of $5,000 or more and a useful life equal to or greater than 3 years.
[3] Contractor A represents the bidder with the highest bid price, Contractor B the second highest, and Contractor C represented the lowest bidder.
[4] Contractor B proposed a firm fixed price of $285,000 per year. However, in the bid's detailed price schedule, it only listed the base plus 3 option years. We projected the total contract price based on $285,000 for each year (base plus 4 option years).

EXECUTIVE SUMMARY

We estimated that based on the prices proposed by the two low bidders responding to the FY 08 solicitation, the District could save between $650,000 and $1.056 million by cancelling the last 3 option years (FY 10 through FY12)[5] on this contract and re-soliciting new bids.

RECOMMENDATION

We recommended that the OCFO contracting office decline to execute the last three options of Contract No. CFOPD-08-C-032 and issue a new IFB for the inventory of capital assets for FY 10 through FY 12.

ACTION TAKEN

On May 20, 2010, the OCFO contracting office informed Contractor A that it was not going to exercise the option for the FY 2010 inventory on contract CFOPD-08-C-032. The OCFO also issued a new solicitation and, on July 19, 2010, awarded a contract for the FY 2010 inventory in the amount of $98,000. This award represented a savings to the District of almost $405,000 on its FY 2010 physical inventory project.

MANAGEMENT RESPONSE

The OCFO provided us with a written response to the draft MAR on August 18, 2010, and concurred with the recommendation in the MAR. However, the OCFO took exception to two issues in its response. First, OCFO took issue with the release of this MAR because it had already taken action on the recommendation. Second, OCFO believed that an OIG auditor had used and relied upon personal knowledge and experience with the other vendors, and failed to objectively review the documentation regarding those vendors in the contract files or adequately consider the explanations provided by the contracting specialist and contracting officer. The OCFO also disagreed with some of the OIG's conclusions in the MAR. The full text of the OCFO's response is included at Exhibit C.

OIG COMMENT

We consider the actions taken by OCFO to be responsive. With respect to the allegation that the auditor used and relied upon personnel knowledge and experience with the vendors, the OIG finds that assertion to be without merit. Every statement in the report regarding the vendors is supported by documentation obtained from OCFO's contract file. Accordingly, based upon our review and obligation to report our findings, we found no basis to change our position. Please see Exhibit B for further information regarding OCFO's response and our comments.

[5] The OCFO did not execute option 1 for FY 09 because the FY 09 inventory was not performed.

INTRODUCTION

BACKGROUND

Since FY 05, the District has been contracting with Contractor A for inventory of its capital assets. The FY 05 inventory contract was solicited using Request for Proposal contracting procedures. Four contractors submitted proposals and the OCFO convened a formal Source Selection Evaluation Board (SSEB). Contractor A was awarded the contract for the FY 05 inventory at a price of $163,079 on July 29, 2005. On September 29, 2005, the OCFO contracting office issued modification 1 to add $96,168 to the contract, increasing its value to $259,247. The justification for the increase was that additional sites to be inventoried were identified. The OCFO contracting office modified the contract again on July 12, 2006, to add an option clause to the contract. The option clause incorporated two 1-year options into the contract. On the same day, modification 3 was issued to execute the first option and extend the contract for 1 year to perform the FY 06 inventory.

The option for the FY 06 inventory was issued for $350,000, about $100,000 more than the FY 05 inventory. On September 30, 2006, the CFO issued modification 4 and increased the contract by an additional $179,000. With this modification, the price of FY 06 inventory totaled $529,000, an increase of $270,000 over the FY 05 inventory. According to information in the contract files, the FY 05 inventory consisted of about 8,000 items, and the FY 06 inventory had about 13,000 items to be inventoried. The option for the FY 2007 inventory was never exercised.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the MAR was to determine whether the award of the FY 2008 contract was in compliance with laws and regulations. Work to support this report was limited to the FY 2008 contract for physical inventory of the District's capital assets. For background purposes, we also reviewed the contract for the FYs 2005 and 2006 inventories. We focused primarily on the management actions and decisions that ultimately led to the award decision.

