

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE
INFORMATION TECHNOLOGY
STAFF AUGMENTATION
(ITSA) CONTRACT**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



August 3, 2011

James Staton
Chief Procurement Officer
Office of Contracting and Procurement
One Judiciary Square
441 4th Street N.W., Suite 700-S
Washington, D.C. 20001

Dear Mr. Staton:

Enclosed is our final report summarizing the results of the Office of the Inspector General's (OIG) Audit of the Information Technology Staff Augmentation Contract (OIG No. 10-1-19TO). This audit was included in our Fiscal Year 2010 Audit and Inspection Plan and is the first report issued in a series of related audits.

Our audit disclosed that Office of Contracting and Procurement (OCP) contracting officials did not comply with all Title 27 DCMR provisions related to the award of the Information Technology Staff Augmentation (ITSA) contract. We directed 10 recommendations to OCP for actions necessary to correct the described deficiencies.

On June 7, 2011, OCP provided a response to a draft of this report and on July 15, 2011, provided a revised response. OCP's revised response generally agrees with the report's conclusions; however, OCP did not concur with all of the recommendations. The OIG considers OCP's comments to Recommendations 5 and 9 to be nonresponsive, and, therefore, these recommendations are unresolved. We request that OCP reconsider its position taken on Recommendations 5 and 9 and provide an additional response to us by August 17, 2011.

In addition, OCP actions taken or planned for Recommendations 3, 7, 8, and 10 are considered to be responsive and meet the intent of the recommendations. For the remaining Recommendations 1, 2, 4, and 6, the OIG believes for Recommendation 1, OCP should justify use of the ITSA contract rather than use of District employees before exercising option year 3; for Recommendation 2, OCP should modify the contract price to reflect OST's lower BAFO rates before exercising Option Year 3; for Recommendation 4, OCP should provide documentation to support the conversion of the ITSA agreed upon fixed hourly service fees from a tiered pricing structure to a flat fixed fee; and for Recommendation 6, OCP should independently procure (select) IT staff based on the statement of work submitted by the user agency. We request that OCP provide us an updated response for Recommendations 1, 2, 4, and 6, also by August 17, 2011.

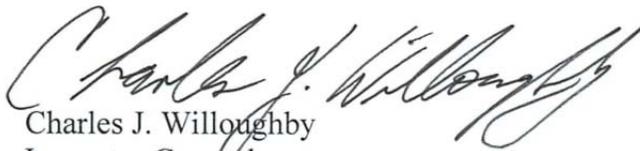
Mr. Staton
OIG No. 10-1-19TO – Final Report
August 3, 2011
Page 2 of 4

Our comments to OCP's revised response to the draft report are included at Exhibit D. The complete text of OCP's revised response is included at Exhibit E. Audit recommendations should generally be resolved within 6 months of the date of the final report. Accordingly, we will continue to work with OCP to reach final agreement on the unresolved recommendations. Based on the revised response from OCP, we re-examined our facts and conclusions and adjusted the report where warranted.

While we did not direct any recommendations to the Office of Chief Technology Officer (OCTO), we provided a courtesy copy of our draft report to OCTO. OCTO did not respond to the draft.

We appreciate the cooperation and courtesies extended to our staff during this audit. 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/rs

cc: See Distribution List

DISTRIBUTION:

The Honorable Vincent C. Gray, Mayor, District of Columbia
Mr. Allen Y. Lew, City Administrator, District of Columbia (via email)
Mr. Robert Mancini, Chief Technology Officer
Mr. Victor L. Hoskins, Deputy Mayor for Planning and Economic Development,
District of Columbia
The Honorable Kwame R. Brown, Chairman, Council of the District of Columbia (via email)
The Honorable Muriel Bowser, Chairperson, Committee on Government Operations, Council
of the District of Columbia (via email)
Mr. Brian Flowers, General Counsel to the Mayor (via email)
Mr. Paul Quander, Interim Chief of Staff, Office of the Mayor (via email)
Ms. Janene Jackson, Director, Office of Policy and Legislative Affairs (via email)
Dr. Linda Wharton Boyd, Director, Office of Communications
Mr. Eric Goulet, Director, Office of Budget and Finance, Office of the City Administrator
Ms. Nyasha Smith, Secretary to the Council (1 copy and via email)
Mr. Irvin B. Nathan, Attorney General for the District of Columbia (via email)
Dr. Natwar M. Gandhi, Chief Financial Officer (4 copies)
Mr. William DiVello, Executive Director, Office of Integrity and Oversight, Office of the
Chief Financial Officer (via email)
Ms. Yolanda Branche, Acting D.C. Auditor
Mr. Phillip Lattimore, Director and Chief Risk Officer, Office of Risk Management (via email)
Ms. Jeanette M. Franzel, Managing Director, FMA, GAO, Attention: Norma J. Samuel (via email)
The Honorable Eleanor Holmes Norton, D.C. Delegate, House of Representatives,
Attention: Bradley Truding (via email)
The Honorable Darrell Issa, Chairman, House Committee on Oversight and Government
Reform, Attention: Howie Denis (via email)
The Honorable Elijah Cummings, Ranking Member, House Committee on Oversight and
Government Reform, Attention: Yvette Cravins (via email)
The Honorable Trey Gowdy, Chairman, House Subcommittee on Health Care, the District of
Columbia, the Census and the National Archives, Attention: Anna Ready (via email)
The Honorable Danny Davis, Ranking Member, House Subcommittee on Health Care, the District
of Columbia, the Census, and the National Archives, Attention: Yul Edwards (via email)
The Honorable Joseph Lieberman, Chairman, Senate Committee on Homeland Security and
Governmental Affairs, Attention: Holly Idelson (via email)
The Honorable Susan Collins, Ranking Member, Senate Committee on Homeland Security
and Governmental Affairs, Attention: Daniel Jenkins (via email)
The Honorable Daniel K. Akaka, Chairman, Senate Subcommittee on Oversight of
Government Management, the Federal Workforce, and the District of Columbia,
Attention: Christine Khim (via email)
The Honorable Ron Johnson, Ranking Member, Senate Subcommittee on Oversight of
Government Management, the Federal Workforce, and the District of Columbia
The Honorable Harold Rogers, Chairman, House Committee on Appropriations,
Attention: Julia Casey (via email)

The Honorable Norman D. Dicks, Ranking Member, House Committee on Appropriations,
Attention: Laura Hogshead (via email)
The Honorable Jo Ann Emerson, Chairman, House Subcommittee on Financial Services and
General Government, Attention: John Martens (via email)
The Honorable José E. Serrano, Ranking Member, House Subcommittee on Financial
Services and General Government, Attention: Laura Hogshead (via email)
The Honorable Daniel K. Inouye, Chairman, Senate Committee on Appropriations,
Attention: Charles Houy
The Honorable Thad Cochran, Ranking Member, Senate Committee on Appropriations
The Honorable Richard Durbin, Chairman, Senate Subcommittee on Financial Services and
General Government, Attention: Marianne Upton (via email)
The Honorable Jerry Moran, Ranking Member, Senate Subcommittee on Financial Services
and General Government, Attention: Dale Cabaniss (via email)

AUDIT OF THE INFORMATION TECHNOLOGY STAFF AUGMENTAION CONTRACT

ACRONYMS

BAFO	Best and Final Offer
CBE	Certified Business Enterprise
CPO	Chief Procurement Officer
CO	Contracting Officer
COTR	Contracting Officer's Technical Representative
CBA	Cost-Benefit Analysis
CTO	Chief Technology Officer
CY	Calendar Year
DCMR	District of Columbia Municipal Regulations
DCSS	District of Columbia Supply Schedule
FTE	Full Time Equivalent
FY	Fiscal Year
HSF	Hourly Service Fee
ICQ	Internal Control Questionnaire
IDIQ	Indefinite Delivery/Indefinite Quantity
IT	Information Technology
ITSA	Information Technology Staff Augmentation
NTE	Not-to-Exceed
OCP	Office of Contracting and Procurement
OCTO	Office of the Chief Technology Officer
OIG	Office of the Inspector General

AUDIT OF THE INFORMATION TECHNOLOGY STAFF AUGMENTATION CONTRACT

ACRONYMS (CONTINUED)

OST	Optimal Solutions and Technologies, Inc.
PASS	Procurement Automated Support System
PO	Purchase Order
RFP	Request for Proposal
SOAR	System of Accounting and Reporting
SOW	Statement of Work

**AUDIT OF THE INFORMATION TECHNOLOGY STAFF
AUGMENTATION CONTRACT**

TABLE OF CONTENTS

EXECUTIVE DIGEST

OVERVIEW i

CONCLUSIONS..... i

SUMMARY OF RECOMMENDATIONS ii

MANAGEMENT RESPONSES AND OIG COMMENTS iii

INTRODUCTION

BACKGROUND1

OBJECTIVES3

SCOPE AND METHODOLOGY3

RESULTS OF AUDIT

**SECTION I. AWARD OF THE INFORMATION TECHNOLOGY STAFF
AUGMENTATION CONTRACT.....5**

CONTRACT MANAGEMENT6

HOURLY SERVICE FEES9

COST REASONABLENESS11

ADMINISTRATIVE FEE12

CONTRACT MODIFICATION.....14

INTERNAL CONTROL.....16

**AUDIT OF THE INFORMATION TECHNOLOGY STAFF
AUGMENTATION CONTRACT**

**SECTION II. RECOMMENDATIONS, MANAGEMENT RESPONSES, AND
OIG COMMENTS.....19**

EXHIBITS

EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS RESULTING
FROM THE AUDIT24

EXHIBIT B. IN-HOUSE COST OF IT SERVICES PROCUREMENT VS.
OUTSOURCING COST VIA A CONTRACT FOR SERVICES27

EXHIBIT C. CONTRACT HOURLY SERVICE FEES.....28

EXHIBIT D. OIG COMMENTS TO OCP’S REVISED RESPONSE TO
THE DRAFT REPORT30

EXHIBIT E. OCP’S REVISED RESPONSE TO THE DRAFT REPORT36

EXECUTIVE DIGEST

OVERVIEW

The Office of the Inspector General (OIG) Audit Division has completed its Audit of the Information Technology Staff Augmentation (ITSA) Contract No. DCTO-2008-C-0135. The audit was included in our Fiscal Year 2010 Audit and Inspection Plan and is the first report issued in a series of related audits.

On August 19, 2008, the Office of Contracting and Procurement (OCP) awarded an indefinite delivery/indefinite quantity (IDIQ) contract to Optimal Solutions and Technologies Incorporated (OST) on behalf of the Office of the Chief Technology Officer (OCTO) to provide information technology (IT) services. The contract spans 1 year, but allows the District to extend the term for 4 additional years via an option clause. Pursuant to the contract, the District is required to order at least \$100,000 (and no more than \$150 million) in services each contract period.

OCTO augments its information technology staff by contracting for IT services. Through the ITSA services contract, OST is responsible for the procurement and contract administration of these IT services by subcontractors. An OCTO Contracting Officer's Technical Representative (COTR) is assigned to provide general administrative contract support to OST and the OCP Contracting Officer (CO). In this capacity, the COTR is responsible for the day-to-day monitoring and supervision of the contract, including advising the CO as to OST's compliance or noncompliance with the contract.

