

Evaluation Report

The SBA Did Not Follow Federal Regulations and Guidance in the Acquisition of the OneTrack System





**U.S. Small Business Administration
Office of Inspector General
Washington, D.C. 20416**

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TO: Paul Christy, Chief Operating Officer

A. John Shoraka, Associate Administrator, Government Contracts and Business Development

Renee Macklin, Chief Information Officer

Jonathan Carver, Chief Acquisition Officer

SUBJECT: Review of the OneTrack System Acquisition

This report presents the results of our review of the Small Business Administration's contracting practices in the acquisition of the OneTrack System. Our objective was to assess the Small Business Administration's (SBA) compliance with Federal contracting regulations and guidance over Information Technology (IT) systems acquisition and project oversight. Generally, we found that the SBA did not follow applicable federal regulations in the procurement of the OneTrack system. Additionally, the SBA has not yet completed the system testing required prior to placing a system into production.

We conducted this evaluation in accordance with the Council of Inspectors General on Integrity and Efficiency (CIGIE) *Standards for Inspection and Evaluations*. Those standards require that we plan and perform the evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objectives.

We appreciate the courtesies and cooperation of the SBA extended to the staff during this review. Please direct any questions to me at (202) 205-7100 or Riccardo Buglisi, Director, Business Development Group at (202) 205-7489.

/s/

Robert A. Westbrook
Deputy Inspector General

The SBA Did Not Follow Federal Regulations and Guidance in the Acquisition of the OneTrack System

What the OIG Reviewed

We conducted our review of acquisition issues for the OneTrack system between June 2013 and September 2013. To complete our review, we met with agency officials from the Acquisition Division, the Office of Government Contracts and Business Development, and the Office of the Chief Information Officer (OCIO). We also reviewed contract documentation for the OneTrack task order, and the contract documentation for all three vendors on the Information Technology Information Management (ITIM) multi-award contract. Further, we identified laws and regulations as well as internal agency guidance applicable to the acquisition of an information technology (IT) system.

What the OIG Found

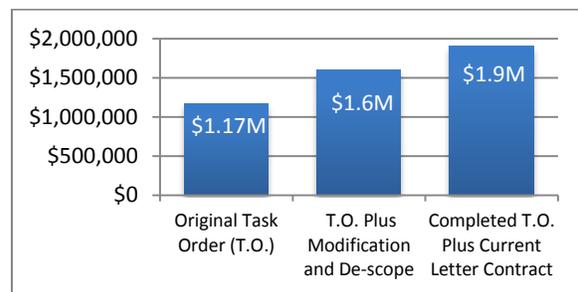
The SBA did not follow federal regulations and guidance in its acquisition of the OneTrack system for use by the Business Development (BD), Historically Underutilized Business Zone (HUBZone), and three new Mentor-Protégé Programs. Specifically, the SBA did not receive the OneTrack system as originally designed due to the following:

- The SBA did not appropriately plan for the acquisition of the OneTrack system. Specifically, the Agency did not complete the necessary market research or use modular contracting principles.
- The SBA did not award the task order for the OneTrack system in compliance with federal regulations. For example, it provided the vendors with the Independent Government Cost Estimate and did not maintain complete contract file documentation.
- The OCIO did not assume primary responsibility of the OneTrack system acquisition, as outlined by federal regulations. Additionally, appropriate surveillance of the task order did not occur.
- The OCIO did not provide adequate oversight over its contractor—the Technical Project Manager—providing program management and support functions to ensure that the contractor did not perform inherently governmental-like functions.

As a result, the SBA did not receive a system with full capabilities as originally designed. The original OneTrack system should have been completed in a 12-month period at a total cost of around \$1.17 million.

Instead, the SBA modified the task order to receive a system with the same, limited functions as the existing system in use, the Business Development Management Information System (BDMIS). However, the SBA still did not have a tested and approved system with BDMIS capabilities to put into production when the task order expired. To date, the SBA has increased the total cost to develop the system by approximately \$734,000 and extended the performance of the task order by 14 months. See Figure 1 for the total increase in the cost of the system from December 2011 through September 2013.

Figure 1 Total Cost of Developing the OneTrack System



Source: OIG presentation of SBA data.

OIG Recommendations

The OIG made four recommendations to the SBA, specifically, the Chief Information Officer, the Chief Acquisition Officer, and the Associate Administrator for Government Contracts and Business Development. These recommendations are intended to ensure that the SBA receives a final system that has been fully tested and approved, and to improve the contracting process for any additional work to be completed on the OneTrack system.

Agency Comments

Management submitted formal comments and concurred with our findings and all four recommendations.

Actions Taken

The SBA awarded a fixed-price, definitized contract as suggested in Recommendation 2. This recommendation is closed as implemented.

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Introduction

In May 2013, the OIG initiated a review to determine the effectiveness of the Small Business Administration's (SBA) information technology (IT) governance process. During the review, the OIG obtained information concerning acquisition issues relating to an IT project under development, the OneTrack System. We modified the scope of our review to focus on these acquisition issues. While we found preliminary issues regarding the SBA's compliance with IT governance principles, we plan to conduct additional reviews of SBA IT systems—including the OneTrack system—to determine if the Agency followed IT governance requirements. The results of the IT governance review will be reported on at a later date. This report presents the results of our review concerning, specifically, the acquisition of the OneTrack System.

Background

The SBA helps socially and economically disadvantaged small businesses gain access to federal contracting opportunities through its 8(a) Business Development Program, Historically Underutilized Business Zone (HUBZone) Program, and the Mentor-Protégé Program. The 8(a) Program was created to assist small, disadvantaged businesses compete in the American economy through business development. The HUBZone Program helps small businesses that are located in economically challenged areas, or HUBZones, stimulate their local economies. The Mentor-Protégé Program—part of the 8(a) Program—allows more experienced firms to mentor 8(a) firms (the protégé) to enhance the protégé's capabilities, provide various forms of business development assistance, and improve the protégé's ability to successfully compete for contracts.

Currently, the SBA operates two different IT systems to help process small business applications into such programs—the Business Development Management Information System (BDMIS)—for use for Business Development Programs and the HUBZone Certification Tracking System (HCTS). The existing BDMIS and HCTS do not effectively support program management and oversight or initiatives to eliminate waste, fraud, and abuse. For example, the two systems have extensive data integrity issues, provide poor customer experiences, and perform duplicative functions.

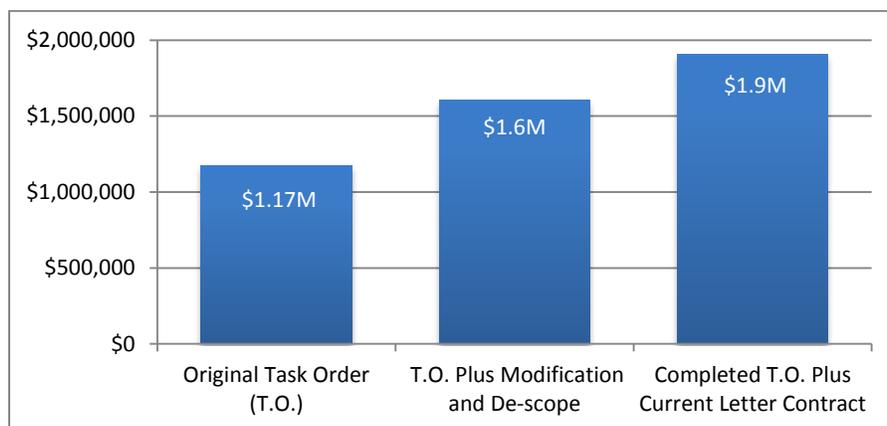
In Management Challenge Number 6 of the OIG's *Report on the Most Serious Challenges Facing the Small Business Administration* (Audit Report 14-01), we reported that the 8(a) Business Development (BD) Program needs modification to ensure that: (1) more firms receive business development assistance, (2) standards for determining economic disadvantage are justifiable, and (3) the SBA is able monitor small business compliance with 8(a) regulations. While we reported that the SBA has made progress in addressing issues that hinder the Agency's ability to deliver an effective 8(a) Program, improvements are still needed.

In June 2011, the SBA began a process to improve, streamline, and automate the processes for the BD and HUBZone Programs into one system. This effort would create one portal for the BD program, the HUBZone Program, and three new Mentor-Protégé initiatives for small business participants. It would also provide the SBA small business program development offices with a shared database, improve staff productivity, and enhance monitoring and reporting capabilities. When completed, the OneTrack system is intended to meet several mission critical strategic objectives and goals, as well as meet recommendations outlined in Management Challenge Number 6 and other recommendations made by the OIG and the U.S. Government Accountability Office.

In December 2011, the SBA awarded a time-and-materials (T&M) task order under the Information Technology Information Management (ITIM) multi-award contract to Business Integra Technology Solutions, Inc. (BI) to develop the OneTrack system.¹ This task order had a 12-month period of performance and an approximate value of \$1.17 million. Over the course of the performance, however, the task order was modified to extend the period of performance to September 2013 (an additional nine months). It also changed the value of the task order to \$1.6 million—about a \$434,000 increase.

Additionally, in April 2013, the SBA and the vendor began discussions to decrease in the scope of work required by the task order. However, they did not come to an agreement until August 2013 to officially de-scope the task order requirements and deliverables. As a result, the vendor was only required to develop a system with capabilities equivalent to the current BDMIS system—and not the full system, as originally designed. In September 2013, the task order expired; however, the vendor did not provide a functioning system that could replace the current BDMIS system. As a result, the SBA awarded a letter contract to the same vendor for almost \$300,000 that must be completed by the end of February 2014. See Figure 2 for the increase in funds for the development of the system between December 2011 and September 2013.