To accomplish the MAR objective, we reviewed applicable laws, policies, and procedures. We conducted interviews with personnel from the OCFO contracting office and the Treasury. We also met with contracting officials. We analyzed contract data and financial records.

Our work supporting this MAR was performed in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on the MAR audit objective.

FINDING AND RECOMMENDATIONS

FINDING: AWARD OF THE FY 2008 CONTRACT FOR INVENTORY OF THE DISTRICT'S CAPITAL ASSETS

DISCUSSION

The award of the FY 2008 contract for the physical inventory of the District's capital assets was not in compliance with the District's procurement regulations. None of the evaluation criteria contained in the Invitation for Bid (IFB) were price related, and many were not objective and measurable as required for evaluation factors in an IFB. In addition, the evaluation team did not provide any documentation to support its conclusions and a detailed price analysis was not performed to determine if the price awarded was fair and reasonable. As a result, two low bidders were determined to be nonresponsive without adequate justification and the contract award was to the contractor with the highest bid, which caused the District to incur about $351,000 in unnecessary cost for the FY 2008 inventory.

Applicable Laws, Rules, and Regulations. According to D.C. Code § 2-303.03(b) (2006), the "invitation for bids shall state whether an award shall be made on the basis of the lowest bid price or the lowest evaluated bid price. If the latter basis is used, the objective measurable criteria to be utilized shall be set forth in the invitation for bids." Title 27 DCMR § 1500.6 further expounds upon this by stating: "The objective measurable criteria to be used shall be related to price."

Contract Number CFOPD-08-C-032. This contract was a multi-year contract, with a base year (FY 08) and four option years (FY 09 through FY 12). The contract was awarded to Contractor A on July 9, 2008, in the amount of $508,538 for the base year and $502,938 for each of the 4 option years for a total contract value of $2.5 million. This was the highest bid. Contractor B submitted the second highest bid with a bid price of $285,000 per year, which totaled $1,425,000 for the entire contract. Contractor C submitted the lowest bid with a bid price of $157,185 for the base year and a total price of $753,325 for the base year and the four options.

Bid Evaluation. Based on our review of the contract files, we found no indication that the selection process was performed objectively and fairly. The evaluation team's results had insufficient documentation explaining the basis of the team's conclusions, and, in some cases, the team's conclusions were contradictory. In addition, there was no evidence that the selection panel reviewed Contractor A's bid response.

The IFB contained 14 Evaluation Criteria (7 related to Management Approach (MA) and 7 related to Technical Approach (TA)) and 6 Response Requirements. The evaluation team determined that Contractor C's bid was nonresponsive to six of the seven MA Criteria, four of the seven TA Criteria, and four of the six Response Requirements. Contractor B's bid was

FINDING AND RECOMMENDATIONS

deemed nonresponsive to four of the seven MA Criteria, three of the seven TA Criteria, and three of the six Response Requirements.

Most of the MA criteria in the IFB did not include specific details defining exactly what information the bidder needed to include in the IFB response for it to be considered responsive. Likewise, this lack of detail hindered the evaluation team from objectively evaluating the responses. In addition, the evaluation report only listed the criteria that the team determined the bids did not address with no documentation to support the basis for the team's conclusions. As a result, we could not evaluate the evaluation team's methodology to determine whether a bid did or did not address a particular evaluation criteria or response requirement.

In addition, there were instances in which the team's conclusions were contradictory. For example, the team found both Contractor C and Contractor B were responsive to TA criteria No. 4, which dealt with quality assurance techniques (QA). Response requirement No. 5 requested that the contractor provide QA techniques used in prior inventory engagements. The team found both Contractor B and Contractor C to be nonresponsive to this factor. We fail to see how both contractors could address their QA program in the IFB response, yet be found responsive to one evaluation factor on QA and nonresponsive to another. Again, the evaluation team provided no documentation to support its position on these two factors.

Because the evaluation team did not document specific reason(s) that a bid response was determined nonresponsive to an evaluation factor or response requirement, we do not believe the team provided the contracting officer with sufficient justification to eliminate the bids submitted by Contractors B and C from award consideration.