Our original audit objectives were to determine whether: (1) the contract was awarded in compliance with requirements of applicable laws, rules, regulations, policies, and procedures; (2) the contract was administered in an efficient, effective, and economical manner; and (3) internal controls were in place to safeguard against fraud, waste, and abuse.

Based upon the results of our audit survey, we revised our audit objectives to include an evaluation of the effectiveness of internal controls at OCP over the award process for the ITSA contract.

This report is presented in two major sections. Section I details our findings concerning the award of the ITSA contract, including discussions related to internal control weaknesses. Section II is a listing of recommendations that, if implemented by management, should result in improvement to OCP operations.

CONCLUSIONS

OCP contracting officials did not comply with all Title 27 DCMR provisions related to the award of the ITSA contract. Specifically, OCP did not: determine in writing that the use of a contract for services, rather than the use of District employees, is substantially more

EXECUTIVE DIGEST

economical and feasible; accept the best and final offer rate (at a lower cost to the District) for hourly service fees proposed by the contractor; determine cost reasonableness for a contract awarded over \$500,000; and provide adequate justification to modify the ITSA hourly service fee from a tiered pricing structure to a flat fixed fee when exercising the first option year.

We discussed these conditions with OCP contracting officials who indicated that: (1) managing the contracted services in-house was not feasible; (2) the proposed, lower hourly service fee rate was inadequate for OST to provide the required services; (3) a cost analysis was unnecessary and redundant; and (4) the District grossly overestimated its requirements (hours) during the request for proposal process.

In addition, OCP contracting officials did not include the requirement of 1% sales discount revenue in the ITSA contract terms and conditions when awarding the contract. OCP officials informed us that the requirement was omitted because the District would have difficulty recapturing the fee from the vendor.

As a result, the District's excess cost of using this contract for services (rather than District employees) may be as much as \$7 million over the 5-year contract period. OCP also awarded the contract for a higher contract price than proposed, which will result in additional expenditures of about \$1.9 million over the same period. Further, OCP did not determine that OST's contract price was reasonable and increased the contract hourly service fee by \$375,000 when modifying the first option year. In addition, the District lost sales discount revenue calculated to be about \$1.5 million over the 5-year contract period. In total, we calculate that the District may lose as much as \$10.78 million over the period of the 5-year contract term.

Moreover, OCP did not maintain adequate internal controls over the procurement process to ensure that the contract was safeguarded against fraud, waste, and abuse. Specifically, OCP officials could not provide or identify the key controls over the award process, and informed us that they are working on identifying them. We concluded that OCP lacked reasonable assurance that material error or fraud would be prevented or detected in a timely manner.

SUMMARY OF RECOMMENDATIONS

We directed 10 recommendations to the CPO. The recommendations focus on:

- Complying with requirements established in Title 27 of the DCMR when awarding contracts.
- Following established policies and procedures to award the contracts in accordance with the best and final offer price.

EXECUTIVE DIGEST

- Identifying and monitoring key controls over procurement processes to provide reasonable assurance that material error or fraud is detected in a timely manner.

MANAGEMENT RESPONSES AND OIG COMMENTS

On June 7, 2011, OCP provided a response to a draft of this report and on July 15, 2011, provided a revised response. OCP's revised response generally agrees with the report's conclusions; however, OCP did not concur with all of the recommendations. The OIG considers OCP's comments to Recommendations 5 and 9 to be nonresponsive, and, therefore, these recommendations are unresolved. We request that OCP reconsider its position taken on Recommendations 5 and 9 and provide an additional response to us by August 17, 2011.

In addition, OCP actions taken or planned for Recommendations 3, 7, 8, and 10 are considered to be responsive and meet the intent of the recommendations. For the remaining Recommendations 1, 2, 4, and 6, the OIG believes for Recommendation 1, OCP should justify use of the ITSA contract rather than use of District employees before exercising option year 3; for Recommendation 2, OCP should modify the contract price to reflect OST's lower BAFO rates before exercising Option Year 3; for Recommendation 4, OCP should provide documentation to support the conversion of the ITSA agreed upon fixed hourly service fees from a tiered pricing structure to a flat fixed fee; and for Recommendation 6, OCP should independently procure (select) IT staff based on the statement of work submitted by the user agency. We request that OCP provide us an updated response for Recommendations 1, 2, 4, and 6, also by August 17, 2011.

A summary of the potential benefits resulting from the audit is shown at Exhibit A.

INTRODUCTION

BACKGROUND

The Office of the Chief Technology Officer (OCTO) is the central information technology (IT) and telecommunications agency for the District government. OCTO develops, implements, and maintains the District's IT and communications infrastructure; develops and implements major citywide applications; establishes and oversees IT enterprise architecture and website standards for the District; and advises District agencies on technology solutions to improve services to businesses, residents, and visitors in all areas of the District government.

OCTO augments its IT staff by contracting for IT services and currently performs this function through a prime contractor, Optimal Solutions Technology, Inc. (OST). OST provides OCTO with a network of subcontracting vendors, who in turn employ "resources" to fill various IT service requests. OCTO submits job specifications to OST and, in response, OST requests resumes from resources (through the subcontracting vendors). OCTO then conducts interviews to select a resource. OCTO also issues a purchase order for the resource's services (through the Office of Contracting and Procurement (OCP) and assigns a Contracting Officer's Technical Representative (COTR), who reviews and approves resource invoices submitted by OST. In addition, OCTO approves timesheets from resources to acknowledge IT services performed.

OCP, under the direction of the Chief Procurement Officer, procures goods and services for selected agencies and offices within the District government. OCP is organized into four commodity buying groups: Services; Goods; Transportation and Specialty Equipment; and Information Technology. Experienced procurement officials, led by senior managers, purchase goods and services to meet agency requirements. A senior staff supports the agency's procurement operations with legal, business, and IT expertise.

Information Technology Staff Augmentation Contract. On August 19, 2008, on behalf of OCTO, OCP awarded the Information Technology Staff Augmentation (ITSA) contract to OST. The ITSA contract is focused on increasing the efficiency of the District's IT staff augmentation procurement practices and providing District Certified Business Enterprises (CBE) with a system dedicated to transparency and neutrality. Prior to the award of this contract, OCP procured IT services directly using the District of Columbia Supply Schedule (DCSS). The primary objectives of the ITSA contract are to:

- Save the District \$5-10 million per year in payments to IT contractors;
- Allow 6 to 9 of OCP's full-time equivalent (FTE) employees to perform other duties;
- Generate \$500,000 per year in sales discount revenue; and
- Provide a mandatory set-aside requirement of 95% of the staffing needs to CBE subcontracting vendors through the prime contractor.

INTRODUCTION

Contract Term. The term of the ITSA contract is a base period of 1 year from the date of award, with four option periods of 1 year each.

Contract Type. According to page 2 of the ITSA contract, there are three types of contract components:

- 1) An IDIQ contract component consisting of not-to-exceed rates per hour for labor categories in the contract.
- 2) An economic adjustment component for the not-to-exceed rates per hour for labor categories for each option year.
- 3) A fixed fee for hourly service based on the monthly total number of hours billed.

OST Hourly Service Fee. OST charges an hourly service fee for the hours the District orders in a monthly period. The rate for each month is determined by the cumulative number of hours billed by OST as of the last day of the previous month.

Not-To-Exceed Rates. In response to District requests, OST provides resources based on not-to-exceed (NTE) hourly rates for various job categories. OST pays the subcontracting vendors according to these NTE rates.

The Truth in Negotiations Act. Federal Truth in Negotiations Act (10 U.S.C.S. § 2306a, “the Act”) requirements are adopted in 27 DCMR § 1624, “Cost And Pricing Data” and ITSA solicitation DCTO-2008-R-0135, attachment J.2.4., “Cost or Pricing Data Package.”

The Act protects the federal government against defective contractor pricing, requiring contractors to submit certified cost or pricing data when adequate price competition does not exist. A price is considered based on adequate price competition if the proposed price results directly from price competition, or if price analysis alone clearly demonstrates that the proposed price is reasonable in comparison with current or recent prices for the same (or substantially the same) items purchased in comparable quantities, terms, and conditions under contracts that resulted from adequate price competition.

In accordance with 27 DCMR § 1624.3, District contracts state that if a contractor’s cost or price information is found to be inaccurate, incomplete, or noncurrent as of the effective date of the certificate, the District will reduce the price to prevent a significant cost increase based on deficient data.

Contract Spending. During fiscal years (FYs) 2009 and 2010, OCTO made \$59.6 million in payments to OST. OCTO’s spending on the ITSA contract during FYs 2009 and 2010 is detailed in Table 1, on the following page.

INTRODUCTION

Table 1: FYs 2009 and 2010 ITSA Contract Spending

FY	Actual Spending		Total Spending
	NTE Rates	OST Hourly Service Fees	
2009	\$20,851,986	\$1,266,469	\$22,118,455
2010	\$35,064,058	\$2,421,748	\$37,485,806
Total	\$55,916,044	\$3,688,217	\$59,604,261

OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objectives of the audit were to determine whether: (1) the contract was awarded in compliance with requirements of applicable laws, rules, regulations, policies, and procedures; (2) the contract was administered in an efficient, effective, and economical manner; and (3) internal controls safeguarded against fraud, waste, and abuse.

Our specific objective for this audit was to determine whether OCP complied with all Title 27 DCMR provisions related to the award of the ITSA contract (DCTO-2008-C-0135). Also, we evaluated OCP's internal controls related to the award of the ITSA contract. To accomplish our objectives, we conducted interviews with OCP, OCTO, and OST officials and obtained a general understanding of OCP's process for awarding the ITSA contract.

We reviewed procurement records for FYs 2008 through 2010 and, to some extent, records from prior years. Our review included procurement documents maintained by OCP, the IT Staff Augmentation Contract Plan maintained by OCTO, and OST proposals obtained directly from the vendor. We also interviewed and held discussions with OST and the OCTO COTR. In addition, we conducted a survey in order to obtain and evaluate payment information from 19 OCTO program managers.

We relied on computer-processed data from the System of Accounting and Reporting (SOAR) to obtain summary information on the total amount paid to the contractors from FYs 2008 through 2010. We did not perform a formal reliability assessment of the computer-processed data because the SOAR system reliability tests were performed previously as part of the audit of the Comprehensive Annual Financial Report.

INTRODUCTION

This performance audit was conducted 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

SECTION I: AWARD OF THE INFORMATION TECHNOLOGY STAFF AUGMENTATION CONTRACT

SYNOPSIS

OCP contracting officials did not comply with all Title 27 DCMR provisions related to the award of the ITSA contract. Specifically, OCP did not determine in writing that the use of a contract for services rather than the use of District employees was substantially more economical and feasible; accept the best and final offer (BAFO) rate (at a lower cost to the District) for hourly service fees proposed by the contractor; determine cost reasonableness for a contract awarded over \$500,000; and provide adequate justification to change the ITSA hourly service fee from a tiered pricing structure to a fixed fee when modifying the first option year.

We discussed these conditions with OCP contracting officials who indicated that: managing the contracted services in-house was not feasible; the proposed lower hourly service fee rate was inadequate for OST to provide the required services; a cost analysis was unnecessary and redundant; and the District grossly overestimated its requirements (hours) during the request for proposal process.