Figure 2 Total Cost of Developing the OneTrack System, December 2011 and September 2013



Source: OIG presentation of SBA data. This chart reflects changes to the overall cost of developing the OneTrack system based upon the identified contract actions. For example, the total cost of the OneTrack system when our audit work ended in September 2013 was approximately \$1.9 million.

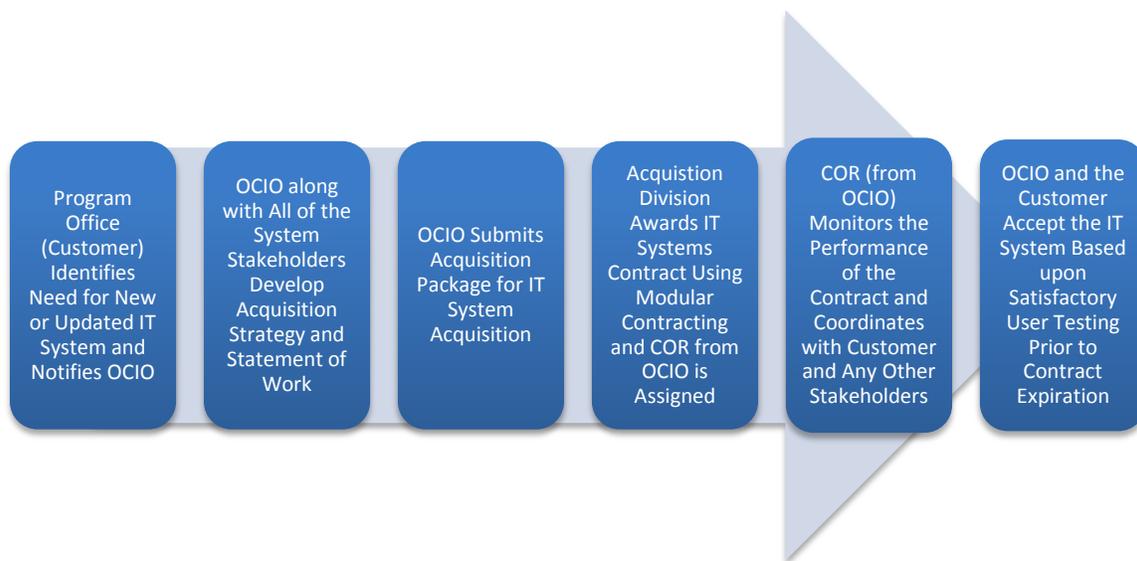
IT Acquisitions

Federal regulations provide a structured framework for IT acquisitions, and in some cases, the regulations provide more requirements than for standard acquisitions. For instance, the Clinger-Cohen Act introduced modular contracting as a guiding principle for IT acquisitions to be used to the maximum extent practicable. Modular contracting principles require federal agencies to divide their IT acquisition into smaller pieces that allow for the flexibility to adapt with rapidly changing IT capabilities. For example, with modular contracting, a federal agency could award a separate contract for the design of a system, the development of a system, and the implementation of a system. Additionally, with modular contracting, an agency should only award a T&M contract for the design of a system and no other

¹ The Information Technology Information Management (ITIM) contract vehicle is a multi-award contract awarded to three small and small, disadvantaged businesses. The ITIM contract provides for a full range of support services, technical and management expertise, and solution-related enabling products, if required, to meet the mission of the SBA.

portion of the acquisition. However, if the agency chooses to use a T&M contract for the design phase, it may only award a T&M contract if the agency cannot reasonably estimate the work required or potential costs. The use of modular contracting and the limited use of T&M contracts for IT acquisitions intend to reduce program risks and incentivize contractor performance. [Appendix III](#) and [Appendix IV](#) provide a more detailed explanation about modular contracting principles and the use of a T&M contract by federal agencies. See Figure 3 below for a summary of the IT system acquisition process.

Figure 3 Basic Acquisition Process for a New IT Systems Development Contract



Source: OIG presentation of Federal regulations and guidance for IT systems development acquisitions.

Nature of Limited or Omitted Information

No information was omitted due to confidentiality or sensitivity, nor were there limitations to information on this audit.

Results

The SBA did not follow federal regulations and guidance in its acquisition of the OneTrack system for use by the BD and HUBZone Programs. As a result, the SBA has not received a system with full capabilities as originally designed. The original OneTrack system should have been completed in a 12-month period at a total cost of around \$1.17 million. Instead, the SBA modified the task order to receive a system with the same functions as the current BDMIS. However, the SBA still did not have a tested and approved system with BDMIS capabilities to put into production when the task order expired. To date, the SBA has increased the total cost of the system by approximately \$734,000 and extended the performance of the acquisition by 14 months.

1) The SBA Did Not Follow Federal Regulations in the Acquisition of the OneTrack System

The SBA did not properly plan for or select the best contracting vehicle in the acquisition of the OneTrack system. Specifically, the Contracting Officer awarded a task order without the support of adequate market research and did not use appropriate IT systems procurement methods. Additionally, during the solicitation process, the Contracting Officer provided potential vendors with the Independent Government Cost Estimate, and the SBA did not follow its Acquisition Strategy when evaluating the two bids received. Moreover, the Acquisition Division did not maintain a complete contract file as required by the FAR and internal acquisition guidance. Further, the SBA did not provide appropriate oversight of the contract required by federal regulations. For example, the CIO did not take primary responsibility for the OneTrack acquisition. Additionally, contracting staff turnover created inconsistent oversight practices over the life of the acquisition. Furthermore, it does not appear that staff had the appropriate knowledge or expertise for IT acquisitions. The SBA also did not apply appropriate surveillance required for a T&M contract to mitigate the risk assumed by the Agency. Finally, the SBA did not provide adequate oversight to ensure that contractor personnel did not perform inherently governmental-like functions, such as evaluating the performance of another contractor.

The SBA Did Not Appropriately Plan for the Acquisition of the OneTrack

The Acquisition Division did not structure the acquisition using appropriate procurement methods for IT systems development, including not providing evidence of adequate market research or selecting the appropriate contracting vehicle. See Table 1 for an analysis of the SBA's compliance with federal contract requirements and good practices for the acquisition planning in the procurement of the OneTrack system.

Table 1 Acquisition Planning

Contracting Requirement or Good Practice ²	What Happened
<p><u>Market Research:</u> According to FAR Subpart 10, federal agencies are required to conduct market research to identify the best contract vehicle, possible contractors, and available commercial items, if any.</p>	<ul style="list-style-type: none"> • The SBA did not provide any proof that market research was completed. • If in-depth, market research had been completed, the SBA would have identified a number of small or small, disadvantaged businesses with the capability of performing the task order.
<p><u>Use Modular Contracting for IT Acquisitions:</u> Federal guidance on modular contracting³ states that all IT acquisitions that include significant system development should utilize modular contracting to the maximum extent practicable. FAR 16.601(c) allows an Agency can only use a T&M contract if it is not possible to reasonably estimate the work required or anticipate costs, such as for the design of a system.</p>	<ul style="list-style-type: none"> • The Acquisition Division awarded a T&M task order for the full procurement of the OneTrack system. It did not divide the procurement into smaller stages. • Acquisition personnel originally directed the Program Office (GCBD) to use a T&M contract vehicle for the procurement even though the Program Office proposed the use of a fixed-price contract vehicle. • All stakeholders agreed to the use of a T&M contract vehicle upon approval of the Acquisition Strategy for the OneTrack system.
<p><u>Selection of Contract Vehicle:</u> Per FAR Subpart 16.104, Contracting Officers select the contract type based upon numerous factors—including contract complexity, period of performance, and price analysis. Subpart 16.601 of the FAR also requires a Determination and Findings (D&F) for all T&M contracts.</p>	<ul style="list-style-type: none"> • No D&F available in contract file justifying the use of a T&M contract vehicle. • The OneTrack Acquisition Strategy stated that the SBA would use the ITIM multi-award contract with no additional justification. • The ITIM multi-award contract is geared more toward OCIO support and project management, and not systems development. • The SBA limited competition of the task order to only two vendors.

Market Research

The Contracting Officer awarded a task order under an existing contract without ensuring adequate market research was conducted supporting this contract vehicle to be the best contracting solution. Federal regulations⁴ require market research to help determine:

- If vendor(s) exist who can meet the contract requirements,
- If commercial items exist that can meet the agency’s needs, and
- If there are any legal requirements or regulations unique to the item being acquired.

Further, market research helps agencies determine the appropriate contract vehicle based upon identified vendors or products/services. However, we could not determine the extent to which the SBA conducted market research or why the agency used the ITIM multi-award contract based upon the documentation provided to us by the Office of Government Contracting and Business Development (GCBD) and the Acquisition Division personnel. Further, the FAR requires that documentation of market research performed for an acquisition needs to be maintained in the contract file; however, the SBA

² For the purpose of this report, we are defining a good practice as any Federal guidance or generally accepted standard used by the Federal acquisition community.

³ *Capital Programming Guide*. Supplement to Office of Management and Budget Circular A-11, Part 7: Planning, Budgeting, and Acquisition of Capital Assets. June 2006.

⁴ FAR Subpart 10 – Market Research.

could not locate most of the pre-award information for this particular procurement. As a result, we could not determine if the use of the ITIM multiple-award contract was the best option for the SBA.

In our opinion, if in-depth, market research had been completed, the SBA would have identified a number of small or small, disadvantaged businesses with the capability of performing the task order outside of the SBA's ITIM contract. For example, the SBA could have used the General Services Administration's (GSA) Alliant government-wide acquisition contract (GWAC) and other IT interagency contract vehicles instead of the ITIM contract. As a result, the SBA would have had a larger vendor universe to choose from. Specifically, one GWAC operated by the GSA includes 97 different vendors who have additional industry credentials, such as Capability Maturing Model Integration (CMMI).⁵ In other words, the SBA could have received a better price or a more qualified vendor by not limiting its competition to two vendors.