Price Reasonableness. According to 27 DCMR § 1540.1, the contracting officer shall determine whether the prices offered by a prospective contractor are reasonable. We do not believe the contracting officer met his responsibility to determine price reasonableness prior to awarding the FY 08 inventory contract. There was no indication that the contracting officer performed a detailed price analysis, despite the fact that the price bid by the selected contractor was more than double the price the two other contractors bid. The only evidence of any type of bid evaluation was a statement in the award documentation that Contractor A's bid price of $502,538 was below the OCFO's independent government estimate of $608,350; therefore, it was considered fair and reasonable.

However, the government estimate had no documentation showing how it was developed, what it was based on, or the methodology used to determine it was a fair and reasonable price for performing the inventory. In addition, Contractor A's core business competency is IT consulting; whereas, the two contractors that submitted substantially lower bids both specialized in inventory services. Contractor C was certified in Statement on Auditing Standards (SAS) 70 Type II and Contractor B had experience in performing inventories on an international scale.

FINDING AND RECOMMENDATIONS

The contracting officer should have performed a detailed price analysis to determine that the price bid by Contractor A was fair and reasonable and that awarding the contract would be in the best interest of the District.

Award Recommendation. The OCFO contracting office prepared a case study dated July 9, 2008, which described the solicitation, selection process, and subsequent contract award. Section 5 (Price Analysis) of the case study states: "The Source Selection Evaluation Board determined that neither [Contractor B] nor [Contractor C] fully priced all of the requirements; thus their bids were non-responsive." We did not identify any support for this statement. In addition, the evaluation team did not address or mention price in its review; rather, it solely focused on whether the evaluation criteria were addressed.

The IFB specifically stated that there were about 13,500 items to be inventoried. For the base year, Contractor C priced its bid based on 14,000 items at $7.95 per item ($111,300), plus travel and lodging ($25,000), plus software and software support ($20,885) for a total of $157,185, as opposed to the $508,538 proposed by Contractor A. We do not see what requirements OCFO claimed were not priced. Contractor B's proposal was based on a flat price per year of $285,000.

ACTIONS TAKEN

On May 19, 2010, we briefed OCFO contracting officials on this issue. On May 20, 2010, OCFO procurement officials notified the contractor that they did not intend to exercise the contract option for the FY 10 inventory. Subsequently, a new IFB was issued, and, on July 19, 2010, OCFO awarded a contract for $98,000 for the FY 2010 physical inventory.

POTENTIAL MONETARY BENEFIT

The action on the part of the OCFO resulted in the District saving about $405,000 for FY 2010 inventory. However, the existing inventory contract had options for the FYs 2011 and 2012 inventory with each option priced at about $503,000 per year. If the OCFO contracting office can obtain similar pricing for the FY 2011 and FY 2010 inventories, the total potential savings to the District would be about $1.2 million.

RECOMMENDATIONS, MANAGEMENT RESPONSE, AND OIG COMMENTS

We recommend that the Director, OCFO Office of Contracts decline to execute the last three options of Contract No. CFOPD-08-C-032 and issue a new IFB for the inventory of capital assets for FY 10 through FY 12.

FINDING AND RECOMMENDATIONS

OCFO RESPONSE

The OCFO agreed with the recommendation. However, the OCFO disagreed with some of our conclusions and provided supplemental documentation to support their position. The full text of OCFO's response is included at Exhibit C.

OIG COMMENT

We reviewed OCFO's comments and additional documentation and determined that the MAR is presented fairly. A summary of the OCFO response and our comments are included at Exhibit B.

EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

RECOMMENDATION	DESCRIPTION OF BENEFIT	AMOUNT AND TYPE OF BENEFIT	AGENCY REPORTED ESTIMATED COMPLETION DATE	STATUS[6]
1	**Economy and Efficiency.** Ensure that contracts are awarded to the lowest responsible bidder.	Monetary $1.2 million	July 19, 2010	Closed

[6] This column provides the status of a recommendation as of the report date. For final reports, "**Open**" means management and the OIG are in agreement on the action to be taken, but action is not complete. "**Closed**" means management has advised that the action necessary to correct the condition is complete. If a completion date was not provided, the date of management's response is used. "**Unresolved**" means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

EXHIBIT B. SUMMARY OF THE OCFO MANAGEMENT RESPONSE AND OIG COMMENTS

OCFO RESPONSE and OIG COMMENTS

The OCFO concurred with the recommendation in the draft MAR, but disagreed with some of the audit conclusions contained in the report. The complete text of OCFO's comments is at Exhibit C. Specific areas which OCFO took exception to are summarized below along with OIG comments to the OCFO response.