In addition, OCP contracting officials did not include the requirement of 1% sales discount revenue in the ITSA contract terms and conditions when awarding the contract. OCP officials informed us that the requirement was omitted because the District would have difficulty recapturing the fee from the vendor.

As a result, the District's excess cost of using this contract for services rather than District employees may be as much as \$7 million over the 5-year contract period. OCP also awarded the contract for a higher contract price than proposed, which will result in additional expenditures of about \$1.9 million over the same period. Further, OCP did not determine that OST's contract price was reasonable and increased the contract hourly service fee by \$375,000 when exercising the first option year. In addition, the District may lose sales discount revenue calculated to be about \$1.5 million over the 5-year contract period.

Moreover, OCP did not maintain adequate internal controls over the procurement process to ensure that the contract was safeguarded against fraud, waste, and abuse. Specifically, OCP officials could not provide or identify the internal controls over the award process, and informed us that they are working on identifying them. We concluded that OCP lacked reasonable assurance that material error or fraud would be prevented or detected in a timely manner.

AUDIT RESULTS

DISCUSSION

Contract Management. The Contracting Officer (CO) did not determine in writing that the use of a contract for consulting services, rather than the use of District employees, was substantially more economical and feasible. Title 27 DCMR § 1901.5 states:

The CO shall determine in writing that the contract for expert or consulting services rather than the use of District employees is in the best interests of the District for one (1) or more of the following reasons:

- (a) The use of a contract for services is substantially more economical, feasible, or necessary due to unusual or emergency circumstances;
- (b) The services are needed for short periods only or are needed in connection with a specific project that is to be completed within a specified period; or
- (c) The services are difficult to obtain due to scarcity of skilled personnel or because the services are of a highly specialized nature.

Also, the IT Staff Augmentation Contract Plan dated August 4, 2008, (the strategic plan) sets forth the principal goals, strategies, and issues to be addressed by an ITSA contract.¹

OCTO analyzed and used the procurement implementation experiences of the Commonwealth of Virginia and the state of Texas to support its assertion that implementing a contract to remove the IT procurements from the open market solicitation process should be a high priority in order to improve the procurement process. Specifically, OCTO considered two alternatives as follows:

- Supplier-managed/single vendor, where a single vendor acts as contractor and manages the work order fulfillment process with a stable of subcontracting vendors who supply candidates [caps hourly rate and outsources the contract management], [and]
- Agency-managed/multiple vendor, where the public sector agency contracts directly with multiple vendors who are pre-qualified to provide candidates in response to agency work order requests [caps hourly rates and manages the contract in-house]. (*Id.* at 17 (emphasis omitted).)

As set forth in the Executive Summary section of the strategic plan, an analysis of OCTO staff augmentation procurements in FY 2007 suggested that the following savings could be achieved

¹ OCTO and OCP also refer the plan as “the decision paper.”

AUDIT RESULTS

through implementation of a staff augmentation master agreement (i.e., caps the hourly rate and outsources the contract management): (1) Hourly rate caps can save \$5-10 million paid to contractors; (2) OCP resources can be spared from working on staff augmentation procurements, saving potentially 12,000 to 18,000 hours of resource time (6 to 9 FTEs); and (3) generate \$500,000/year in revenue from the vendor fee for participating in the master agreement.

It is our opinion that the decision to pursue a procurement contractor or maintain OCP's services should involve a choice between at least two substantially different alternatives. In choosing among available alternatives, managers should consider all relevant information, including the predicted future costs and revenues resulting from each alternative. A cost or benefit that is the same among alternatives is not determinative because it does not allow the government to contrast the competing options.

As set forth in the strategic plan, the two alternative approaches (supplier-managed/single vendor and agency-managed/multiple vendor) have the same feature of capped hourly rates for defined job categories and vendor performance monitoring.² Therefore, the claimed \$5-10 million savings (benefit) is not a determinative factor because it is identical for both alternatives. However, material factors that vary between the two alternatives are the cost avoidance associated with the 12,000 to 18,000 hours of resource time (6 to 9 FTEs) and the additional cost related to the hourly service fee. Therefore, a comparison should have been made between the cost reductions associated with the decrease in hours of resource time and the additional costs related to the use of a contract for procurement services.

OIG auditors questioned an OCTO official regarding the decision to pursue a procurement contract rather than continuing to use OCP personnel. The official indicated that no formal cost-benefit analysis was performed to support the decision. Also, the official explained that the decision to pursue the procurement contract was made primarily due to OCP's lack of capacity to manage the contracts in-house. Also, OIG auditors discussed the issue with OCP officials who agreed with OCTO's assertion that OCP lacked capacity to manage the contracts in-house.

However, based on the following comparison of activities performed by the prime contractor to the activities previously performed by OCP personnel, we believe OCP had sufficient competent resources to support OCTO's IT service-related requirements because the duties are fundamentally the same.

² Section 4.2 of the strategic plan states, in part, that the contracts also feature capped hourly rates for defined job categories and vendor performance monitoring. According to Section 4.2.2 of the strategic plan, the "primary difference is [whether] the entity contracts directly with a variety of vendors and manages those vendor relationships separately."

AUDIT RESULTS

Before implementation of the ITSA contract, OCTO augmented its IT staff by contracting for IT services via the DCSS and submitted its service requirements to OCP. In this capacity, OCTO: developed the Statements of Work (SOWs); performed the technical evaluations to assist OCP in selecting a contractor; and assigned the COTR, who received the IT services as well as reviewed and approved contractor invoices.

Through use of the DCSS to fulfill OCTO's IT contracting requirement, OCP was responsible for:

1. issuing RFPs to vendors;
2. receiving proposals from vendors;
3. screening proposals based on the SOW;
4. submitting screened proposals for technical evaluations;
5. receiving technical evaluation reports;
6. performing price evaluations;
7. consolidating both technical and price evaluations;
8. selecting the highest qualified vendor; and
9. awarding contracts (issuing purchase orders (POs)).

After implementation of the ITSA contract, OCTO now augments its IT staff by submitting its requirements to OST. Under this arrangement, OCTO: completes job specifications; conducts interviews to select a resource; assigns a COTR, who reviews and approves contractor invoices; and approves timesheets from resources.

Through use of the ITSA contract to fulfill OCTO's IT contracting requirement, OST is responsible for:

1. issuing requirements to vendors;
2. receiving proposals from vendors;
3. screening proposals based on the NTE rate, minimum years of experience, and qualifications;
4. submitting screened proposals for technical evaluations;
5. receiving notification from the program manager (PM) of the selected resource;
6. sending an email notification to the CO for ITSA contract requesting a PO;
7. receiving a PO from OCP; and
8. awarding or issuing the PO to the vendor.

Based on the above comparison of activities performed by the prime contractor to the activities previously performed by OCP employees, we believe the prime contractor is not performing anything differently than OCP did, but the District loses control under this scenario and it is a more expensive arrangement.

AUDIT RESULTS

Prior to the implementation of the ITSA contract, OCP paid within a range of \$137,317 to \$187,200, in annual contract fees per contractor (see Exhibit B) to procure IT services; therefore, we believe that OCP could have hired qualified and competent contractors for the same amount of money (\$137,317 to \$187,200) if additional resources were needed to procure IT services. Further, because these resources were direct contractors, OCP had greater flexibility to replace the underperforming contractors with competent ones.

Prior to the ITSA contract, OCP utilized 13 employees (7 FTEs and 6 contract resources) within its IT commodity group to support OCTO's IT-related procurement requirements. The IT commodity group is responsible for procuring OCTO requirements, which are classified into three broad categories: IT Support Services, IT Equipment, and IT Software. Prior to implementation of the ITSA contract, 8 employees (62%) were dedicated to procuring IT support services. After implementation of the ITSA contract, the six contract employees were terminated, leaving five FTEs in OCP's IT commodity group to procure IT equipment and software, while the remaining two FTEs support the ITSA contract.

To determine whether the use of a contract for procurement services or an in-house program via OCP was more economical and feasible, we independently performed a cost-benefit analysis by obtaining payment information related to the six terminated contract employees. We determined that the District saved \$927,000 in operating costs. In contrast, during FY 2010, the District paid about \$2.4 million to OST for similar IT support services. As a result, the District's excess cost of using a contract for services rather than in-house procurement may be as much as \$7 million over the 5-year contract period (see Exhibit B).³

Hourly Service Fees. The CO rejected OST's BAFO hourly service fees (at a lower cost to the District) and awarded the contract for a higher contract price. Title 27 DCMR § 1622.6 states that "[a]fter evaluation of the [BAFO], the contracting officer shall select the source whose [BAFO] is most advantageous to the District, considering only price and other factors included in the solicitation."

Also, the OCP 2009 Procedures Manual (the manual) sets forth OCP policy regarding the award of contracts via competitive sealed proposals or, as this method of procurement is commonly known, the request for proposals (RFP). OCP 2009 Procedures Manual, Ch. 2, § 4. As set forth in the manual, in circumstances where OCP officials cannot make an award on the basis of the initial offers received, OCP conducts discussions with offerors considered to be within the competitive range for the purpose of negotiating the weaknesses or deficiencies in their respective proposals. *Id.* §§ 2.4.51-2.4.54.

³ The actual costs of procurement during ITSA are greater because we did not include the two OCP employees who have worked on this contract the entire time.

AUDIT RESULTS

Upon conclusion of these discussions, the CO requests a BAFO from the offerors. *Id.* § 2.4.55. In accordance with the manual, the evaluation panel and the cost/price analyst evaluate the BAFOs once they have been received, following the same process described in § 2.4.34 of the manual.⁴

OCP has also issued policy pertaining to the offerors' Cost/Price Disclosure Certifications. OCP's Cost/Price Data requirements provide in relevant part:

The cost/price proposal will represent the offerors' understanding of the RFP's requirements and the offeror's ability to organize and perform those requirements effectively and efficiently. The evaluation of the [o]fferor's cost/price proposal will be based on an analysis of the realism and completeness of the cost data, the conformity of the cost to the offeror's technical data and the proposed allocation of labor-hours and skill sets.... *If the District considers the proposed costs to be unrealistic, the [o]fferor should adjust its proposed costs accordingly... The burden of proof for cost credibility rests with the [o]fferor.*

Id. § 1.3 (emphasis added). We noted that OST submitted a Cost/Price Disclosure Certification along with its BAFO. The evaluation committee reviewed OST's submission and via memorandum dated June 19, 2008, notified the CO that it had reached the following determination:

OST, Inc. responded affirmatively to the District's request to document their ability to pay Subcontracting Vendors within 7 days. OST provided letters of credit that prove this ability. OST also reduced their Hourly Service Charge. The Hourly Service Charges presented in their original proposal were acceptable. The newer rates, however, may be inadequate for OST to provide the services required and may reflect OST's lack of experience in pricing its response to this solicitation.

Our review of the ITSA contract indicated that the hourly service fee rates in the contract awarded to OST are higher than the ones in OST's BAFO. To the extent the CO increased OST's BAFO hourly service fee rates in exclusive reliance on the evaluation committee's determination that the rates submitted may have been inadequate for OST to provide the required services, but did not require OST officials to respond to the evaluation committee's concerns and adjust the rates if necessary, we conclude that the CO acted contrary to OCP's Cost/Price Data Requirements as set forth above and, in so doing, exposed the District to increased cost of \$1.9 million over the 5-year contract period. Table 2 on the following page details the excess amount

⁴ We note that Section 2.4.34 of the 2009 Procedures Manual addresses the issuance of amendments to the solicitation, if required. On November 24, 2010, an OCP official informed the OIG that this citation is incorrect and OCP is working to correct it.