Use of Modular Contracting for IT Acquisitions

The Acquisition Division did not follow federal policies and regulations by selecting a T&M contract for the entire design, development, and implementation of the OneTrack system. Specifically, FAR Subpart 39.103⁶ and the Clinger-Cohen Act⁷ state that all IT acquisitions that include significant development should utilize modular contracting to the maximum extent practicable. Modular contracting is the acquisition of a major IT system through smaller, successive increments of interoperable modules. These regulations also limit the use of a T&M contract for the design of a system only if it is not possible to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence.⁸

Additionally, federal regulations state that for each module (or increment), a Contracting Officer (CO) should choose an appropriate contracting technique that facilitates the acquisition of subsequent parts of the system in future increments. Further, the acquisition should be structured to ensure that the Government is not required to procure additional increments after executing the modular approach planned for the entire procurement. An enterprise-type system comprised of multiple business component programs like the OneTrack system is an ideal candidate for modular contracting, and the lack of a modular approach can lead to interface and interoperability risks and require more oversight of the contractor. Because the system requirements for the OneTrack system allowed for some interpretation, the Agency would have been correct in selecting a T&M contract for the design phase of the system. However, the Agency should have used a fixed price or cost reimbursement type contract for the remaining phases of the system acquisition process.

Selection of Contract Vehicle

There was no evidence that the ITIM multi-award contract vehicle provided the SBA with the best contracting solution for the OneTrack system. Selecting the best procurement solution is based on a

⁵ The 8(a) STARS II is a small business set-aside, government-wide acquisition contract that provides flexible access to customized IT solutions from a large, diverse pool of 8(a) industry partners. The 8(a) STARS II contract allows for long-term planning of large-scale program requirements while strengthening opportunities for 8(a) small business. The industry partners on the contract are classified in two Constellations. Constellation II required industry partners to have additional industry credentials, such as Capability Maturity Model Integration (CMMI) or ISO 9001 (quality management system).

⁶ FAR Subpart 39.103 – Modular Contracting.

⁷ Clinger-Cohen Act of 1996, P.L. 104-106.

⁸ FAR Subpart 16.601(c) – Time-and-materials contracts.

systematic approach. After completing the requirement analysis, conducting market research, and understanding the program constraints, contingencies, and system design, the Program Manager, the CO, and other members of the Program Office work together to craft the appropriate contracting approach.⁹ Then, according to federal regulations, COs select the most appropriate contract type based upon numerous factors—including contract complexity, period of performance, and price analysis.¹⁰

It is unclear if these steps were completed prior to developing the Acquisition Strategy for the OneTrack system. According to the Clinger-Cohen Act,¹¹ the CIO is responsible for establishing goals for improving the efficiency and effectiveness of agency operations through the effective use of IT. In the Acquisition Strategy, the SBA pre-determined that it would target small and small, disadvantaged businesses participating in the ITIM contract via closed competition. The ITIM contract is a multi-award, indefinite delivery/indefinite quantity (IDIQ) contract awarded to three small and small, disadvantaged businesses. Such contracts are appropriate for procuring supplies and services when the Government anticipates recurring requirements but cannot determine the precise quantities needed within a specific period. An IDIQ contract establishes a minimum quantity or value of supplies and services to be purchased and may establish a maximum as well. Contracting Officers then issue task or delivery orders against the IDIQ contract to purchase supplies and services that fulfill the Government's needs.

However, the Statement of Work (SOW) for the ITIM contract is geared more toward providing program management and support for the OCIO rather than systems development. For example, in the eight pages of the SOW, the phrase "systems development" only appears twice while discussion about program management and support is documented throughout the SOW. Also, the base ITIM contract only identified six labor categories that were tailored to positions necessary to provide program management and support activities and not systems development activities.

Appropriately, the Acquisition Division disqualified one of the three ITIM vendors from the OneTrack procurement because the vendor on the ITIM contract also developed the Acquisition Strategy and SOW. By doing so, the Acquisition Division limited itself to a closed competition of only two potential vendors based on a SOW focused on program management.

By selecting the ITIM contract, the SBA had the ability to award a T&M, labor hours, or fixed price task order. The Contracting Officer awarded a T&M task order for the design, development, and implementation of the OneTrack system, even though under modular contracting principles, T&M contracts are limited only to the design phase of system development. According to the minutes of an acquisition planning meeting, GCBD personnel asked Acquisition Division officials about the possibility of using a fixed price contract. However, Acquisition Division officials told GCBD personnel that a fixed price contract could not be used because the requirements for the system were too undefined, and that a T&M task order must be used.

⁹ *Guide for Modular Contracting*. GSA, Office of Governmentwide Policy, Emerging Information Technology Policies Division, issued in December 1998.

¹⁰ FAR Subpart 16.104 – Factors in selecting contract types and Contract Types: An Overview of the Legal Requirements and Issues, Congressional Research Service, October 2010

¹¹ 40 U.S.C. 11315 and 44 U.S.C. 3506(a). The major departments and agencies that the Clinger-Cohen Act applies to are listed in 31 U.S.C. 901(b) and includes the Small Business Administration. In September 2011, the U.S. Government Accountability Office issued a report that provides a detailed explanation of the duties of the Chief Information Officer. GAO, *Federal Chief Information Officers: Opportunities Exist to Improve Role in Information Technology Management*, September 15, 2011; Washington, DC; GAO-11-634.

Based upon the decision to use a T&M task order, per federal regulations, a Determinations and Findings (D&F) needed to be developed.¹² A D&F is “a special form of written approval by an authorized official that is required by statute or regulation” prior to taking certain contract actions that documents a particular conclusion and necessary support.¹³ Specifically, the D&F for a T&M contract should include the following:

- 1) Support to prove that “no other contract is suitable,” and
- 2) Plans to use fixed price-type contracts for future acquisitions.

The contract file, however, did not include this document, and agency officials could not provide this document upon request. Because the D&F could not be found or reviewed, the OIG could not determine the extent to which the CO prepared this document and whether steps to utilize fixed price-type contracts in the future were identified.

The SBA Did Not Award the OneTrack Task Order in Compliance with Federal Regulations

The Contracting Officer provided the two potential vendors with the Independent Government Cost Estimate during the solicitation process. The Technical Review Panel also did not evaluate the two differing bids based upon criteria outlined in the SBA’s Acquisition Strategy for the OneTrack system. Additionally, the Acquisition Division did not maintain a complete contract file as required by the FAR¹⁴ and internal acquisition guidance.¹⁵ See Table 2 for federal contract requirements and good practices for contract award in the procurement of the OneTrack system.

¹² FAR Subpart 16.601(c) – Time-and-materials contracts; and FAR Subpart 12.207(b) – Contract type.

¹³ FAR Subpart 1.701, Determinations and Findings – Definition.

¹⁴ FAR Subpart 4.801 – Government Contract Files, General.

¹⁵ SBA Acquisition Division File Folder Index, Supplies Purchase Orders and Delivery Orders.

Table 2 Contract Award

Contracting Requirement or Good Practice	What Happened
<p>Independent Government Cost Estimate (IGCE): Federal agencies develop IGCEs to evaluate cost proposals received from potential vendors. The IGCE is generally accepted as a business sensitive document and should not be provided to interested vendors.</p>	<ul style="list-style-type: none"> Contracting Officer provided both vendors with performance schedule data from the IGCE. One vendor, who was later awarded the task order, prepared and submitted their proposal based exactly upon the information provided by the Contracting Officer.
<p>Evaluation of Proposals: The Acquisition Strategy stated that the SBA will evaluate each offeror’s price for fairness and reasonableness. Unrealistically high (or low) pricing in the initial or revised proposal may be grounds for eliminating a proposal from competition.</p>	<ul style="list-style-type: none"> The SBA received two bids on the task order—one for \$1.2 million and another for \$2.3 million. However, the Technical Review Panel did not overly scrutinize the bids as outlined in the Acquisition Strategy. The contract file did not contain proof of a technical and cost evaluation or contract selection justification. The GCBD program staff provided us copies of the Technical Evaluations of the proposals, but it is unclear whether these evaluations were used for selection.
<p>Complete Contract File Documentation: FAR Subpart 4.801 states that contract files should contain an organized record of all contractual actions and be sufficient to provide a complete history of the contract. A complete file helps staff make informed decisions during the acquisition process and support all of the actions taken.</p>	<ul style="list-style-type: none"> Contract File missing substantial amount of Pre-Award documentation. Existing information in the contract file did not meet FAR requirements. The contract file for this task order did not include 15 of the 20 items required by the Acquisition Division’s own checklist. The effects of high turnover that occurred during the performance of the task order are exacerbated by the incomplete and poorly organized contract files.

Independent Government Cost Estimate

The Contracting Officer provided each of the two vendors with the SOW as well as supplemental information on the contract performance requirements used in its Independent Government Cost Estimate. The supplemental information included the estimated total number of weeks and hours needed to complete each stage of the procurement and is part of the Independent Government Cost Estimate (IGCE). The IGCE is classified as business sensitive and should not be provided to the contractor.¹⁶ The purpose of the IGCE is to evaluate the cost proposal submitted by potential vendors and help the Government obtain the best value for the contract. Disclosure of this information increases the risk to the Government because the vendors no longer need to prepare the best value available for their services, they only need to match or beat the costs identified by the Government.

With this information, one of the vendors prepared its proposal based exactly upon the hours and weeks provided by the Contracting Officer. Further, because both potential vendors obtained this information, the prices on these proposals should not have been that different from each other. However, one contract proposal was almost double the cost of the other. The price difference should have been red flag to the Technical Review Panel that one of the vendors did not understand the proposal, or that the proposal and requirements from the SBA were not entirely clear or realistic.