Bid Evaluation. The OCFO disagreed with our conclusions on bid evaluation and stated that the Contracting Officer directed that the program office review the proposals for responsiveness. According to OCFO, the program office review was done in accordance with DCMR, specifically, 27 DCMR §§ 1599.1, 1531, 1531.8, and 1541.6. The OCFO argues that its evaluation team found the two low bidders did not respond to all of the requirements set forth in the IFB, and the evaluation Criteria (seven Management Approach subfactors and seven Technical Approach subfactors) were objective measures to evaluate the bids.

The OCFO also disagreed with our conclusions that some of the evaluation factors were not objective, and that there was no evidence that Contractor A's bid was reviewed. The OCFO stated that program personnel reviewed all three bids and a written determination was provided for Contractor B and Contractor C because those proposals were deemed not responsive.

OIG Comments to Bid Evaluation. We stand by our position that not all of the evaluation criteria were objective and measurable, and none of the criteria contained in the IFB were price related as required by § 1500.6 of the DCMR. The DCMR does not provide a definition of price related evaluation factors; however, the Federal Acquisition Regulations (FAR), which the DCMR is modeled after, provides examples of price related evaluation factors. Price related factors are costs associated with acquiring and owning a deliverable that are not included in the contract price. FAR Subpart 14.201-8 provides examples of price related factors, which include:

a) foreseeable costs to the government resulting from differences in inspection, location of supplies, and transportation costs if the contractor bid f.o.b. origin;
b) changes to the bid made or requested by the bidder provided the change does not constitute a bid rejection;
c) costs associated with making multiple awards;
d) federal, state, and local taxes.

None of the evaluation criteria used by OCFO to evaluate the bid met this guidance. In addition, some of the evaluation criteria appeared irrelevant to the solicitation, or exceeded the requirements needed to complete the statement of work.

EXHIBIT B. SUMMARY OF THE OCFO MANAGEMENT RESPONSE AND OIG COMMENTS

- For Example, Management Approach Criteria # 7 was "Fixed Assets Best Practices." This was the only description that was provided in the IFB regarding this evaluation factor. Fixed assets best practices cover the entire life cycle of the asset, and includes, at a minimum, acquisition and disposal of the assets; security; utilization and maintenance procedures; physical inventory; and classifying and recording of the assets on the accounting records. If best practices were to be included in the IFB, a more detailed description should have been provided stating exactly what information was necessary in order to be responsive. Because this element is so broad in scope, and only one element (physical inventory) of the eight mentioned was applicable to the solicitation, we do not believe that this criteria could be classified as objective and measurable. In addition, it does not meet the requirement of being a price related factor.

- Management Approach Criteria # 6, "Experience in the comprehension of accounting publications that discuss accounting policies relating to fixed assets, such as Government Accounting Standards Board Statement No. 34 (GASB 34)" is an example of an evaluation factor that was irrelevant to the solicitation, and in excess to the requirements needed to complete the statement of work. GASB 34 establishes financial reporting standards for state and local governments to follow in the preparation of the basic financial statements and the required supplementary information. The statement of work in this IFB was to perform a physical inventory. There was no requirement to value the assets, ensure depreciation was correct, or verify that an asset was properly recorded on the financial statements in compliance with GASB 34.