AUDIT RESULTS

awarded to OST based upon the District's decision to deviate from OST's BAFO hourly service fees.

Table 2: OST's Awarded Hourly Service Fees Compared to Its BAFO Proposal

Periods	OST's Proposed BAFO Hourly Service Fees ⁵	District Awarded Hourly Service Fees ⁶	Excess of Awarded Amount Over OST's Proposed BAFO Amount
Base Year	\$2,886,800	\$3,251,797	\$364,997
Option Year 1	\$2,958,970	\$3,332,366	\$373,396
Option Year 2	\$3,031,140	\$3,416,937	\$385,797
Option Year 3	\$3,110,527	\$3,503,624	\$393,097
Option Year 4	\$3,189,914	\$3,591,410	\$401,496
Total	\$15,177,351	\$17,096,134	\$1,918,783
Total Excess of Awarded Amount Over BAFO Amount			\$1,918,783

Cost Reasonableness. OCP did not obtain certified cost or pricing data as required by D.C. Code § 2-303.08(a) (2006) prior to the award of OST Contract Number DCTO-2008-C-0135, valued at \$75 million. OCP also did not determine reasonableness of cost and profit in

⁵ This information was obtained from OST's June 16, 2008, BAFO.

⁶ Detailed calculations of contract hourly service fees for each period are presented in Exhibit C.

AUDIT RESULTS

accordance with 27 DCMR § 1626.1, which requires a cost analysis when a contract award or modification exceeds \$500,000.⁷

OCP did not provide a Determination and Findings (D&F) to justify why a cost analysis was not performed; however, upon request, OCP provided the OIG with a memorandum dated November 9, 2010, which reads:

OCP acknowledges that 27 DCMR 1624.1 requires ... that the “Contracting Officer perform a cost analysis...” for any contract “in excess of \$500,000.” Adequate competition and pre-defined labor rates were in place and a price analysis was completed as part of the proposal evaluation process. In the professional judgment of the Contracting Officer, the price analysis obviated the need for a separate cost analysis. A total of seven different vendors submitted offers for the RFP, four of which were deemed acceptable. The presence of competition demanded that offerors provide the District with the best possible price. After receiving proposals the Contract[ing] Officer and a team of technical experts, armed with access to existing labor rates for similar services were able to conclude that the prices being offered were reasonable and would substantially benefit the District. For these reasons, conducting a cost analysis was deemed an unnecessary and redundant action. Unfortunately, [OCP] failed to explain this thinking in the contract file with adequate documentation.

To validate OCP’s response, we requested information on pre-defined rates and access to records on existing labor rates for similar services. However, OCP could not provide any additional information to support its assertions.

As a result, we concluded that OCP did not adequately determine the reasonableness of OST’s proposed prices, via a cost analysis, for the ITSA contract. We believe the contract file for the OST contract should have contained evidence that cost reasonableness was determined and, in the absence thereof, OCP should have requested and obtained certified cost or pricing data from OST and performed a cost analysis to ensure that the cost or pricing data OST submitted was accurate, complete, and current to avoid any potential overpricing of the District contract.

Administrative Fee. The IT Staff Augmentation Contract Plan recommends that the prime contractor remit to the District an administrative fee of 1% of total funds paid to it. However,

⁷ As an exception to this requirement, D.C. Code § 2-303.08(c) provides that OCP does not have to obtain certified cost or pricing data where “the price negotiated is based on established catalog or market prices of commercial items sold in substantial quantities to the general public, or prices set by law or regulations.” The exception, therefore, was inapplicable to this procurement.

AUDIT RESULTS

OCP did not include an administrative fee requirement in the ITSA contract terms and conditions.⁸

OIG auditors questioned an OCTO official regarding why the District decided to exclude an administrative fee requirement from the ITSA contract. The official provided an explanation via email, which states:

We presented the 1% fee to [the then] City Administrator in March of 2008. He decided to omit this feature from the contract for two reasons:

1. It was decided that the District would have difficulty recapturing this 1% fee from the vendor, given the difficulties we have recapturing the 1% fee from DC Supply Schedule Vendors.^{19]}
2. It was his opinion (and I agree) that this 1% is a false savings. The vendor will simply increase their price by 1% to make up the difference.

However, we note that OCTO's strategic plan was issued after OCTO's March 2008 presentation and includes the recommendation to include an administrative fee. Further, OCTO officials did not maintain documentation to support the decision to forego the fee. As a result, the District lost the opportunity to collect approximately \$1.5 million in revenue over the 5-year contract period as detailed in Table 3, on the following page.

⁸ Section 6.8 of the plan states in part: "[Recommendation] The prime contracting vendor will remit to OCTO an administrative fee of 1% of the total sales that were paid to the prime contractor for services covered by this contract."

⁹ Prior to this contract, IT staff services were partially procured off the District of Columbia Supply Schedule (DCSS). The DCSS Terms and Conditions, Section 1 states in part: "The District of Columbia shall receive discounts based on the aggregate purchases made under this agreement. Contractors shall remit, as a discount on sales, one percent (1%) of all sales Purchase Orders (PO), Delivery Orders (DO), Task Orders (TO), and purchase cards transactions to the District of Columbia on a quarterly basis."

AUDIT RESULTS

Table 3: Projected Loss in 1% Administrative Fee Revenue

Fiscal Year	Spending on Not-To-Exceed Rates ¹⁰		1% Administrative Fee
	Actual	Calculation	
2009	\$20,853,000	0	\$208,530
2010	\$32,676,000	0	\$326,760
2011	0	\$32,676,000	\$326,760
2012	0	\$32,676,000	\$326,760
2013	0	\$32,676,000	\$326,760
Total loss in 1% administrative fee revenue			\$1,515,570

Contract Modification. OCP contracting officials did not properly convert the ITSA agreed upon fixed hourly service fees from a tiered pricing structure to a fixed fee for services over 99,999 hours when modifying the first option year.

Title 27 DCMR § 3601.2 require the CO to use a bilateral contract modification (also known as a “supplemental agreement”) to do the following:

- (a) Make negotiated equitable adjustments resulting from the issuance of a change order;
- (b) Formalize a letter contract; or
- (c) Reflect other agreements of the parties to modify the terms of the contract.

Our review of Contract Modification No. M0007, showed that the agreed upon fixed hourly service fee rates for option year 1 in excess of 100,000 hours were modified to higher rates, without adequate justification. Upon request for an explanation, OCP provided the OIG with an email from the CO to the Chief Procurement Officer, which states the following:

I am in full support of converting the ITSA Hourly Service from tiered to flat fixed fee when we exercise the next option period. Before I modified the contract during the current option period it caused much hardship to OCP resources, and financial woes to OCTO, other Agencies using the contract, prime contractor OST and as well the CBE subcontractors. There are 16 agencies utilizing this contract with approximately 300 active subcontractors.

¹⁰ We used actual spending for FYs 2009 and 2010. Based on FY 2010 spending, we projected the spending for FYs 2011-2013.

AUDIT RESULTS

If we have to modify every [requisition] four times every year it will have significant impact to OCP IT Procurement Group and other agencies' operations.

OST has agreed to our request to hold the current rate to the end of the current option period to co-term with District FY. Therefore, it is my recommendation to:

1. Modify the contract to keep the current agreed upon flat fixed fee rate at \$5.13 until 09/30/10[;]
2. Exercise the option period #2 with a modification to replace the tiered pricing structure for all remaining option periods[; and]
3. Modify the option period #2 hourly service fee to \$5.78 or slightly below pending negotiation, as requested by OST.

The District grossly overestimated the hours during the RFP process and in my opinion the prime contractor deserves an equitable adjustment.¹¹

Section B.1.2.3 of the RFP reads in part: "The Prime Contractor shall furnish to the District, when and if ordered, the services specified in section B up to and including \$150,000,000 for each contract period, including the Prime Contractor Hourly Service Fee.¹² The District will order at least the minimum of \$100,000 in each contract period, including the Prime Contractor Hourly Service Fee."

Therefore, we disagree with the CO's conclusion that, "the District grossly overestimated the hours during the RFP process" because during FYs 2009 and 2010, OCTO made \$22 million and \$37 million in payments to OST respectively (the District ordered more than the \$100,000 minimum during the base period and option year 1).

To the extent the CO modified the contract to increase the agreed upon fixed hourly service fee rate without adequate justification, we conclude that the CO's actions were in conflict with the contract terms and conditions. In exercising the modification, the District increased its cost by \$375,000, which could have been avoided. Table 4 (on the following page) details the increased cost resulting from the modification.

¹¹ We noted a discrepancy with OCP's response. The email discusses replacing the tiered rate for option period 2 instead of option period 1.

¹² The \$150,000,000 original proposed contract amount was modified to \$75,000,000.

AUDIT RESULTS

Table 4: Excess of Modified Amount Over Original Amount for Hourly Service Fee

Hours Billed by OST	Original Amount			Modified Amount			Excess of Modification Over Original Amount
	Price/Hour	Hours	Extended Price	Price/Hour	Hours	Extended Price	
0-9,999	\$5.64	9,999	\$56,394	\$5.64	9,999	\$56,394	-
10,000-99,999	\$5.13	99,999	\$512,995	\$5.13	99,999	\$512,995	-
100,000-499,999	\$4.61	499,999	\$2,304,995	\$5.13	499,999	\$2,564,995	\$260,000
>=500,000	\$4.10	111,703	\$457,982	\$5.13	111,703	\$573,036	\$115,054
Total Extended Price – Option Year 1		721,700	\$3,332,366		721,700	\$3,707,420	\$375,054

Internal Control. According to Generally Accepted Government Auditing Standards (GAGAS), Paragraph 1.30, internal control “comprises the plans, policies, methods, and procedures used to meet the organization’s mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and management’s system for measuring, reporting, and monitoring program performance.”¹³ Management is responsible for developing, implementing, and monitoring internal controls. Ultimately, internal controls provide reasonable, but not absolute, assurance that the organization’s goals will be achieved.

GAGAS Paragraph 7.16 states that the auditors should obtain an understanding of internal control that is significant within the context of the audit objectives by assessing whether internal control has been properly designed and implemented.¹⁴ GAGAS 7.17 further indicates that auditors “may modify the nature, timing, or extent of the audit procedures based on the auditors’ assessment of internal control and the results of internal control testing.”¹⁵

To obtain an overall understanding of internal controls maintained at OCP related to procurement processes, we formulated an internal control questionnaire (ICQ) to be completed by OCP and OCTO. Based upon the responses we received from OCP and OCTO, we

¹³ U.S. GOVERNMENT ACCOUNTABILITY OFFICE, GOVERNMENT AUDITING STANDARDS 20, GAO-07-731G (2007 Rev.).

¹⁴ *Id.* at 131.

¹⁵ *Id.* at 131-132.

AUDIT RESULTS

identified significant weaknesses regarding the ITSA contract award process, which are presented in Table 5 below.