¹⁶ It is a generally accepted practice that an Independent Government Cost Estimate (IGCE) should be classified as business sensitive documents, and treated as such. An IGCE is the baseline for evaluating an offeror’s contract price/cost. Any significant variation between an offeror’s proposal and the IGCE requires analysis. When variation exists, the Government can identify and correct inaccuracies in the IGCE or use the IGCE to negotiate a more realistic price.

Further, if the SBA had enough information to calculate the total number of hours for each stage of the development and implementation process, the SBA should have used a cost-reimbursement type contract instead of using a T&M contract.

Evaluation of Proposals

The SBA obtained two bids on the task order—one for \$1.2 million and another for \$2.3 million. In the Acquisition Strategy, the SBA stated that it would evaluate each offeror's price for fairness and reasonableness. More specifically, it stated that unrealistically high (or low) pricing in the initial or revised proposal may be grounds for eliminating a proposal from competition—either on the basis that the offeror does not understand the requirement or the offeror has submitted an unrealistic proposal. However, the contract file did not contain any proof of evaluation or contract selection justification. Given that one of the proposals was almost twice the total amount of the other, the Technical Review Panel should have scrutinized the proposals to determine if one of the bids was too low or too high. Additionally, the current CO explained that the vendor selected to perform the task order stated that the previous CO told them during the solicitation process that additional money could be added to the task order, if necessary. Basically, if the task order required more money for completion, the SBA would be able to provide it to the vendor.

Toward the end of our review, staff from the GCBD provided us with copies of the technical evaluations completed for the two proposals submitted. However, we cannot confirm that these evaluations were used for selection because they were not included in the official contract file. Our review of those evaluations found that while a template was available for each member of the Technical Review Panel, limited guidance existed on how to use the template for assigning a numerical rating in each of the five evaluation areas. The five evaluation areas are: (1) staffing and key personnel, (2) technical solution/approach, (3) past performance, (4) corporate experience, and (5) price. It appears that the numerical value assigned allowed for personal judgment. For example, an addendum was added to a team evaluation for one vendor where the panel increased the rating for one section by two points; however, the addendum did not provide a justification for the increase. Additionally, once the team evaluation of each proposal had been completed, some members of the panel edited their individual evaluations by changing ratings scores and the previous supporting narrative.

Moreover, one of the proposals (Proposal 1) included hourly rates and estimated work for positions not identified in the base contract or SOW. Specifically, Proposal 1 stated that the ITIM base-contract with standard labor categories did not cover the specialized skill set required to perform the contract. Therefore, the vendor submitted two additional labor categories in Proposal 1, such as a Tech Lead/Architect. However, the evaluators did not raise or document concerns regarding the difference in positions and hourly rates provided in the two proposals. Proposal 1 also stated that the vendor would revise the cost proposal to align with the SBA's budget if additional information was provided and the scope was clarified and finalized. This statement shows that the solicitation did not provide the vendor with enough information about the functionality of the OneTrack system to put together a realistic cost proposal. Based upon the SBA's Acquisition Strategy, this statement should have also triggered additional scrutiny of both proposals on the basis that an offeror did not understand the requirements or that the requirements were unclear.

Complete Contract File Documentation

Subpart 4.801 of the FAR states that documentation maintained in a contract file must be sufficient to constitute a complete history of the transaction for the purpose of:

- (1) Providing a complete background as a basis for informed decisions at each step of the acquisition process;
- (2) Supporting actions taken;
- (3) Providing information for reviews and investigations; and
- (4) Furnishing essential facts in the event of litigation or congressional inquiries.

The current contract file, however, is missing 75 percent of the documentation required by Acquisition Division guidance,¹⁷ and does not meet the requirements outlined in the FAR. The incomplete and disorganized contract files made it difficult for staff to readily access and understand the contract's complete history—especially given the turnover of Contracting Officers. A complete history is needed to provide a thorough background as a basis for informed decisions at each step of the acquisition process and to support all actions taken. Additionally, because many of the required documents are missing, in some instances, we could only speculate on what occurred prior to the contract award and during the management of the task order.

The OCIO Did Not Assume Primary Responsibility of the OneTrack System Acquisition

The Clinger-Cohen Act established the role of the CIO to carry out IT capital planning, investment, and management for their respective agency and assume responsibility and accountability for IT investments. The CIO is responsible for, among other things, providing IT acquisition management and oversight. This requires the CIO to assume a primary role in developing and enforcing policies for systems acquisition, development, and integration with existing systems. Further, the CIO has the primary role of monitoring the performance of IT programs and advising the agency head whether to continue, modify, or terminate such programs. Also, the CIO oversees the acquisition or development of IT systems to improve the likelihood of success. Moreover, the CIO needs to have adequate oversight to ensure that funds being spent on Program Office investments will fulfill mission needs.

We found that the SBA did not provide adequate surveillance required to properly mitigate risk for the T&M task order used to acquire the OneTrack system. Additionally, contracting staff turnover—coupled with the OCIO not serving as the lead Program Office—added further risk and complications to the appropriate oversight of the contract performance. See Table 3 for a comparison of the SBA's compliance with federal contract requirements and good practices for contract management, including oversight of the OneTrack system acquisition.

¹⁷ SBA Acquisition Division File Folder Index, Supplies Purchase Orders and Delivery Orders.

Table 3 Contract Management and Oversight

Contracting Requirement or Good Practice	What Happened
<p>Consistent and Knowledgeable Contracting Staff: The contracting office staff should be consistent and have institutional knowledge of the contract. The Government Accountability Office identified consistent and stable contracting staff as a critical factor for successful major systems acquisitions.¹⁸</p>	<ul style="list-style-type: none"> • The Acquisition Division used four different Contracting Officers during the task order award and performance. • The GCBD staff remained on the task order for the entire process, but should not have served as the primary driver of the project. • The OCIO assigned a contractor to the GCBD to provide technical oversight of the project. • The vendor used three different Project Managers over the course of the acquisition.
<p>Appropriate Surveillance for T&M Contracts: FAR Subpart 16.6 states that when an agency uses a T&M contract, appropriate surveillance of the contractor’s performance is necessary to give reasonable assurance that efficient methods and effective cost controls are being used.</p>	<ul style="list-style-type: none"> • At the Kick-off Meeting held in January 2012, the vendor proposed a final schedule with an end of November 2013; even though the task order period of performance was December 2012. • The GCBD had concerns about the vendor’s performance throughout the task order, but did not notify the appropriate personnel and tried to build a case against the vendor only after the task order was already off course. • The lack of coordination between the Program Office and the OCIO to oversee the vendor resulted in the SBA de-scoping a T&M contract that only requires a vendor to provide best effort.

Consistent and Knowledgeable Contracting Staff

In October 2011, the Government Accountability Office reported that a consistent and stable contracting staff is a critical factor for successful major systems acquisitions.¹⁹ However, significant turnover occurred at the SBA and with vendor contracting staff during management of the OneTrack system acquisition. Additionally, the contract oversight structure within the SBA created confusion, and consistent and stable contracting staff did not exist throughout the system’s development.

- 1) **Acquisition Division:** The Acquisition Division used four different Contracting Officers over the course of two years for the contract award and performance. Additionally, it is unclear whether the Acquisition Division possessed the appropriate knowledge and expertise for awarding and administering IT acquisitions.
- 2) **Government Contracts and Business Development:** While the GCBD staff remained on the contract for the entire process, the staff works primarily with business development programs and does not generally work with the SBA IT systems environment. The GCBD personnel assigned to monitor the acquisition were split between Washington, DC, and North Carolina.

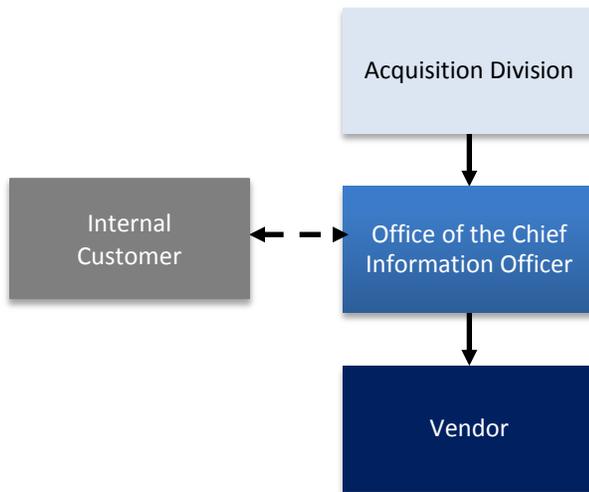
¹⁸ GAO, *Information Technology: Critical Factors Underlying Successful Major Acquisitions*. October 2011; Washington, D.C. GAO-12-7.

¹⁹ While the current value of the system is less than \$2 million, FAR Subpart 2.101 defines a major system as a “combination of elements that will function together to produce the capabilities required to fulfill a mission need. The elements may include hardware, equipment, software, or any combination thereof.” The OneTrack system is one of the most important system development efforts undertaken by the SBA between 2010 and 2013. Additionally, the system is designed to meet the needs of the Agency and serve the small business base by allowing them a single access to multiple programs, and will allow the SBA to meet mission critical strategic goals and objectives. Because the OneTrack system is a mission-critical system, the standards and guidance for “major systems acquisitions” apply to this system acquisition.

- 3) **Office of the Chief Information Officer:** The OCIO should have been the main driver of the acquisition with the GCBD assisting the OCIO as the customer. Instead, the GCBD was the primary Program Office in charge of the acquisition, and the OCIO assigned a contractor to be the Technical Project Manager for the task order to provide technical guidance to the GCBD.
- 4) **Prime Contractor:** The vendor used three different Project Managers over the course of the acquisition. One of those Project Managers worked for a subcontractor assisting with the performance of the contract, not the prime contractor.

Normally, an IT system procurement would be led by the OCIO with assistance from the Acquisition Division. The OCIO would also coordinate with the users of the system—the applicable Program Office(s)—to ensure the system would meet their needs. Additionally, the OCIO would provide primary oversight of the contractor. See Figure 4 for an illustration of this management structure.