As stated in the OCFO response, two of the criteria related to an inventory tracking software system, and were set forth in TA Criteria # 5, "The usefulness and compatibility of the selected fixed asset software package" and TA Criteria # 6, "Implementation of the software package." All three of the bids contained information on the inventory tracking software currently used by the respective contractor. However, the IFB contained the requirement that the bidder supply a commercial-off-the-shelf (COTS), non-proprietary inventory tracking software (SAGE/FAS, Enterprise SQl, WISETRACK, etc.) and provide information on implementation, usefulness, training, and compatibility of the software. Because none of the bids addressed this requirement, an amendment to the IFB was issued to all of the bidders requesting additional information. Contractor B responded to this request by stating that it used its own proprietary software and that the results could be provided in an MS Excel database format where the contractor could reformat the information to meet OCFO's needs. We agree that, if a COTS inventory tracking system was a non-negotiable requirement, this would be a justifiable reason to reject the bid. However, even though Contractor B failed to propose a COTS inventory system, OCFO's evaluation team found the contractor responsive

EXHIBIT B. SUMMARY OF THE OCFO MANAGEMENT RESPONSE AND OIG COMMENTS

to TA Criteria # 5. Without a documented explanation, an apparent contradiction calls into question the objectivity and fairness of the evaluation process.

Contractor A proposed and priced the WISETRACK software, and Contractor C proposed and priced the SAGE/FAS, but neither provided any information on the implementation or training on the proposed software. However, even though both bidders provided basically the same information in response to the OCFO request for additional data, the evaluation team determined that Contractor A was responsive to both evaluation factors on software and Contractor C was nonresponsive to both. Again, OFCO's decision-making process could be called into question because the evaluation team failed to provide documentation to support their conclusions.

Finally, we note that the entire bid evaluation was not performed in accordance with DCMR requirements for sealed bidding. The contracting officer's instructions to the program office evaluation team specifically stated that if any of the bidders were nonresponsive according to the evaluation criteria, a document outlining the deficiency was all that was needed to justify why the proposal was not considered for price. This is the type of evaluation performed for procurements using two-step acquisition procedures, where step one involves reviewing the proposal for technical acceptance and step two is price evaluation. If OCFO wanted to perform this type of evaluation, the IFB should have been cancelled and reissued as a two-step procurement so that the contractors would be fully aware of how their proposals would be evaluated.

Price Reasonableness. The OCFO disagreed with our conclusion that the contracting officer did not meet his responsibility to determine price reasonableness. The OCFO stated the contract file contained a Determination and Findings (D&F) for Price Reasonableness, which was signed by the contracting officer and indicated the cost/price analysis. The OCFO stated that when the contractor submits a bid, he certifies that the pricing data are accurate, complete and current as of the date of the bid closing. In addition, OCFO stated that the contractors certified an independent price determination in section K of the proposals. Finally, in this regard, the OCFO also stated that program staff prepared the government estimate and provided supporting documentation of the government estimate with its response.

OIG Comments to Price Reasonableness. We stand by our conclusion that the contracting officer did not perform any analysis to determine price reasonableness nor was a detailed government estimate prepared. The price reasonableness determination in both the D&F and the case study was basically a statement that the bid price of $508,538 was deemed fair and reasonable because it was approximately $100,000 less than the government estimate, and competitive with market rates. However, there was no documentation to support how the government estimate of $608,350 was developed, and the documentation OCFO provided with its response only showed the allocation of the $608,350 cost estimate to the various

EXHIBIT B. SUMMARY OF THE OCFO MANAGEMENT RESPONSE AND OIG COMMENTS

District agencies that had the assets in its possession. There was no support showing what the estimate was based on, who developed it, or how it was developed. We also do not see what information OCFO used to base its statement in the D&F and Case Study that the bid price selected for award was competitive with market rates because the only evidence of market rates in the contract files was the other two bids, both of which were substantially lower than the awarded bid of $508,538.

Award Recommendation. The OCFO disagreed with the conclusion in the draft MAR that there was no supporting documentation that Contractors B and C did not price all of the requirements. The OCFO stated that the requirement for a software tracking system was not priced and an amendment was subsequently issued requesting re-pricing. In addition, OCFO stated that the bids submitted by Contractors B and C failed to address several key factors (such as quality assurance techniques, and approach to complete the inventory for agencies with special circumstances) which the OCFO deemed to be cost-related. Therefore, the contracting officer made a judgment that neither proposal was responsive, and that all of the requirements were not totally priced.