Table 5: Internal Control Weaknesses in the ITSA Contract Award Process

ICQ	OCP's Answer	Internal Control Weakness	OIG Recommendation
1. Are ordering and receiving functions separated from invoice processing and General Ledger functions?	Yes	OCTO program managers are responsible for the ordering and receiving functions.	OCP should independently procure services based on SOWs prepared by the requesting agency.
2. Does Procurement complete the files accurately, completely, and timely?	Yes	The ITSA contract file maintained by OCP does not contain documentation of the D.C. Council's approval of the ITSA contract.	OCP should update the procurement file to contain all relevant information.
3. Does the Procurement Director complete and sign a Procurement Checklist?	No, the CO does.	We noted that the procurement checklists did not contain the procurement director/contracting officer's signature.	All procurement checklists should contain the signatures of the appropriate OCP officials to ensure that the ITSA contract file is accurate, complete, and current.
4. Was there proper separation of duties for the justification function and the decisions on how to perform the acquisition process?	Yes	Our audit found that there was no proper separation of duties for the justification function and the decisions on how to perform the acquisition process. OCTO performed both functions.	OCP should obtain and document all relevant information related to the strategic plan prior to the issuance of the RFP.

AUDIT RESULTS

ICQ	OCP's Answer	Internal Control Weakness	OIG Recommendation
5. Are post offer negotiations clearly agreed upon and signed by all parties and adequately documented?	Yes	The OCP contract file did not contain documentation to support BAFO information indicated in the "Cost/Price Analysis Report – BAFO" report.	OCP should maintain all relevant information in the contract file.
6. Are goods and services accompanied by receiving notes?	Yes	Timesheets are the receiving notes for ITSA services. Currently, all ITSA contract resources are required to process their weekly timesheets in the PASS system for approval by respective OCTO PMs. Based upon our interviews with OCTO PMs, we noted that no independent time recording is maintained at OCTO to verify the accuracy of the time entered by contractor resources.	OCP should require that OCTO program managers maintain an independent time tracking system for all contractors.

OIG auditors met with OCP officials regarding a list of internal controls maintained at OCP over procurement processes. At the meeting, OCP officials agreed to provide the internal controls within 2 weeks. However, after a follow-up request, officials responded in a December 14, 2010, email as follows:

OCP is working towards developing a list of key controls and it was agreed that no specific list was to be submitted at this point in time [W]e were still in the developmental phases of this particular initiative and so it made no sense to provide a list of key controls that would be, for all intensive purposes, arbitrary. OCP is in fact actively working toward[] achieving this goal."

We concluded that OCP did not have reasonable assurance that material error or fraud would be prevented or detected in a timely manner with respect to OCP procurement processes.

AUDIT RESULTS

SECTION II: RECOMMENDATIONS, MANAGEMENT RESPONSES AND OIG COMMENTS

We recommend that the Chief Procurement Officer, Office of Contracting and Procurement:

RECOMMENDATION 1

Determine in writing that the use of a contract for IT services rather than the use of District employees is fully justified before exercising options to renew the contract for services.

OCP RESPONSE

In principle, OCP agreed with the recommendation and plans to make a robust and forward looking assessment before any contract is awarded.

OIG COMMENT

The OIG agrees with OCP's assertions that a robust and forward looking assessment is required before any contract is awarded. However, OCP did not provide documentation to support a robust and forward looking assessment was conducted prior to awarding the ITSA contract. In the absence of this supporting documentation, OCP should justify use of the ITSA contract rather than use of District employees before exercising option year 3 (see the OIG's full response at Exhibit D).

RECOMMENDATION 2

Require OST officials to respond to the evaluation committee's concerns with OST's BAFO rates and adjust the rates if necessary.

OCP RESPONSE

OCP agreed that the BAFO process must serve the purpose for which it was established. Specifically, a BAFO is invoked to ensure that the District obtains the absolute best price for goods and/or services. However, OCP believed that OST's pricing remained consistent throughout the evaluation process and is accurately reflected in the contract award.

OIG COMMENT

The OIG also agrees with OCP's comments that BAFO must serve its purpose. However, the OIG disagrees with OCP's response that the OST's pricing remained consistent throughout the

AUDIT RESULTS

evaluation process and the contract was awarded accurately. OCP comments were based upon the higher contract price contained in the original proposal, as opposed to the lower price proposal contained in the BAFO documentation (see the OIG's full response at Exhibit D).

RECOMMENDATION 3

Comply with the requirement established in 27 DCMR § 1626 for the performance of the cost analysis and document any exceptions in a Determination and Findings (D&F).

OCP RESPONSE

OCP agreed with the recommendation and plans to modify the regulation.

OIG COMMENT

Action taken by OCP is responsive and meets the intent of the recommendation.

RECOMMENDATION 4

Follow the requirements established in 27 DCMR § 3601.2 when making adjustments to contracts that require a bilateral contract modification.

OCP RESPONSE

OCP agreed with the recommendation and plans to maintain all relevant information in the contract file.

OIG COMMENT

OCP agreed with our recommendation made to correct the described deficiency. However, OCP did not provide us with documentation to support its assertion. The OIG believes OCP should provide documentation to support the conversion of the ITSA agreed upon fixed hourly service fees from a tiered pricing structure to a flat fixed fee.

RECOMMENDATION 5

Include the 1 percent sales discount requirement in the ITSA contract terms and condition when exercising future options.

AUDIT RESULTS

OCP RESPONSE

OCP disagreed with the recommendation and indicated in its revised response that to pursue the administrative fee would create a new administrative burden on OCP staff without realizing any real financial benefit, and it is likely that the vendor would simply embed the 1% fee into the price of the contract to make up lost profit. Further, OCP states that any imposition of fees at this point would require negotiation of the pricing schedule, which may result in a disadvantageous outcome for the District.

OIG COMMENT

The OIG considered OCP's comments to be nonresponsive to this recommendation. OCP did not provide documentation to support its assertion that the administrative cost burden on OCP staff is greater than the additional 1% administrative fee revenue to be generated (see the OIG's full response at Exhibit D).

RECOMMENDATION 6

Follow OCP procedures to ensure that OCP independently procures IT services based on the SOW.

OCP RESPONSE

OCP agreed with the recommendation and plans to ensure IT services are independently procured.

OIG COMMENT

OCP agreed with our recommendation made to correct the described deficiency. However, OCP disagreed with our conclusion that the using agencies program managers were responsible for selecting resources (procuring function) and approving resources timesheets. The OIG believes OCP should independently procure (select) IT staff based on the statement of work submitted by the user agency.

RECOMMENDATION 7

Comply with the requirement established in 27 DCMR to maintain all relevant information in the contract file.

AUDIT RESULTS

OCP RESPONSE

OCP agreed with the recommendation and has sent a memorandum to District procurement staff under the CPO's authority to remind them to ensure all contract files are complete and accurate.

OIG COMMENT

Action taken by OCP is responsive and meets the intent of the recommendation.

RECOMMENDATION 8

Ensure that procurement checklists contain signatures of appropriate officials verifying that the contract file is accurate, complete, and current.

OCP RESPONSE

OCP agreed with the recommendation and plans to perform periodic compliance verification to ensure accuracy and completeness.

OIG COMMENT

Action taken by OCP is responsive and meets the intent of the recommendation.

RECOMMENDATION 9

Require the requesting agency to maintain an independent time-tracking system for all contractors in order to provide documentation for approval of weekly timesheets.

OCP RESPONSE

OCP disagreed with the recommendation and indicated in its response that the current eTime module in PASS is an adequate independent time-tracking system.

OIG COMMENT

The OIG considered OCP's comments to be nonresponsive to this recommendation. OCP did not have reasonable assurance that the hours approved in PASS system for IT services are free from misstatement of hours actually worked (see the OIG's full response at Exhibit D).

AUDIT RESULTS

RECOMMENDATION 10

Develop, maintain, and monitor a list of key controls over the procurement process to ensure that OCP has reasonable assurance that material error or fraud is prevented or detected in a timely manner.

OCP RESPONSE

OCP agreed with the recommendation and identified a list of key areas for review.

OIG COMMENT

Action taken by OCP is responsive and meets the intent of the recommendation.

**EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS
RESULTING FROM AUDIT**

Recommendations	Description of Benefit	Amount and Type of Benefit	Agency Reported Estimated Completion Date	Status¹⁶
1	Compliance, Internal Control, and Economy and Efficiency. Ensures procurement personnel comply with the requirement to determine in writing that the use of a contract for IT services rather than District employees is feasible and economical.	Monetary \$7,065,000	TBD	Open
2	Compliance, Internal Control, and Economy and Efficiency. Ensures procurement personnel comply with the requirement to award a contract based on the contract price.	Monetary \$1,918,783	TBD	Open
3	Compliance, Internal Control, and Economy and Efficiency. Ensures procurement personnel comply with the requirement to perform a cost analysis.	Non-Monetary	TBD	Open

¹⁶ 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 A. SUMMARY OF POTENTIAL BENEFITS
RESULTING FROM AUDIT**

Recommendations	Description of Benefit	Amount and Type of Benefit	Agency Reported Estimated Completion Date	Status¹⁶
4	Compliance, Internal Control, and Economy and Efficiency. Requires procurement personnel to modify the contract only where adequate justification is provided.	Monetary \$375,054	TBD	Open
5	Financial. Requires procurement personnel to consider negotiating for inclusion of the 1% sales discount revenue requirement in the ITSA contract when exercising future options.	Monetary \$1,515,570	TBD	Open
6	Internal Control. Requires OCP to independently procure services based on SOWs prepared by the requesting agency.	Non-Monetary	TBD	Open
7	Compliance and Internal Control. Ensures that OCP maintains all documentation relevant to the award of contracts in a contract file.	Non-Monetary	June 9, 2011	Closed

**EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS
 RESULTING FROM AUDIT**

Recommendations	Description of Benefit	Amount and Type of Benefit	Agency Reported Estimated Completion Date	Status¹⁶
8	Compliance and Internal Control. Provides assurance that prepared procurement checklists are reviewed to determine that the contract files contain accurate, complete, and relevant documentation.	Non-Monetary	TBD	Open
9	Compliance and Internal Control. Ensures that payments made to contractors are supported and in compliance with contract terms.	Non-Monetary	TBD	Open
10	Compliance and Internal Control. Provides reasonable assurance that material error or fraud would be prevented or detected in a timely manner.	Non-Monetary	July 15, 2011	Closed

**EXHIBIT B. IN-HOUSE COST OF IT SERVICES
PROCUREMENT VS. COST TO OUTSOURCE VIA A
CONTRACT FOR PROCUREMENT SERVICES**

Description	Actual		Projection			Total
	FY 2009 ¹⁷	FY 2010	FY 2011	FY 2012	FY 2013	
Contractor 1	\$36,000	\$187,000	\$187,000	\$187,000	\$187,000	
Contractor 2	\$42,000	\$152,000	\$152,000	\$152,000	\$152,000	
Contractor 3	\$103,000	\$177,000	\$177,000	\$177,000	\$177,000	
Contractor 4	0	\$137,000	\$137,000	\$137,000	\$137,000	
Contractor 5	0	\$137,000	\$137,000	\$137,000	\$137,000	
Contractor 6	0	\$137,000	\$137,000	\$137,000	\$137,000	
Total Cost to Procure IT Services In-house	\$181,000	\$927,000	\$927,000	\$927,000	\$927,000	\$3,889,000
Total Cost to Outsource Via a Contract for Services	\$1,266,000	\$2,422,000	\$2,422,000	\$2,422,000	\$2,422,000	\$10,954,000
Excess Cost to Outsource Via a Contract for Services Over Cost to Procure IT Services In-house						\$7,065,000

¹⁷ FY 2009 figures are partial amounts based on the actual termination dates of the contractors obtained from reports provided by OCTO. Most of the contractors were terminated on March 30, 2009.