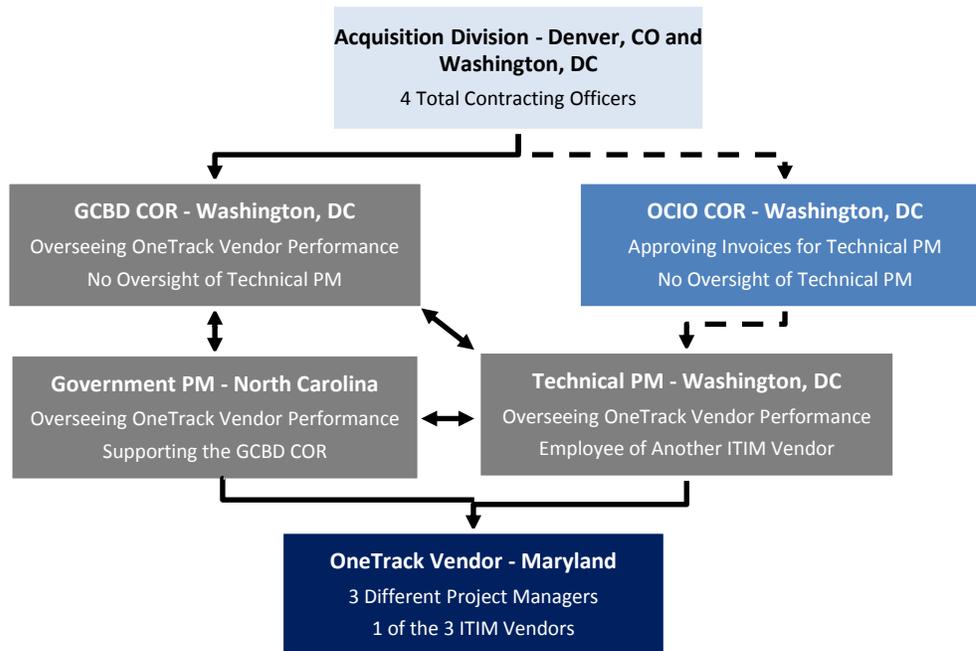
Figure 4 Basic Contracting Staff Oversight Structure for IT Acquisitions



Source: OIG analysis of Federal regulations and guidance for IT systems acquisitions.

Conversely, the SBA had a complicated oversight structure of the OneTrack system acquisition that involved three different SBA offices and two different ITIM contractors. Given the rate of staff turnover at a variety of positions, it is possible that information was shared with one Contracting Officer or with the Project Manager at the prime vendor but was never passed along to the next person in the oversight structure. See Figure 5 for a breakdown of the actual contract oversight structure.

Figure 5 Actual Contracting Staff Oversight Structure for the OneTrack System



Source: OIG analysis of oversight structure for the OneTrack system development.

Appropriate Surveillance for T&M Contracts

Throughout the performance of the task order, several areas of concern should have been identified or shared with the appropriate officials. Use of a T&M contract and traditional procurement methods—rather than incorporating modular contracting methods—increased the level of risk and oversight required by the agency to ensure the Government receives what it purchased. Subpart 16.6 of the FAR states that when an agency uses a T&M contract, the agency needs to have appropriate surveillance of the contractor performance to give reasonable assurance that efficient methods and effective cost controls are being used. When the Government does not provide adequate oversight of a T&M contract, the performance on the contract runs the risk of becoming a best effort rather than exerting a full focus on the performance objectives. For example, if all of the contract funds are expended, and the requirements in the SOW are not completed, the vendor is not required to provide any additional work to the Government. Given this structure, no positive incentives exist for the vendor to meet all of the requirements outlined in the SOW. In other words, the vendor only needs to provide a best effort to meet the requirements outlined in the SOW; therefore, the SBA is not guaranteed to receive the deliverables outlined in the task order. Additionally, use of a traditional procurement model—instead of modular contracting—adds a significant degree of risk to IT systems development and modernization acquisitions. See [Appendix IV](#) for more information about modular contracting.

The SBA did not properly manage this acquisition at all levels—from the Program Office (GCBD) to the OCIO to the Acquisition Division. For example, the GCBD had concerns about the vendor’s performance throughout the task order, but did not notify the appropriate personnel and only tried to build a case against the vendor after the task order was off course. Some of the concerns dated back to early summer 2012; however, GCBD personnel did not present these concerns to the Acquisition Division until the end of 2012. See below for issues that directly impacted the cost and schedule of the project.

- 1) At the end of 2011, the contract award process required more time than identified in the proposed project schedule, but the CO did not extend the end date of the task order to adjust for the delay. Instead, the CO only awarded a 12-month task order for the performance of a 16-month project as indicated in the project schedule and the SOW.
- 2) At the Kick-off Meeting held in January 2012, the vendor proposed a final schedule with an end in November 2013, even though the task order period of performance expired in December 2012. While this discrepancy was briefly discussed, the transcript and recording revealed that officials accepted a response from the contractor that still did not meet the performance period, and no further concerns were raised. However, if the SBA had completed an Integrated Baseline Review, this discrepancy would have been identified. See [Appendix II](#) for the schedule proposed by the vendor at the Kick-Off meeting.
- 3) In early 2012, the vendor began to use an open-source technology that was not compliant with the SBA's system architecture. Due to the GCBD allowing for the use of this unapproved open-source technology, the schedule and cost of the system were negatively impacted because the vendor had to perform additional, unplanned work to make the system compliant with SBA's architecture. If the OCIO had a more active role in the oversight of this acquisition, it is likely that the OCIO staff would have recognized this issue earlier in the process, and would have been able to validate the system design prior to development occurring.
- 4) In December 2012, the vendor contacted the SBA and stated that it needed an additional \$340,000 to provide the full system as originally designed by July 2013. If the additional funds could not be provided the scope of requirements would need to be decreased. At this time, the SBA did not provide the vendor with additional funds. This proposal by the vendor to add funds or de-scope the project should have been another signal that the system development was not on track.

In January 2013, the Chief Operating Officer (COO)—who was the CIO when the OneTrack task order was awarded—notified the SBA Administrator of the issues surrounding the acquisition. The COO then started holding regular meetings, with all of the Program Offices involved, to save the project. During this process, one email exchange between officials alluded to the SBA not following a strict interpretation of federal regulations and emphasizing a good relationship with the vendor. If the OCIO had assumed primary responsibility for this project and been more cognizant of the status, the CIO could have called a TechStat meeting when major issues began to arise prior to January 2013.²⁰ Additionally, if the GCBD had properly monitored the development of the system and notified the appropriate officials, these concerns would have triggered TechStat meetings earlier to determine the best course of action for the project.

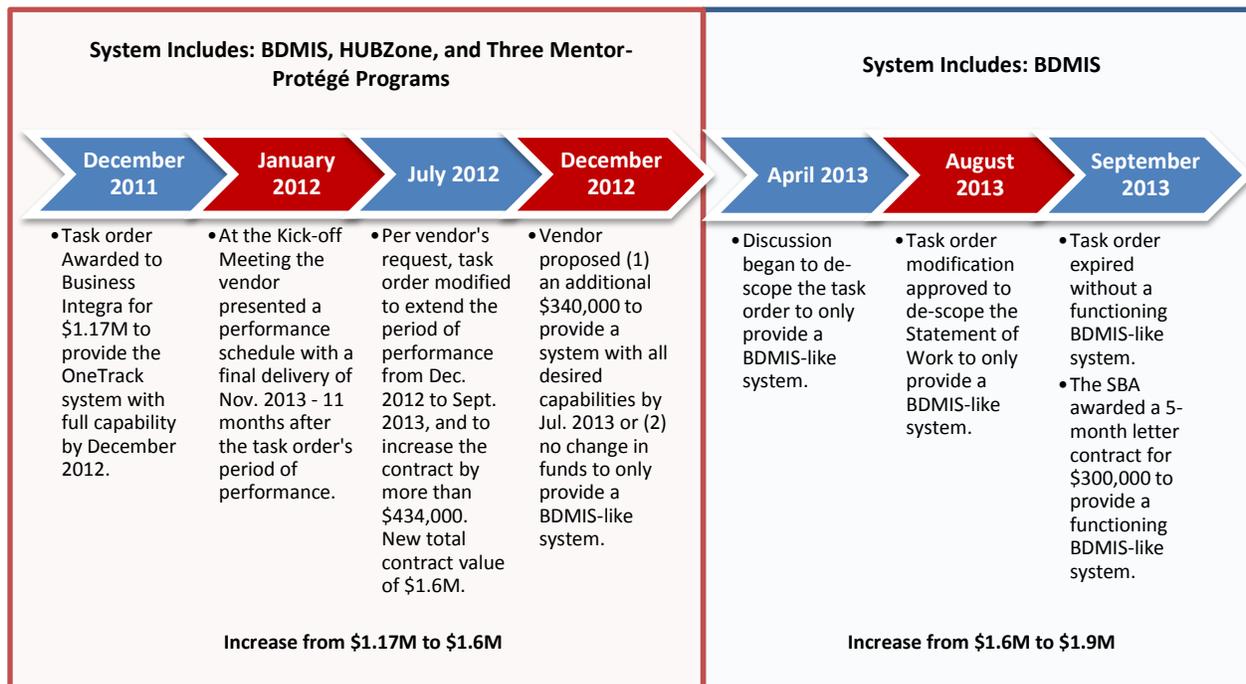
The lack of coordination between the GCBD and the OCIO, as well as the Acquisition Division, to oversee the vendor's performance resulted in the SBA de-scoping a T&M contract that only requires a vendor to provide best effort.²¹ Discussions to de-scope the requirements began in April 2013, but all stakeholders

²⁰ A TechStat is a face-to-face, evidence-based accountability review of an IT program that examines program data, with a focus on problem solving that will lead to concrete action to improve the overall performance. TechStats seek to find potentially failing programs sooner to increase accountability, save taxpayer money, and help yield better results. In some instances, a TechStat may reveal that a project be temporarily halted or terminated.