OIG Comments to Award Recommendation. We disagree with the OCFO's position that Contractor C's bid did not price the software requirements. All three bidders failed to price the software in the initial bid, and, as a result, a request for additional information was sent to the contractors. Both Contractor A and Contractor C submitted revised pricing, each proposing one of the COTS inventory software systems that was specified in the request for additional information. (This issue is discussed in further detail in the Bid Evaluation section of this exhibit.) The other factors such as quality control, conducting the inventory at agencies with special circumstances were not priced separately but included in the overall bid price. We fail to see any reason that Contractor C's bid was found to be nonresponsive due to all of the requirements not being totally priced.

Determination of Vendor Qualifications. The OCFO took the position that the OIG questioned Contractor A's ability to perform the physical inventory because we stated in our report that its core business competency was Information Technology. It further stated that Contractor A's experience included conducting physical inventories and related services for the U.S. Department of Labor (DOL), and in a partnership with another contractor (which it intended to use on the OCFO inventory project) performed the District's FY 2006 and FY 2007 inventories. In addition Contractor A's partner performed inventory related services for the International Monetary Fund (IMF) and the Housing Opportunities Commission of Montgomery County, MD. The OCFO also stated that Contractor A's performance on the FYs 2005 and 2006 inventories was rated between good to excellent, and overall Contractor A has always maintained an above average performance history with the District.

OIG Comments to Determination of Vendor Qualifications. Our report never meant to imply that Contractor A did not have the ability to fulfill the contractual requirements. We

EXHIBIT B. SUMMARY OF THE OCFO MANAGEMENT RESPONSE AND OIG COMMENTS

brought forth the issue that Contractor A's core business capability is Information Technology to highlight the fact that this would require Contractor A to employ a highly skilled and trained technical staff. By contracting with Contractor A to perform a physical inventory, we believe the OCFO procured at a greater cost to the District, a higher degree of technical competency and expertise than was needed to fulfill the requirements of this contract, which was not in the best interests of the District's taxpayers.

EXHIBIT C. OCFO'S RESPONSE TO MANAGEMENT ALERT REPORT

Government of the District of Columbia
Office of the Chief Financial Officer

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Natwar M. Gandhi
Chief Financial Officer

August 18, 2010

Mr. Charles J. Willoughby
Inspector General
Office of the Inspector General
717 14th Street, NW
Washington, DC 20004

Re: Management Response to MAR No. 10-A-2, dated July 16, 2010, Office of the Chief Financial Officer (OCFO), Contract CFOPD-08-C-032

The MAR specifically addresses the review of contract CFOPD-08-C-032 between the Office of the Chief Financial Officer and the vendor, [redacted] That procurement was executed under the provisions of the Public Procurement Act (PPA) and the District of Columbia Municipal Regulation (DCMR) title 27, both of which govern the procurement process in the District and which the Office of the Chief Financial Office became subject to in FY 2008. The MAR recommends that the OCFO decline to exercise the last three option years and issue a new IFB for inventory services.

The OCFO Office of Contracts concurs with the recommendation of the MAR. In accordance with the MAR recommendation and for other business considerations, the Contracting Officer notified the vendor on May 20, 2010 that the District will not execute the remaining options of the contract. A copy of the letter and the transmittal are attached as Exhibit A.

In light of this action already taken, the OCFO takes issue with the release of this "alert" nearly two months after the OCFO fully executed the action recommended by the IG. Further, the release of this MAR directly contradicted our shared understanding and agreement regarding this matter. On May 26, 2010, OCFO staff met with IG staff regarding this audit, and specifically the contract that is the focus of this "alert." We shared our decision to end the contract as confirmed by our communication to the vendor on May 20, as stated above. Accordingly, we were informed by IG staff in that meeting that no MAR would be issued prior to the final report, and that the MAR that was drafted would be released only as an Appendix to the final report. However, the MAR was released on July 16, 2010, without any warning or communication of a change of plan.

Regarding the content of the MAR, the Office of Contracts agrees in principle with the recommendation, however, there are certain issues raised and conclusions reached in the narrative of the MAR which are not supported by the documentation in the contract file. We are also concerned that the IG auditor assigned to this audit used and relied upon his personal

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knowledge and experience with the other vendors and that he failed to objectively review the documentation regarding those vendors in the contract file or adequately consider the explanations provided by the Contracting Specialist and Contracting Officer.