EXHIBIT C. CONTRACT HOURLY SERVICE FEES

Hours Billed by Prime Contractor	Price/Hour	Hours	Extended Price
0-9,999	\$5.5	9,999	\$54,994
10,000-99,999	\$5	99,999	\$499,995
100,000-499,999	\$4.5	499,999	\$2,249,996
>=500,000 ¹⁸	\$4	111,703 ¹⁹	\$446,812
Total Extended Price – Base Year		721,700	\$3,251,797

Hours Billed by Prime Contractor	Price/Hour	Hours	Extended Price
0-9,999	\$5.64	9,999	\$56,394
10,000-99,999	\$5.13	99,999	\$512,995
100,000-499,999	\$4.61	499,999	\$2,304,995
>=500,000	\$4.10	111,703	\$457,982
Total Extended Price – Option Year 1		721,700	\$3,332,366

Hours Billed by Prime Contractor	Price/Hour	Hours	Extended Price
0-9,999	\$5.78	9,999	\$57,794
10,000-99,999	\$5.25	99,999	\$524,995
100,000-499,999	\$4.73	499,999	\$2,364,995
>=500,000	\$4.20	111,703	\$469,153
Total Extended Price – Option Year 2		721,700	\$3,416,937

¹⁸The total hours included in the solicitation are 721,700.

¹⁹The 111,703 figure is derived by subtracting the sum of 9,999, 99,999, and 499,999 from 721,700.

EXHIBIT C. CONTRACT HOURLY SERVICE FEES

Hours Billed by Prime Contractor	Price/Hour	Hours	Extended Price
0-9,999	\$5.92	9,999	\$59,194
10,000-99,999	\$5.38	99,999	\$537,995
100,000-499,999	\$4.85	499,999	\$2,424,995
>=500,000	\$4.31	111,703	\$481,440
Total Extended Price – Option Year 3		721,700	\$3,503,624

Hours Billed by Prime Contractor	Price/Hour	Hours	Extended Price
0-9,999	\$6.07	9,999	\$60,694
10,000-99,999	\$5.52	99,999	\$551,994
100,000-499,999	\$4.97	499,999	\$2,484,995
>=500,000	\$4.42	111,703	\$493,727
Total Extended Price – Option Year 4		721,700	\$3,591,410

EXHIBIT D. OIG COMMENTS TO OCP'S REVISED RESPONSE TO THE DRAFT REPORT

OFFICE OF THE INSPECTOR GENERAL COMMENTS TO THE DISTRICT OF COLUMBIA OFFICE OF CONTRACTING AND PROCUREMENT'S RESPONSE TO THE DRAFT REPORT ON INFORMATION TECHNOLOGY STAFF AUGMENTATION (ITSA) CONTRACT (OIG No. 10-1-19TO)

OIG Overall Comments

In analyzing OCP's revised response, OIG staff considered the information that OCP provided, and adjusted the report where warranted. Specific OIG comments appear following language as taken from the detailed OCP revised response to the draft report.

The OIG based its finding and related recommendations in this audit report on facts gathered from independent sources (OCP, OCTO, and OST) during the course of the audit. Our audit results and conclusions are fully supported by sufficient and appropriate audit evidence.

Section I: Award of the Information Technology Staff Augmentation Contract

Finding 1 (p. 6-9): Contract Management. The contracting officer did not determine in writing that use of a contract for consulting services, rather than use of District employees, was substantially more economical and feasible.

OCP Revised Response, page 1 of 10: In principle OCP agrees with this recommendation. While OCP recognizes that it is good practice to re-evaluate the needs of the business and suitability of existing contractual arrangements before exercising options, OCP submits that a robust and forward looking assessment is required before any contract is awarded. Further, OCP submits that the requirements under 27 DCMR 1902.6 do not apply because ITSA is not a personal services contract.

OIG Comment: Generally, the OIG considered OCP's comments to be responsive to this recommendation. The OIG agrees with OCP's assertions that a robust and forward looking assessment is required before any contract is awarded. To concur with its assertion, OCP should justify use of a contract for IT services (ITSA contract) rather than use of District employees before exercising option year 3.

However, the OIG disagrees with OCP's assertion that award of the ITSA contract to OST positively contributes to the operational stability and financial health of the District. Instead, the OIG noted that the District's decision to cap the hourly rates for IT staff requirements contributed to the operational stability and financial health.

During our audit, we reviewed the Information Technology Staff Augmentation Contract Plan (plan) and related supporting documentations and determined that the plan did not justify that the use of a contractor was more beneficial than use of in-house District employees. Specifically, the

EXHIBIT D. OIG COMMENTS TO OCP'S REVISED RESPONSE TO THE DRAFT REPORT

plan did justify that capping the hourly rates through the ITSA model would benefit the District. However, the plan did not further justify that outsourcing the contract was more economical and feasible than managing the contract in-house. There was no calculation in the plan to compare the cost of using a contractor to the cost of using in-house District employees.

In absence of this justification, we independently compared the in-house cost of IT services procurement to the cost to outsource via a contract for procurement services. Our comparison shows that it would be more beneficial to the District if OCP managed the contract in-house (i.e., the District's excess cost of using this contract for services rather than District employees may be as much as \$7 million over the 5-year contract period).

OCP also indicated in its revised response that the number of PO's increased from 871 before ITSA in FY07, to 1287 after ITSA in FY10. Also, OCP indicated that 24 tasks after ITSA were added to the procurement process and the average cycle time for procuring IT services was reduced to 16.87 days from 37.5 days. However, we determined that these variables are irrelevant to the finding, because the variables would be the same and/or avoided if the contract was managed in-house.

OCP Revised Response, page 5 of 10:

Finding 2 (p.9-11): Hourly Service Fees. The CO rejected OST's Best and Final Offer (BAFO) hourly service fees (at a lower cost to the District) and awarded the contract for a higher contract price.

OCP Comment: OCP maintains the position that the BAFO process must serve the purpose for which it was established. Specifically, a BAFO is invoked to ensure that the District stakeholders get the absolute best price for goods and/or services. OCP submits that the award was not improper and that the District realized significant savings by awarding the ITSA contract to OST Inc.

Further, the agency maintains that pricing originally submitted by OST was not rejected during the evaluation process and subsequently awarded at a higher price. In fact, OST's pricing remained consistent throughout the evaluation process and is accurately reflected in the contract award.

OIG Comment: The OIG considered OCP's comments to be nonresponsive to this recommendation. The OIG disagrees with OCP's response that the OST's pricing remained consistent throughout the evaluation process and awarded accurately. OCP comments were based upon the higher contract price contained in the original proposal as opposed to the lower price proposal contained in the BAFO.

During the course of the audit, OCP was unable to provide sufficient documentation to support its decisions regarding awards to OST. Specifically, at the onset of the audit, we requested all supporting documents such as the request for proposal, bid lists, signed evaluation forms by the evaluation committee, and the BAFO, etc., related to the awards of the ITSA contract.

EXHIBIT D. OIG COMMENTS TO OCP'S REVISED RESPONSE TO THE DRAFT REPORT

We noted in the contract file that the evaluation committee reviewed OST's BAFO submission and, via memorandum dated June 19, 2008, notified the CO that it had reached the following determination:

OST, Inc. responded affirmatively to the District's request to document their ability to pay Subcontracting Vendors within 7 days. OST provided letters of credit that prove this ability. *OST also reduced their Hourly Service Charge.* The Hourly Service Charges presented in their original proposal were acceptable. The newer rates, however, may be inadequate for OST to provide the services required and may reflect OST's lack of experience in pricing its response to this solicitation.

However, the contract file did not contain OST's BAFO documentation to support the evaluation committee's assertion that "OST also reduced their Hourly Service Charge." To follow up with the evaluation committee's concern and to perform our comparison of the original price proposal and the BAFO price proposal, the OIG directly obtained the BAFO documentation from the vendor. The OIG's comparison indicated that the price contained in the OST's BAFO were lower than the original proposed prices by \$1.9 million over the contract term.

We also reviewed the rates contained in the ITSA contract awarded to OST and the rates at which the District was subsequently invoiced. Our review indicated that the rates contained in the contract and subsequent invoices by OST were higher than the rates contained in the BAFO.

OCP Revised Response, page 7 of 10 (continued):

Finding 3 (p.11-12): Cost Reasonableness. OCP did not obtain certified cost or pricing data as required by D.C. Code 2-303.08 (a) (2006) prior to the award of OST Contract Number DCTO-2008-C-0135, valued at \$75 million.

OCP Comment: OCP agrees with this recommendation.

OIG Comment: OCP agreed with our conclusion and recommendation made to correct the described deficiency.

OCP Revised Response, page 7 of 10 (continued):

Finding 4 (p.14-16): Contract Modification. OCP contracting officials did not properly convert the ITSA agreed upon fixed hourly service fees from a tiered pricing structure to a flat fixed fee for services over 99,999 hours when modifying the first option year.

EXHIBIT D. OIG COMMENTS TO OCP'S REVISED RESPONSE TO THE DRAFT REPORT

OCP Comment: OCP agrees with the recommendation and acknowledges the finding and the importance of maintaining all relevant information in the contract file.

OIG Comment: OCP agreed with our recommendation made to correct the described deficiency. However, OCP in its revised response disagreed with our conclusion. OCP did not provide us with documentation to support its assertion.

OCP Revised Response, page 7 of 10 (continued):

Finding 5 (p.12-14): Administrative Fee. The IT Staff Augmentation Contract Plan recommends that the prime contractor remit to the District an administrative fee of 1% of total funds paid to it.

OCP Comment: OCP stands behind its decision not to pursue the administrative fee because doing so would create a new administrative burden on OCP staff without realizing any real financial benefit. It is likely that the vendor would simply embed the 1% fee into the price of the contract to make up lost profit. Further, OCP states that any imposition of fees at this point would require negotiation of the pricing schedule, which may result in a disadvantageous outcome for the District.

OIG Comment: The OIG considered OCP's comments to be nonresponsive to this recommendation. OCP did not provide documentation to support its assertion that the cost of administrative burden on OCP staff is greater than the additional 1% administrative fee revenue to be generated.

According to the IT Staff Augmentation Contract Plan, to consider negotiating for inclusion of the 1% sales discount requirement would not create any new administrative burden on OCP staff, because the prime contractor should collect the administrative fees on behalf of the District.

We also disagree with OCP's assertion that it is likely that the vendor would simply embed the 1% fee into the price of the contract to make up lost profit because the vendors could not exceed the agreed upon not to exceed rates.

OCP Revised Response, page 8 of 10 (continued):

Finding 6 (p.17): Internal Control Weakness. OCTO program managers are responsible for the ordering and receiving function.