²¹ The Acquisition Division completed a bilateral modification to de-scope the Statement of Work for the OneTrack task order, which must be signed by the vendor and the Acquisition Division.

did not reach agreement until August 2013. Specifically, the GCBD did not agree with the de-scoping and would not prepare a new SOW. As a result, the contractor prepared a new SOW for approval by the SBA. Because this agreement did not occur until August 2013, the vendor only had one month remaining on the task order to complete the new SOW. Moreover, the SBA de-scoped the task order in an attempt to salvage what they could based upon the status of the system’s development, even though the T&M task order did not contain an obligation for the vendor to deliver a finished product. Further, the de-scoping also created confusion about what deliverables the SBA was entitled to receive from the vendor, such as the work performed on the HUBZone and Mentor-Protégé sections of the system. When the task order expired in September 2013, the SBA had not received a functioning system with capabilities equivalent to the current BDMIS system. As a result, the SBA awarded a 5-month letter contract to BI for an additional \$300,000 to finish developing a system with BDMIS capabilities. This letter contract also provided additional time to complete testing to ensure the SBA accepts a working system before the contract expires in February 2014. Additionally, the letter contract will result in a fixed price contract upon definitization. Figure 6 provides a timeline of changes made to the contract that impacted the cost, schedule, and scope of the OneTrack system development.

Figure 6 Timeline of the OneTrack System Acquisition (December 2011 through September 2013)



Source: OIG analysis of the acquisition timeline and modifications to the task order.

Additionally, the Acquisition Division took over the responsibility of approving invoices submitted by the vendor in January 2013. The COR for the GCBD stopped approving invoices from the vendor due to identified performance issues and documentation not being submitted by the vendor as required in the SOW. Contrary to the views of the COR for the GCBD, Acquisition Division officials stated that the vendor only needed to provide the invoice with total hours performed under the T&M contract line item number, and did not need to provide any additional support. Upon review of the contract documentation, the OIG determined that while the invoice only needed to state the total hours charged to the T&M line item, the contractor was still required to provide the bi-weekly status reports and updates to the Project Plan—as required in the SOW. This information is necessary for the COR to verify

what the vendor reported it had worked on. Because the vendor stopped meeting these performance requirements or provided a late performance, it is reasonable for the COR to question whether the contractor performed the total hours charged. Moreover, the status updates and reports were previously provided by the vendor without issue until the GCBD started raising issues about the performance. Further, when the Acquisition Division asked for these documents in their review of the invoices, the vendor had no problem providing the requested documentation.

The OCIO Did Not Provide Adequate Oversight to Ensure Contractors Did Not Perform Inherently Governmental Functions

In accordance with federal regulations and guidance,²² the OCIO should have been the primary Program Office procuring this IT system representing the GCBD as its customer. We found that the OCIO assigned a contractor to provide program and management support activities for the OneTrack task order, and the OCIO did not properly oversee the contractor’s performance. This lack of oversight increased the potential for a contractor to perform inherently governmental-like functions and increased the risks associated with the contract. See Table 4 for an analysis of the federal contract requirements and good practices for the performance of inherently governmental functions during the OneTrack system acquisition.

Table 4 Performance of Inherently Governmental Functions

Contracting Requirement or Good Practice	What Happened
<p><u>Oversight of Contractors Performing Inherently Governmental Functions:</u></p> <p>FAR Subpart 7.5 states that inherently governmental functions must be performed by a Government employee.</p> <p>When a contractor performs inherently governmental functions, the Government unnecessarily assumes additional risk.</p>	<ul style="list-style-type: none"> • The Technical Project Manager (PM) assigned to the task order by OCIO was a contractor and not managed properly by the COR. • The Technical PM allowed for changes to be made to the task order that were not compliant with the SBA IT systems environment. • The COR from OCIO approved invoices for the Technical PM; however, it appears that little to no oversight of the Technical PM prior to approval.

Agency CIOs are required to carry out information technology management functions at their respective agency, which would include spearheading all major IT acquisition efforts.²³ However, the GCBD had to take on the acquisition of a major IT system that is essential to the work completed by the SBA. When

²² 40 U.S.C. 11315 and 44 U.S.C. 3506(a). The major departments and agencies that the Clinger-Cohen Act applies to are listed in 31 U.S.C. 901(b) and includes the Small Business Administration. In September 2011, the U.S. Government Accountability Office issued a report that provides a detailed explanation of the duties of the Chief Information Officer. GAO, *Federal Chief Information Officers: Opportunities Exist to Improve Role in Information Technology Management*, September 15, 2011; Washington, DC; GAO-11-634. Further, the Office of Management and Budget Memorandum on Chief Information Officer Authorities from August 8, 2011 outlines that a Chief Information Officer must deliver IT solutions that support the mission and effectiveness of their agency. It also states that the CIO must drive the IT investment process and have responsibility over the entire IT portfolio for an Agency.

²³ While the current value of the system is less than \$2 million, FAR Subpart 2.101 defines a major system as a “combination of elements that will function together to produce the capabilities required to fulfill a mission need. The elements may include hardware, equipment, software, or any combination thereof.” The OneTrack system is one of the most important system development efforts undertaken by the SBA between 2010 and 2013. Additionally, the system is designed to meet the needs of the Agency and serve the small business base by allowing them a single access to multiple programs, and allow the SBA to meet mission critical strategic goals and objectives. Because the OneTrack system is a mission-critical system, the standards and guidance for “major systems acquisitions” apply to this system acquisition.

the GCBD contacted the OCIO for support, the OCIO assigned a contractor as the Technical Project Manager (Technical PM) rather than assigning a Government employee. If a contractor performs functions relating to professional and management support activities, that contractor may be performing activities closely aligned to inherently governmental functions. These activities can include acquisition planning, development of the Statement of Work, or evaluation of another contractor's performance. Federal regulations state that inherently government functions must be performed by a Government employee.²⁴ When contractors perform these functions, there is a risk of inappropriately influencing the Government's control over and accountability for decisions that may be based, in part, on contractor work. Due to this risk, contractors must be monitored to ensure that inherently governmental functions are not performed. Additionally, the SBA did not properly manage the contractor to ensure that any decisions made did not have an adverse effect on the Agency or the acquisition thus allowing for increased risk to be placed on the contract success.

Confusion existed among SBA Program Offices as to who was monitoring the performance of the Technical PM, and therefore, the contractor was not managed properly by the COR from OCIO. This confusion and limited oversight allowed for the following issues to occur:

- 1) The OCIO believed that a GCBD staff had been assigned as the COR, and the GCBD staff believed that an OCIO staff had been assigned as the COR. We found that a representative from OCIO had been approving the hours submitted for payment for the Technical PM. Specifically, it appears that little to no oversight was completed to ensure that the Technical PM was providing satisfactory work. Additionally, it does not appear that any review occurred to ensure that the Technical PM had performed the work paid for by the SBA prior to the OCIO approving invoices. Officials from GCBD stated that the OCIO never asked for feedback on the Technical PM's performance.
- 2) The Technical PM and the BI's Project Manager previously worked for the same company, which increased the risk associated with decisions and guidance made by the Technical PM. Additionally, BI's Project Manager was employed by two companies through February 2012—both were providing the SBA with IT services through the ITIM contract vehicle. While this overlap was identified, GCBD officials stated that the Contracting Officer verbally approved this arrangement. However, the SBA did not provide for proper safeguards to minimize risk. As a result, the SBA was billed for the same employee by two different companies.
- 3) The Technical PM advising the GCBD made decisions that impacted the schedule of the task order. Officials from the OCIO stated that at one point, they tried to remove the Technical PM because the contractor approved work that did not align with the SBA's IT systems environment. However, the OCIO was unable to support the removal of the Technical PM because the OCIO did not have the performance documentation required. If the OCIO had properly managed the performance of the Technical PM, the contract file would have included the necessary performance documentation needed for removal.

²⁴ FAR Subpart 7.5 – Inherently Governmental Functions. See also GAO-10-357 for more information on inherently governmental functions, and contractors overseeing other contractors. GAO, *Contingency Contracting: Improvements Needed in Management of Contractors Supporting Contract and Grant Administration in Iraq and Afghanistan*, April 12, 2010; Washington, D.C.; GAO-10-357.

Conclusions

Federal contracting laws and regulations provide specific requirements designed to safeguard the Government and mitigate risk. However, the SBA did not follow the requirements and guidance outlined for the planning and procurement of a mission-critical IT system because it did not appear to conduct adequate market research, use the appropriate contract procedures, or select the best contracting vehicle. As a result, the SBA added unnecessary risk to the acquisition of the OneTrack system and created a need for increased management and surveillance of the contractor's performance. If the SBA had followed federal requirements to conduct the commensurate market research and select the correct contracting vehicle, the SBA would have increased its likelihood for success and limited risk.

The use of information technology can increase the efficiency and effectiveness of a federal agency if planned for and acquired in compliance with federal regulations. When procuring mission critical systems, it is essential that the CIO take a key role in these efforts—based upon the Clinger-Cohen Act. If agencies do not follow federal regulations and guidance for IT systems acquisition undue risks are placed on the procurement and the likelihood for success decreases. The evidence of a lack of direction by the CIO and a lack of planning for the procurement of the OneTrack system resulted in the SBA not obtaining an operating system at the end of the task order. As a result, the SBA had to award another contract to procure services that were originally included in the first task order. Additionally, the demand for a functioning system in the near-term required the SBA to use the ITIM contract again—even though the use of this contract vehicle previously culminated in unsatisfactory results.