Bid Evaluation

The MAR states "We found no indication that the selection process was performed objectively, and fairly." ***We do not concur with this finding***. The Contracting Officer directed the program office to review the proposals for responsiveness. This is directly in compliance with the DCMR: §1599.1 states the definition for a Responsive Bid as a bid that conforms in all material respect to the invitation for bids. In addition, §1531 states that any bid that fails to conform to the essential requirements of the IFB shall be rejected. Moreover, §1531.8 states that "Each contract shall be awarded to the responsible and responsive bidder whose bid meets the requirements set forth in the IFB, and is the lowest bid price or lowest evaluated bid price, considering only price and price related factors included in the IFB." §1541.6 states that "Following an award, a record showing the basis for determining the successful bidder shall be made a part of the contract file." Even though a specific vendor or vendors may have a core business competency in inventory counting, if they are non-responsive to the requirements of the IFB, it is not in the best interests of the District to make an award to those vendors. See Exhibit C – Case Study.

The MAR further states "Most of the MA [Management Approach] criteria in the IFB did not include specific details defining exactly what information the bidder needed to include . . ." We do not concur with this finding. All of the Evaluation Criteria were objective measures for determining success in the performance of Inventory Services. Attached as Exhibit D, you will find Section M.5 from the IFB outlining the Evaluation Criteria. The Management Approach has 7 sub-factors that determine the qualifications, certifications, best practices, and accounting practices of the proposed vendors. The Technical Approach has 7 sub-factors that outline a prospective contractor's work plan, schedule, quality assurance, software compatibility, implementation ability and qualifications of staff. Key factors such as insuring each asset is only tagged once, insuring accurate and complete entry of asset description into readers, experience with "Fixed Assets Best Practices" are essential requirements which outline a prospective bidder's ability to perform a physical inventory. We did not require a specific format for a vendor to demonstrate expertise in these areas, but for a vendor to not address these requirements renders them non-responsive.

The MAR also states "there is no evidence that the selection panel reviewed the [redacted] bid response." We do not concur with this finding. As shown in Exhibit B, the Contracting Officer requested that a written determination be submitted by the program office if the bidder was not responsive to the evaluative criteria listed in the IFB. To make this determination, the program office had to review all proposals submitted. In this case, all three proposals were reviewed by

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program personnel and a written determination was provided for [redacted] and [redacted] because they were deemed not responsive to material aspects of the evaluative criteria.

[redacted] did not provide information on material elements such as experience with "Fixed Assets Best Practices" and experience in the comprehension of accounting publications & policies related to Fixed Assets. In addition, [redacted] did not provide an approach for how to complete the inventory for agencies with special circumstances, how they would implement the software package, quality assurance techniques, resumes or references. The Contracting Officer deemed that knowledge of Fixed Assets Best Practices, quality assurance, and the ability to implement the software package were key elements of the project and items that are cost-related factors and material to the success of the contract. Thus, [redacted] was deemed not responsive to the IFB.

[redacted] did not provide specific experience in inventory valuation, methodologies, and techniques, experience with Fixed Assets Best Practices, an approach for how to complete the inventory for agencies with special circumstances, the compatibility of their proposed software package, how they would implement the software package, a description of the process used for the Inventory Service provided, quality assurance techniques, resumes or references. The Contracting Officer deemed that an approach for how to complete the inventory, the compatibility & implementation of the proposed software, a description of the Inventory Service process, and quality assurance were all material to the success of the contract and items that are cost-related factors. Thus, [redacted] was deemed not responsive to the IFB.

Price Reasonableness

The MAR states "We do not believe the contracting officer met his responsibility to determine price reasonableness . . ." ***We do not concur with this finding***. The contract file includes a price and reasonableness Determination and Finding indicating the cost/price analysis. This Determination and Finding is certified by the contract specialist and contracting officer. The certification of cost by the prime contractor occurs at the point the vendor signs the solicitation documents. At that point in the procurement process, as of the date of submission, the vendor is certifying that pricing data submitted as part of the vendor's proposal is accurate, complete and current as of the date of bid closing. Section K of each proposal requires a vendor to certify an independent price determination. All of these practices were followed in this contract. Attached as Exhibit C, the case study outlines the determination of price reasonableness by the Contracting Officer. Also included in Exhibit C is the independent cost estimate and the breakdown of pricing by the proposed vendor which were all considered during the Contracting Officer's review of price reasonableness. As shown, the independent government estimate was developed by program staff and was based on a detailed breakdown of all items proposed for the inventory. Also, historical price data is an indicator of price reasonableness.