OCP Comment: OCP agrees with the recommendation and acknowledges the importance of segregating duties to ensure IT services are independently procured.

OIG Comment: OCP agreed with our recommendation made to correct the described deficiency. However, OCP disagreed with our conclusion that the using agencies program managers were responsible for selecting resources (procuring function) and approving resources timesheets

EXHIBIT D. OIG COMMENTS TO OCP'S REVISED RESPONSE TO THE DRAFT REPORT

(receiving function). To maintain its independence, OCP should select resources based upon adequate statement of work developed by the program managers.

OCP Revised Response, page 8 of 10:

Finding 7 (p.17): Internal Control Weakness. The ITSA contract file maintained by OCP does not contain all relevant information.

OCP Comment: OCP agrees with the recommendation and acknowledges the finding and the importance of maintaining all relevant information in the contract file.

OIG Comment: OCP agreed with our conclusion and recommendation made to correct the described deficiency.

OCP Revised Response, page 8 of 10 (continued):

Finding 8 (p.17): Internal Control Weakness. The procurement check lists did not contain the procurement director/contracting officer's signature.

OCP Comment: OCP agrees with the recommendation and acknowledges the finding and the significance of verifying the contract file is accurate, complete, and current.

OIG Comment: OCP agreed with our conclusion and recommendation made to correct the described deficiency.

OCP Revised Response, page 9 of 10 (continued):

Finding 9 (p.18): Internal Control Weakness. No independent time recording is maintained at OCTO to verify the accuracy of the time entered by contractor resources.

OCP Comment: OCP believes that the current eTime module in PASS is an adequate independent time-tracking system.

OIG Comment: The OIG considered OCP's comments to be nonresponsive to this recommendation. OCP did not have reasonable assurance that the hours approved in PASS system for IT services are free from misstatement of hours actually worked.

We disagree with OCP's belief that the current eTime module in PASS is an adequate, independent time-tracking system. As noted in our audit, each contractor resource is required to enter their hours in the PASS system weekly for approval by this respective program manager. Without an independent time tracking-system (such as sign in/out sheet) in place to monitor the contractor's performance on a daily basis, program managers expose the District to increased risks of approving

EXHIBIT D. OIG COMMENTS TO OCP'S REVISED RESPONSE TO THE DRAFT REPORT

contractors' hours for services not rendered. Therefore, it is critical that each program office maintain attendance sheets on a daily basis so that hours approved in the PASS system can be reconciled in a timely manner.

OCP Revised Response, page 10 of 10:

Finding 10 (p.18): Internal Control Weakness. OCP did not have reasonable assurance that material error or fraud would be prevented or detected in a timely manner with respect to OCP procurement processes.

OCP Comment: OCP is in the process of developing a list of internal controls to prevent instances of fraud, waste, and abuse.

OIG Comment: OCP agreed with our conclusion and recommendation made to correct the described deficiency.

EXHIBIT E. OCP'S REVISED RESPONSE TO THE DRAFT REPORT

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of Contracting and Procurement



OFFICE OF THE DIRECTOR

July 15, 2011

Charles Willoughby
Office of the Inspector General
717 14th St. N.W.
Washington, DC 20005

Re: OCP and OCTO Response to the Audit of the Information Technology Staff
Augmentation (ITSA) Contract

Dear Mr. Willoughby:

Once again, thank you for the opportunity to respond to the Office of the Inspector General's (OIG) Draft Audit of the Information Technology Staff Augmentation (ITSA) Contract. My office has reviewed your analysis of the ITSA contract and has prepared a revised management response to the recommendations cited in the draft report. **We look forward to collaborating with your office and strengthening our partnership as we work towards the mutual goal of assuring financial and operational stability in District Government.** My office's response to each recommendation is noted below.

1. **Determine in writing that the use of a contract for IT services rather than the use of District employees is fully justified before exercising options to renew the contract for services as required by 27 DCMR 1902.6.**

In principle, the Office of Contracting and Procurement (OCP) agrees with this recommendation. It is important to note, however, that before a contract is awarded, typically at the *requirements gathering* and *acquisition planning phases*, a Contracting Officer is required to exercise her/his professional judgment in making a determination as to the appropriateness of the procurement method. While OCP recognizes that it is good practice to re-evaluate the needs of the business and the suitability of existing contractual arrangements before exercising options, we submit that a robust and forward looking assessment is required before any contract is awarded. Further, OCP submits that the requirements under 27 DCMR 1902.6 do not apply because ITSA is not a personal services contract.

On another note, OCP and its partner, OCTO, must comment on the position that the ITSA contract will cost District taxpayers in excess of seven million dollars (**\$7 Million**) over the life of the contract. An analysis of actual work completed under the ITSA contracts shows that a great deal of additional work is being completed compared to tasks outlined in the Decision Paper. On p. 9 of the Draft Audit, nine specific tasks were listed that OCP was doing to fulfill IT procurement needs.

EXHIBIT E. OCP'S REVISED RESPONSE TO THE DRAFT REPORT

Table 1 below includes these tasks broken down by responsibilities assigned to OCP, the Program Manager (PM), and OST.

Table 1 Pre-ITSA Responsibilities for OCP and other Stakeholders

#	IT SUPPORT SERVICES (PRE-ITSA) RESPONSIBILITIES	OCP	PM	OST	FUNCTION
1*	Issuing RFPs to vendors	✓			Procurement
2*	Receiving proposals from vendors	✓			Procurement
3*	Screening proposals based on the SOW	✓			Procurement
4*	Submitting screened proposals for technical evaluations	✓			Procurement
5*	Receiving technical evaluation reports	✓			Procurement
6*	Performing price evaluations	✓			Procurement
7*	Consolidating both technical and price evaluations	✓			Procurement
8*	Selecting the highest qualified vendor	✓			Procurement
9*	Awarding contracts (issuing purchase orders (POs))	✓			Procurement
10	Perform technical evaluations	✓	✓		Procurement
11	Approve paper timesheets		✓		Finance
12	Process invoices		✓		Finance
13	Meet with vendors regarding supply schedule, resource performance, issues, and new business	✓	✓		Vendor Management
14	Create SOWs	✓	✓		Procurement
15	Offboarding of resources		✓		Human Resources

*Items taken directly from IG Audit Results (draft report) page 9 showing OCP responsibilities before ITSA

EXHIBIT E. OCP'S REVISED RESPONSE TO THE DRAFT REPORT

The OIG Draft Audit provides a list of tasks completed by OST post-ITSA on p. 9-10. There are responsibilities required of the Prime Contractor which are omitted from the Draft Audit list of tasks. Please reference 24 additional tasks included in the ITSA contract in Table 2 below:

Table 2 Post-ITSA Responsibilities for OST and other Stakeholders

#	IT SUPPORT SERVICES (POST-ITSA) RESPONSIBILITIES	OCP	PM	OST	FUNCTION
1*	Issuing requirements to vendors			✓	Procurement
2*	Receiving resumes from vendors			✓	Procurement
3*	Screening resumes based on the NTE rate, minimum years of experience, and qualifications			✓	Procurement
4*	Submitting screened resumes for technical evaluations			✓	Procurement
5*	Receiving notification from the program manager (PM) of the selected resource			✓	Procurement
6	Performing evaluation reports before engagement and reviewing with COIR and PM			✓	Procurement
7	Notifying vendor of engagement request			✓	Procurement
8	Confirming engagement acceptance by vendor or alternate selection by PM			✓	Procurement
9*	Sending an email notification to the CO for ITSA contract requesting a PO			✓	Procurement
10*	Receiving a PO from OCP			✓	Procurement
11*	Awarding or issuing the PO to the vendor			✓	Procurement
12	Issuing POs	✓			Procurement
13	Perform technical evaluations		✓		Procurement
14	Approve electronic timesheets		✓		Finance
15	Create, remit, and ensure payment of invoices			✓	Finance
16	Participating in one-on-one vendor sessions for joining ITSA, concern resolution, continuous improvement, resource performance, and training			✓	Vendor Management
17	Create requirements		✓	✓	Procurement

EXHIBIT E. OCP'S REVISED RESPONSE TO THE DRAFT REPORT

#	IT SUPPORT SERVICES (POST-ITSA) RESPONSIBILITIES	OCP	PM	OST	FUNCTION
18	Providing, configuring, managing, and maintaining a web-based 24/7 vendor management system (VMS)			✓	Vendor Management
19	Training of all users of the VMS (206 DC Government employees across 22 agencies, 150 vendors)			✓	Training
20	Providing, configuring, managing, and maintaining a web-based 24/7 ITSA portal for notices, policies, procedures, and VMS access			✓	Communications
21	Managing subcontracts with all vendors supplying staff augmentation			✓	Contracts
22	Managing contract with single Prime Contractor	✓			Contracts
23	Auditing vendors on a quarterly basis for compliance to ITSA regulations, including CBE status, OTR good standing, insurance, and background checks			✓	Vendor Management
24	Conducting periodic vendor roundtable sessions for continuous improvement of program			✓	Communications
25	Providing help desk support for 10 hours per day for agencies, PMs, vendors, and resources for procurement, resource, finance, PO, contract, and other inquiries			✓	Help Desk
26	Traveling to agency, PM, and vendor locations for providing program support			✓	Communications
27	Coordinating technical evaluation/interview schedules			✓	Procurement
28	Onboarding of resources, including validating subcontracting vendor compliance and resource eligibility to work (i.e., background checks and POs)			✓	Procurement
29	Offboarding of resources		✓	✓	Human Resources
30	Maintaining over 95% compliance to CBE spend			✓	Procurement
31	Managing program within defined SLAs for efficiency and effectiveness			✓	Procurement
32	Reporting and management of program metrics on an ad hoc, daily, weekly, monthly, and quarterly basis, including EOM and Council requests, outstanding requirements, program spend, vendor participation, time to hire, and audits			✓	Business Intelligence

EXHIBIT E. OCP'S REVISED RESPONSE TO THE DRAFT REPORT

#	IT SUPPORT SERVICES (POST-ITSA) RESPONSIBILITIES	OCP	PM	OST	FUNCTION
33	Collaborating with DOES for DC Resident hires and vendor participation in Virtual One Stop			✓	Human Resources
34	Establishing standard requirement templates and industry-based contract rates			✓	Procurement
35	Collaborating across agency procurement and financial offices, including independent agencies, for program effectiveness and efficiency			✓	Procurement
36	Capturing in electronic format compliance and audit data for program activity			✓	Procurement
37	Posting data to the public data site on a daily, weekly, and monthly basis for program transparency			✓	Procurement

Further, examples of effectiveness of the ITSA contract include the following:

- a. The number of Purchase Orders (POs) increased from 871 in FY07 (Pre-ITSA), to 1287 in FY10. These statistics demonstrate that more is being accomplished, and that these successes are driving concomitant increases in demand for services.
- b. Even with a 48% increase in the number of POs, and an additional 24 tasks added to the process, the average cycle time for an ITSA PO was 16.87 days, compared to 37.5 days pre-ITSA. Though OCP did not feel comfortable estimating how many additional FTEs would be required to accomplish the same level of productivity realized through the ITSA contract at the same speed, it is evident that many more resources would be required.
- c. The ITSA program, which recently earned the "NASCIO Award for Innovation of IT Procurement," has achieved penetration in 22 agencies including 3 Independent Agencies not originally included in the "Decision Paper."