Recommendations

We recommend the Chief Information Officer, the Chief Acquisition Officer, and the Associate Administrator for GCBD should:

- 1) Conduct a requirements analysis in addition to a cost assessment of the system to determine what still needs to be developed to achieve the objectives of the final system.
- 2) Award a fixed price contract for any additional work performed in the development and implementation of the OneTrack system.
- 3) Ensure that only Government employees—not Government contractors—provide oversight of any additional contracts used to develop and implement the OneTrack system.

2) The SBA Must Complete System Testing and Deployment Activities

In accordance with SBA guidelines, the SBA's System Development Methodology (SDM), or its equivalent, must be used on all IT system development projects related to SBA programs.²⁵ The SDM aligns with Clinger-Cohen Act guidance related to IT systems and outlines classes of system acceptance testing that should be executed prior to system implementation. These tests include requirements validation, functional testing, stress testing, security testing, ease of use testing, operational testing, and

²⁵ The SDM is required by the SBA on all major system projects under the Clinger-Cohen Act. 40 U.S.C. 11315 and 44 U.S.C. 3506(a). The major departments and agencies that the Clinger-Cohen Act applies to are listed in 31 U.S.C. 901(b) and includes the Small Business Administration. Further, OMB Circular A-130 provides additional guidance on completing the system development life cycle.

interface testing. Compliance with SDM requirements was stipulated in the OneTrack SOW, which stated planning and activities, and product deliverables would comply with SDM.

We found that comprehensive testing outlined by the SDM was not performed to provide adequate assurance that an acceptable level of performance would be attained by the OneTrack system. As a result, the SBA could not ensure that essential requirements were met, or that the newly designed system could handle adequate volumes of transactions. Further, the SBA could not ensure that the system properly interfaced with other systems operated by the SBA or other organizations. At the conclusion of the OneTrack task order, the project had only completed user acceptance testing. Before moving to the Evaluate Phase of SDM, the project must have successfully completed the system, integration, and documentation from the Build and Test Stage, and have been judged acceptable by project, technical and management review. The SDM further requires SBA's IT governance board to oversee and approve a project's advancement into the next development phase.

The Evaluate Phase of the SBA's SDM is the period in which independent testers measure the system's ability to perform the functions that are required by the user and ensure an acceptable level of performance. After this phase of development is completed, a clear indication of the system's readiness for operation is evident. We found that testing protocols identified in the Evaluate Phase of the SBA's SDM were not completed for the OneTrack project. These tests measure the system's ability to perform the functions that are required by the user and ensure an acceptable level of performance. For example, documentation testing evaluates system documentation for relevance, completeness, and accuracy against actual operation of the system. At the end of the OneTrack task order, we observed that only "user acceptance" testing was performed. These are scripted tests performed by the users during the Build Phase and are not equivalent to system acceptance tests. Also, the revised OneTrack SOW excluded unit functional test documentation, reporting, and operation manuals. The SDM requires system performance be fully tested prior to moving the software into a production environment, so it is unclear why the SOW excluded unit and functional test documentation, even though it was required.

Conclusion

Comprehensive testing outlined in the SDM was not performed to provide adequate assurance that an acceptable level of performance would be attained by the OneTrack system. Without performing the additional types of tests or having oversight of any additional tests performed by the contractor, the SBA could not ensure that essential requirements were met. The SBA also could not ensure that the system could handle adequate volumes of transactions, or that the system properly interfaced with other systems operated by the SBA or other organizations.

Recommendations

We recommend the Chief Information Officer and Associate Administrator for GCBD:

- 4) Ensure all appropriate provisions (e.g. testing, conversion, and installation procedures) of the SDM guidance are met prior to placing OneTrack into production.

Agency Comments and Office of the Inspector General Response

On December 17, 2013, we provided a draft of this report to the Agency for comment. Three of the recommendations were directed to the Chief Information Officer, the Chief Acquisition Officer, and the Associate Administrator for GCBD. The fourth recommendation was directed to the Chief Information Officer and the Associate Administrator for GCBD. The Office of Government Contracts and Business Development provided its comments on January 23, 2014, which are included in their entirety in Appendix V. On January 24, 2014, the Chief Operating Officer informed the OIG that the CIO would not be providing official comments because we previously addressed their concerns. The Office of the Chief Financial Officer provided its comments on January 16, 2014, which are included in their entirety in Appendix VI. Management concurred with all four recommendations. A summary of management's general comments to the report, recommendation-specific comments, and our response follows.

General Management Comments from the Office of Government Contracts and Business Development

The Office of Government Contracts and Business Development concurred with all of our recommendations, and provided additional comments regarding some of the information presented in the draft report. The Associate Administrator for GCBD raised issue with our finding that his office did not provide adequate oversight of the project. Specifically, he stated that GCBD personnel worked closely with the vendor on a daily basis and contract performance issues were articulated to the Contracting Officer during weekly progress meetings. However, in many instances, the Contracting Officer either ignored or undermined their efforts to oversee the vendor's performance.

The Associate Administrator for GCBD also stated that personnel from his office suggested to the Acquisition Division staff—in the same planning meeting referenced in the table on page 6—that a time-and-materials (T&M) contract should be used for the design phase and a fixed price contract for the development phase of the project. The Associate Administrator acknowledged that this structure would have coincided with modular contracting principles.

Moreover, the Associate Administrator stated that Acquisition Division staff advised GCBD personnel about the required use of the ITIM contract vehicle for this procurement. Because they were required to use this contract vehicle, limited market research was completed.

Finally, during the Technical Evaluation of the two contract proposals, the technical evaluation panel notified the Contracting Officer about the labor category discrepancies and also raised concerns about the price disparity between the two proposals. They were told by the Contracting Officer to move forward in the contract award process.

OIG Response to GCBD

We stand by our findings that the GCBD did not properly manage this acquisition. While various levels of documentation were provided, we do not believe this documentation provides sufficient evidence of oversight and coordination with the Acquisition Division or the OCIO.

For example, based upon our review, disagreements with the Contracting Officer did not occur until December 2012—when the contract was already off course. Additionally, the minutes of the acquisition planning meeting referenced in the Associate Administrator's statement do not support his comments. The minutes only show that GCBD personnel wanted to use a firm-fixed price contract and there were

no references to using a T&M contract or a design and development phase for the procurement. Additionally, the GCBD did not provide the OIG with any documentation to support this assertion during the review.

While GCBD personnel mentioned that they were required to use the ITIM contract during previous interviews, we were not able to corroborate this information. We could not find any SBA policy dictating that the ITIM contract vehicle be used for an IT system procurement. For example, another IT system procured by the GCBD did not have to utilize the ITIM contract vehicle. Moreover, when we spoke with personnel from the Acquisition Division and the OCIO, no one stated that use of the ITIM contract was a requirement. Further, because the Contracting Officer who awarded the contract is no longer with the agency, we could not determine if he provided this guidance to the GCBD.

We found no information in the contract file regarding possible discrepancies during the contract award process. Also, the GCBD did not provide any supplemental documents to support their contention regarding the difference in labor categories or significant price difference in the contract proposals. Further, the Contracting Officer who awarded the contract is no longer with the SBA, and therefore, we could not verify these statements.

General Management Comments from the Office of the Chief Financial Officer

The OCFO agreed with all of our recommendations, but indicated that the report should be updated to show that the Contracting Officers were located in both Denver, CO, and Washington, DC. Additionally, the OCFO disagreed with the mention of pre-decisional discussions about the contract type because all parties agreed to the contract type used by signing the Acquisition Strategy.

OIG Response to OCFO

The OIG modified the graphic on page 15 of the report to reflect that the Acquisition Division was previously located in Washington, DC. Additionally, agency acquisition personnel should have the appropriate knowledge of procurement policies to advise program officials of the best contract vehicle based upon the type of goods and/or services being procured. In this instance, the program office wanted to use a firm-fixed price contract, but was advised to use a different contract method.

We made the following recommendations to the Chief Information Officer, the Chief Acquisition Officer, and the Associate Administrator for GCBD:

Recommendation 1 – Conduct a requirements analysis in addition to a cost assessment of the system to determine what still needs to be developed to achieve the objectives of the final system.

Management Comments

The Chief Financial Officer, the CIO and the Associate Administrator for GCBD concurred with this recommendation. Additionally, the CFO stated that the SBA has already completed the requirement analysis. Alternatively, the Associate Administrator for GCBD stated that implementation of Recommendation 1 and further system development would be predicated on the availability of funds.

OIG Response

Management's comments were responsive to our recommendation. We consider this recommendation resolved but open pending completion of final action.

Recommendation 2 – Award a fixed price contract for any additional work performed in the development and implementation of the OneTrack system.

Management Comments

The CFO, the CIO, and the Associate Administrator for GCBD concurred with this recommendation. Additionally, the CFO stated that it awarded a fixed price definitized letter contract to complete work on the OneTrack system.

OIG Response

Management's comments were responsive to our recommendation. Management provided a copy of the fixed price definitized letter contract, and we determined this action met the intent of the recommendation. We consider this recommendation resolved and closed based on the management decision and final action.

Recommendation 3 – Ensure that only Government employees—not Government contractors—provide oversight of any additional contracts used to develop and implement the OneTrack system.

Management Comments

The CFO, the CIO and the Associate Administrator for GCBD concurred with this recommendation. No specific comments were provided in response to this recommendation.

OIG Response

Management's comments were responsive to our recommendation. We consider this recommendation resolved but open pending completion of final action.

We made the following recommendation to the Chief Information Officer and the Associate Administrator for GCBD:

Recommendation 4 – Ensure all appropriate provisions (e.g. testing, conversion, and installation procedures) for the SDM guidance are met prior to placing OneTrack into production.

Management Comments

The CIO and the Associate Administrator for GCBD concurred with this recommendation. No specific comments were provided in response to this recommendation.