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Award Recommendation

The MAR refers to a statement in the OCFO case study, "The SSEB determined that neither [redacted] nor [redacted] fully priced all of the requirements; thus their bids were non-responsive," and then states, "We did not identify any support for this statement." ***We do not concur with this finding***. Attached is Exhibit B, the contract file documentation indicating that a review of the proposals found that a section of the proposal was not properly priced out, an amendment was subsequently issued requesting re-pricing, and that the items requested were material to the responsiveness of the bidder's proposals.

Also, as indicated earlier in the discussion of the Bid Evaluation, several key factors of the project were not responded to in the IFB and these factors were items deemed to be cost-related. To reiterate: an approach for how to complete the inventory for agencies with special circumstances, how they would implement the software package, quality assurance techniques, and compatibility of their proposed software package are all items deemed to have a cost associated to the project that was not addressed in the IFB by [redacted] or [redacted]. Thus, the Contracting Officer made a determination that neither prospective bidder was responsive because there was clear concern that material aspects of the project were not being priced out to get "a foot in the door". This practice is not uncommon and is used to potentially seek from the District an increase in the price for services by stating that a modification is needed to fulfill all aspects of the Statement of Work after the project was underway. In the Contracting Officer's judgment, this was not a situation that the OCFO would be wise to enter.

Determination of Vendor Qualifications

Throughout the MAR, the characterization of the abilities of [redacted] to perform the requirements of the District's physical inventory is portrayed as somehow inferior to the other vendors who submitted proposals. The Contracting Officer reviewed the following in making his independent determination to award the contract to Enlightened:

1. The background experience of [redacted] in conducting physical inventories and related services for the District and the US Department of Labor, and in partnership with [redacted], performed related services for the International Monetary Fund (IMF) and the Housing Opportunities Commission of Montgomery County, MD.

2. The partnership between [redacted] and [redacted], a subsidiary of [redacted] has been in the inventory, asset reporting and control business in the Washington DC area since 1962. Their subsidiary, [redacted], was established in 1984 and added additional capabilities in the inventory and logistics arena. Their list of customers range from the US Government to major corporations to small businesses. The combined level of expertise and experience of the [redacted] partnership is, at the very least, comparable to the other vendors and in most cases exceeds those of the other vendors.

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In addition, the performance of [redacted] in FY 05 and FY 06 was rated by the OCFO Program Office consistently between good and excellent. To characterize [redacted] experience only in terms of their information technology expertise is not factual in light of their partnership and their previous experience, especially with at least above average past performance history with the District.

Conclusion

In conclusion, management agreed with the recommendation to cancel the contract and conducted a new procurement based on the findings in the MAR and other managerial considerations. As stated above, the current year contract was not continued, the work was re-bid, and a new contract has been awarded. The contracting officer followed the PPA/DCMR in an effort to efficiently procure Inventory Services that would have a known cost with data integrity that could be trusted. We also believe the negative reference to the IT background of [redacted] is not relevant, especially when discussing a contractor known to provide service with satisfactory past performance for the District. In addition, the background portion of the report which discusses an FY 05 and FY 06 procurement in relation to CFOPD-08-C-032 are not necessarily relevant to the procurement process under which CFOPD-08-C-032 was awarded, as detailed above. The OC staff did not rely on previous contractual histories to make any evaluative determinations for CFOPD-08-C-032. We do not disagree that documentation of the procurement actions should have been clearer in the contract file, however, the contract file does have supporting documentation for the Contracting Officer, in accordance with 27 DCMR, Chapter 10, Section 1003.4, to exercise his business judgment and award this contract to [redacted] while meeting the requirements of the DCMR.

Sincerely,

Natwar M. Gandhi

Enclosures