For these reasons, the ITSA contract positively contributes to the operational stability and financial health of the District.

2. Require OST officials to respond to the evaluation committee's concerns with OST's BAFO rates and adjust the rates if necessary.

OCP maintains the position that the BAFO process must serve the purpose for which it was established. Specifically, a BAFO is invoked to ensure that District stakeholders get the absolute best price for goods and/or services. OCP submits that the award was not improper and that the District realized significant savings by awarding the ITSA contract to OST Inc.

Further, the agency maintains that pricing originally submitted by OST was not rejected during the evaluation process and subsequently awarded at a higher price. In fact, OST's pricing remained consistent throughout the evaluation process and is accurately reflected in

EXHIBIT E. OCP'S REVISED RESPONSE TO THE DRAFT REPORT

the contract award. The OIG provided the chart below to OCP during a Nov. 15 survey debrief. Figure 1 provides insight as to the methodology employed to reach the conclusion that the District overpaid OST by \$1.9M.

**Audit of Information Technology Staff Augmentation (ITSA) Contract
OIG-10-01-19TO
Survey Debrief, November 15, 2010**

Figure 1 Comparison of ITSA Contract Rates with BAFO Rates

Base Year		Rates								Hours	Dollar Amount	
		Option Year 1		Option Year 2		Option Year 3		Option Year 4			ITSA	BAFO
ITSA	BAFO	ITSA	BAFO	ITSA	BAFO	ITSA	BAFO	ITSA	BAFO		ITSA	BAFO
5.5	4	5.64	4.1	5.78	4.2	5.92	4.31	6.07	4.42	9,999	289,071.09	210,278.97
5	4	5.13	4.1	5.25	4.2	5.38	4.31	5.52	4.42	99,999	2,627,973.72	2,102,978.97
4.5	4	4.61	4.1	4.73	4.2	4.85	4.31	4.97	4.42	499,999	11,829,976.34	10,514,978.97
4	4	4.10	4.1	4.2	4.2	4.31	4.31	4.42	4.42	111,703	2,349,114.09	2,349,114.09
Total										721,700	17,096,135.24	15,177,351.00
Total Difference												1,918,784.24

Figure 1, suggests that OST's pricing is set at \$4 in the base year with incremental increases in option years one through four. What has been overlooked is that the service fee fluctuates based on the hours billed to OST. OST's price proposal, attached as "**Attachment D: OST BAFO Price Proposal Excerpt**" provides the complete pricing structure for all hourly service fee tiers, which are accurately reflected in the contract award. As Table 3 below illustrates, when the complete pricing structure originally offered by OST is considered there is no projected additional costs to the District.

Table 3. ITSA Pricing Structure based upon OST's Tiered Price Proposal

Base Year		Rates								Tiered Hourly estimates	Dollar Amount	
		Option Year 1		Option Year 2		Option Year 3		Option Year 4			ITSA	BAFO
ITSA	BAFO	ITSA	BAFO	ITSA	BAFO	ITSA	BAFO	ITSA	BAFO		ITSA	BAFO
5.5	5.5	5.64	5.64	5.78	5.78	5.92	5.92	6.07	6.07	9,999	289,071.09	289,071.09
5	5	5.13	5.13	5.25	5.25	5.38	5.38	5.52	5.52	99,999	2,627,973.72	2,627,973.72
4.5	4.5	4.61	4.61	4.73	4.73	4.85	4.85	4.97	4.97	499,999	11,829,976.34	11,829,976.34
4	4	4.1	4.1	4.2	4.2	4.31	4.31	4.42	4.42	111,703	2,349,114.09	2,349,114.09
Total										721,700	17,096,135.24	17,096,135.24
Total Difference												\$0

In conclusion, OCP reaffirms that OST's BAFO pricing was accurate and consistent throughout the contract.

EXHIBIT E. OCP'S REVISED RESPONSE TO THE DRAFT REPORT

3. Comply with the requirement established in 27 DCMR 1626 for the performance of the cost analysis and document any exceptions in a D&F.

OCP agrees with this recommendation. This deficiency was retroactively documented via a memo signed by then-CPO David Gragan and added to the contract file on November 11, 2010. The following is an excerpt from the memo, attached as "**Attachment B – ITSA Cost Analysis D&F Memo.**" The memo states that:

"OCP acknowledges that the 27 DCMR 1624.1 and 1626.1 require that the "Contracting Officer perform a cost analysis..." for any contract "in excess of \$500,000." Adequate competition and pre-defined labor rates were in place and a price analysis was completed as part of the proposal evaluation process. In the professional judgment of the Contracting Officer, the price analysis obviated the need for a separate cost analysis. A total of seven different vendors submitted offers for the RFP, four of which were deemed acceptable. The presence of competition demanded that offerors provide the District with the best possible price. After receiving proposals the Contract Officer and a team of technical experts, armed with access to existing labor rates for similar services were able to conclude that the prices being offered were reasonable and would substantially benefit the District. For these reasons, conducting a cost analysis was deemed an unnecessary and redundant action. Unfortunately, my office failed to explain this thinking in the contract file with adequate documentation."

As currently written, OCP acknowledges that the regulation does not give the organization the needed flexibility to make determinations based on, for example, risk variables that should trigger or warrant a cost price analysis. Given the current economic climate and spending pressures, staffing an entire unit dedicated to performing cost-price analyses of all contracts valued at five hundred thousand dollars (\$500,000) or more is not cost effective. Accordingly, OCP will move to modify the regulation to avoid repeat findings.

4. Follow requirements established in 27 DCMR 3601.2 when making adjustments to contracts that require a bilateral contract modification.

While OCP maintains that it was justified in modifying the ITSA contract hourly service fee from a cascading tiered pricing rate to a flat rate, going forward, and consistent with current practice, all reasonable steps will be taken to ensure that all communications relative to negotiations are documented in the contract file.

5. Consider negotiating for inclusion of the 1% sales discount requirement in the ITSA contract when exercising future options.

OCP and OCTO considered inclusion of the 1% administrative fee when the contract's terms and conditions were originally drafted. OCP stands behind its decision not to pursue the administrative fee because doing so would create a new administrative burden on OCP staff, without realizing any real financial benefit. It is likely that the vendor would simply embed the 1% fee into the price of the contract to make up lost profit. Lastly, any fees we would impose at this point would require a renegotiation of the pricing schedule, which may result in a disadvantageous outcome for the District. Therefore, our office believes it is in the best

EXHIBIT E. OCP'S REVISED RESPONSE TO THE DRAFT REPORT

interest of the District to continue to omit this requirement from the contract's terms and conditions.

6. Follow OCP procedures to ensure that OCP independently procures IT services based on the SOW.

OCP acknowledges the importance of segregating duties and reiterates its commitment, as is current practice, to ensure that IT services are independently procured. Though it is true that OST processes and packages programmatic IT service needs, the Contracting Officer is still the final independent approver of IT staffing requisitions.

7. Comply with the requirement established in 27 DCMR to maintain all relevant information in the contract file.

OCP agrees with this recommendation and acknowledges the findings and the importance of maintaining all relevant information in the contract file. To that end, OCP held an all-hands meeting on May 12th to review and discuss deficiencies cited in the recently concluded FY 2010 Comprehensive Annual Financial Review (CAFR), which specifically cites improvement areas in contract file maintenance. Following the all-hands meeting, the Chief Procurement Officer (CPO) has sent a memorandum to District procurement staff under the CPOs authority further reminding them of the importance of ensuring files are complete and accurate. Furthermore, OCP employs a contract checklist which is used by OCP staff to ensure completeness of contract files. A copy of the Checklist is attached as, "Attachment C – Competitive Checklist."

8. Ensure that procurement checklists contain signatures of appropriate officials verifying that the contract file is accurate, complete, and current.

OCP agrees with this recommendation and acknowledges the findings and the significance of verifying that the contract file is accurate, complete, and current. OCP continues to remind and re-emphasize to procurement staff of their responsibility to ensure all documents are completed and contain the appropriate signatures. To remediate this matter, the OPIC team will commence periodic compliance verification audits of transactions to ensure accuracy and completeness, including the completeness of procurement checklists. By continually educating and raising awareness, OCP will be able to makes improvements in this area.

EXHIBIT E. OCP'S REVISED RESPONSE TO THE DRAFT REPORT

9. Require the requesting agency maintain an independent time-tracking system for all contractors in order to provide documentation for approval of weekly timesheets.

OCP believes that the current eTime module in PASS is an adequate independent time-tracking system. The eTime module in PASS accurately tracks the entry, approval, and verification of elapsed time worked by resources contracted under ITSA. Features of the eTime module that ensure necessary internal controls and accuracy are maintained include:

- Mandatory approvals based on District program managers specified on each RQ
- Controls that prevent entering time on the same PO, for the same resource, for the same period
- Prevention of the duplication of timesheets for the same PO/resource/period.
- Hours Remaining indicator to prevent program managers from approving time in excess of the value of the PO
- Controls that prevent a contractor from billing time on any PO except their own
- Automated 3-way matching that prevents paying an invoice for the same time period more than once
- Ability to track tasks performed during the period in the timesheet's Comments section (including the ability to attach artifacts that demonstrate actual work products)

Because of these features, OCP believes that a second time-tracking application would duplicate the functions of an application that is already in use and would represent an unnecessary expenditure of District funds. And, because this second time tracking application would necessarily exist outside of PASS, this second application could not replicate the automated 3-way matching process performed by PASS without developing costly integration points between the two applications.

Finally, OCP determined that the DC-NET example cited in this finding is inaccurate. DC-NET does not record ITSA resource time or activity independently of PASS. All DC-NET ITSA resource time is recorded and approved in PASS. DC-NET, like some other programs, prints the timesheets from PASS to provide evidence of work performed as required in various grant agreements. However, DC-NET management uses the functions and reports in the PASS eTime module to perform general management review and oversight activities, as does the Contract Administrator of the ITSA contract. They do not have an independent time recording system.

EXHIBIT E. OCP'S REVISED RESPONSE TO THE DRAFT REPORT

10. Develop, maintain, and monitor a list of key controls over the procurement process to ensure that OCP has reasonable assurance that material error or fraud is prevented or detected in a timely manner.

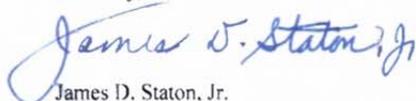
OCP agrees with this recommendation and is in the process of developing a list of internal controls to prevent instances of fraud, waste, and abuse. The OPIC team has identified a list of key areas for review and will continue to evolve the process to design and develop additional key controls over the procurement process.

Attachments:

- Attachment A – ITSA Decision Paper
- Attachment B – ITSA Cost Analysis D&F Memo
- Attachment C – Competitive Checklist
- Attachment D – OST BAFO Price Proposal Excerpt

If you have any immediate questions about our revised response, please feel free to contact Yinka T. Alao, Interim Assistant Director, Office of Procurement Integrity and Compliance (OPIC) at 202-724-4089.

Sincerely,



James D. Staton, Jr.
Chief Procurement Officer

CC:
Allen Lew, City Administrator
Rob Mancini, Chief Technology Officer
JW Lanum, Office of the City Administrator