OIG Response

Management's comments were responsive to our recommendation. We consider this recommendation resolved but open pending completion of final action.

Appendix I: Scope and Methodology

During the course of completing a review of the OneTrack system for compliance with IT governance principles, we identified possible acquisition issues with the OneTrack system in June 2013. Accordingly, we modified the scope of our review to focus on these acquisition issues. To determine if the SBA followed acquisition regulations in the procurement of the system, we completed a site visit to the Denver Finance Center in July 2013 to obtain all available contract documentation for the OneTrack task order. We also obtained contract documentation for all three vendors on the Information Technology Information Management (ITIM) multi-award contract. We also met with Acquisition Division officials and staff directly involved with the procurement of the OneTrack system. In addition, we met with officials and staff in the Office of the Chief Information Officer and the Office of Government Contracting and Business Development.

We reviewed contract documentation for the OneTrack task order, and the contract documentation for all three vendors on the ITIM multi-award contract. Review of the contract documentation included all base contracts and task orders awarded during the period of performance and any invoices submitted for the performance of work. We identified laws and federal regulations, including the Clinger-Cohen Act and Federal Acquisition Regulations that govern the acquisition of IT systems. We also identified internal agency guidance to determine if the SBA had any additional requirements for IT system acquisitions. Further, we reviewed reports issued by other auditing agencies, such as the U.S. Government Accountability Office and Offices of the Inspector General at other federal agencies. Additionally, we identified guidance from the Office of Management and Budget for the acquisition of IT systems.

We conducted our review of acquisition issues for the OneTrack system between June 2013 and September 2013.

Use of Computer-Processed Data

For the purposes of this review, we did not use computer-processed data to support our findings.

Prior Coverage

U.S. Government Accountability Office Audit Reports

Report [GAO-12-7](#), *Information Technology: Critical Factors Underlying Successful Major Acquisitions*, issued October 21, 2011

Report [GAO-11-634](#), *Federal Chief Information Officers: Opportunities Exist to Improve Role in Information Technology Management*, issued September 15, 2011

Appendix II: Deliverables Schedule Agreed To by Contractor at Kick-Off on January 19, 2012

Milestones	CLIN #	Start Date	Finish Date
Initiation, Planning, and kick-off	CLIN 0002	January 2012	Thursday, March 01, 2012
Manage Software Requirements <i>JAD Sessions</i> <i>Detailed processes and workflows</i> <i>Detailed functional requirements</i>	CLIN 0003	Friday, March 02, 2012	Thursday, April 12, 2012
Manage Infrastructure Requirements	CLIN 0004	On Going	On Going
BDMIS, HCTS, Support Applications Data Analysis, Requirements, and Migration	CLIN 0005	Friday, April 13, 2012	Monday, June 18, 2012
System Analysis, Design, and Development	CLIN 0006a	Tuesday, June 19, 2012	Wednesday, October 03, 2012
Reporting Requirements, Design, and Configuration	CLIN 0007a	Thursday, October 04, 2012	Wednesday, January 02, 2013

Original Period of Performance on the Task Order Expired on 12/14/2012²⁶

Milestones	CLIN #	Start Date	Finish Date
Reporting Configuration	CLIN 0007b	Thursday, January 03, 2013	Friday, March 29, 2013
Quality Assurance/Testing	CLIN 0008	On Going	On Going
Software Migration to SBA	CLIN 0009	Thursday, January 03, 2013	Friday, March 29, 2013
Certification and Accreditation	CLIN 0010	Friday, January 25, 2013	Friday, March 29, 2013
User Acceptance Testing	CLIN 0011	Friday, March 29, 2013	Thursday, April 25, 2013
End User (Internal and External) Training	CLIN 0012	Friday, April 26, 2013	Thursday, May 23, 2013
SBA Final System Sign-off and Acceptance	CLIN 0013	Friday, May 24, 2013	Thursday, November 14, 2013

Modified Period of Performance on the Task Order Expired 09/20/2013

Milestones	CLIN #	Start Date	Finish Date
C&A Annual Follow-on Work (Separate Task Order)	CLIN 0014	TBD	TBD

Source: OIG presentation and analysis of SBA contract documentation.

²⁶ The total task order schedule should have taken 16-months; however, the task order period of performance was incorrectly awarded for only 12-months.

Appendix III: Use of Time-and-Materials Contracts by Federal Agencies

Contracting Officers Select Contract Type

Generally, the Contracting Officer (CO) selects the contract type for a particular procurement and typically decides on the contract type prior to issuing a solicitation. This decision is made after considering a range of factors including: (1) the degree of price competition in the procurement; (2) the type and complexity of the requirements; (3) the urgency of the requirements; (4) the period of performance or length of the production run; and (5) the history of the acquisition. Most reports issued by the Federal Government about agencies' use of particular types of contracts allege not that the type used was unlawful but that it was imprudent. Typically, the types of contracts used were imprudent because they left the Government vulnerable to paying too much, especially if agency oversight of contractor performance was inadequate.

T&M Contracts May Be Used When No Other Contract Option Is Suitable

If agencies are not at prepared to award a fixed price contract or a cost reimbursement contract for a given project, then agencies should consider a small, short duration (less than one year), Time and Materials (T&M) or Labor Hour type of contract for that project. In a T&M contract, the contractor is paid a fixed hourly rate for direct labor expended during the contract's performance (e.g., wages, overhead, general and administrative expenses, profit), as well as the actual cost of materials. The materials covered by a T&M contract can include direct materials, subcontracts for supplies or incidental services, other direct costs, and applicable indirect costs. Further, T&M contracts may be imbedded in the prime contract for short-duration, unquantifiable work, but never used as the primary vehicle for the delivery of products or services. Moreover, T&M contracts are not appropriate for major acquisitions that have passed the planning stage, and should only be used when insufficient knowledge about the requirement does not allow the agency to be able to use a cost reimbursement contract to fill the requirement. Additionally, a T&M contract should only be used when it is not possible at the time of the contract award to estimate accurately the extent or duration of the work, or to anticipate cost with any reasonable degree of confidence.

Federal Acquisition Regulations (FAR) authorizes agencies to use T&M contracts only when the parties cannot accurately estimate the extent or duration of the contract's work, or reasonably estimate the costs of the contract, at the time of contracting, and the contract includes a ceiling price that the contractor exceeds at its own risk. Additionally, the CO must prepare a determination and findings (D&F) proving that "no other contract is suitable" and must:

- (1) Include a description of the market research that was conducted to reach this conclusion;
- (2) Establish that it is not possible at the time of contracting or ordering to accurately estimate the extent or duration of the work or anticipate the costs;
- (3) Establish that the requirement has been structured to maximize use of firm-fixed-price or fixed-price with economic price adjustment contracts in future acquisitions for the same requirements (e.g., limiting the length of the contract); and
- (4) Describe plans to maximize the use of firm-fixed-price or fixed-price with economic price adjustment contracts in future acquisitions.

Additionally, Subpart 16.6 of the FAR state that when an agency uses a T&M contract, the agency needs to have appropriate surveillance of contractor performance to give reasonable assurance that efficient methods and effective cost controls are being used. This surveillance is required because T&M contracts provide no positive profit incentive to control their costs or efficiency. Further, FAR Subpart 52.232-7(d) states that total costs for the performance of the contract shall not exceed the contract ceiling, and the contractor agrees to use its best efforts to perform the work specified in the contract and all obligations under the contract within the contract ceiling price. When the Government does not provided adequate oversight of a T&M contract, the performance on the contract becomes a best effort rather than full performance. For example, if all of the contract funds are expended, and the requirements in the SOW are not completed, the vendor does not have to provide any additional work to the Government. Given this structure, no positive incentives exist for the vendor to meet all of the requirements outlined in the SOW. If the contractor or the Government at any point believes that the total costs will be substantially greater or less than the original ceiling, the opposite party should be notified and a new total cost developed. Basically, the clause states that the contractor is not required to provide the exact deliverables as identified in the contract; it must only provide a best effort to meet those deliverables to be paid—i.e., the Government is not guaranteed to receive the deliverables for which they are paying.

T&M Contracts Require Increased Oversight

For major IT development efforts, program management cannot be viewed as a part-time effort or additional duty. It requires a dedicated Program Manager (PM) leading a team of highly trained and experienced personnel. The team should also be familiar with and apply sophisticated management techniques such as “earned value reporting,” strong configuration management, and other performance measuring tools. The knowledge, skills, talent, and experience of the program team remain a key determinant of a successful IT development program.

Figure 7 below outlines a list of activities that should be focused on by Program Managers during program management planning.

Figure 7 Planning Activities for Non-Technical and Technical Program Managers

Non-Technical Program Management Activities	Technical Program Management Activities
<ul style="list-style-type: none"> •Developing a program management plan as the conceptual basis for program execution. •Planning and controlling the framework, milestone schedules, reporting, risk management, etc. •Systematically scheduling all steps and products required for appropriate visibility, assignment, identification, and tracking. •Gathering information to support decision making. •Reviewing input from team members and contractors on all activities 	<ul style="list-style-type: none"> •Controlling the system design so that all elements are integrated into the optimum system. •Using configuration management to identify functional/physical characteristics (baselining), control changes, record/ report changes. •Measuring and reviewing technical performance.

Source: OIG presentation of Federal guidance for planning activities of non-technical and technical program managers.

There are three key elements that are normally associated with any project: performance, cost, and schedule. An effective program management control system should provide data that indicates conclusive work progress and relevant cost, schedule, and technical performance characteristics. To enable the Government to monitor performance in terms of cost and schedule, the contractor should be required to submit periodic reports that inform the Program Office of the actual progress of the project. Additionally, Earned Value Management (EVM) is required on IT systems acquisition contracts if they are used for development work.

Appendix IV: Modular Contracting Principles

Planning for IT Acquisitions

After completing the requirement analysis, conducting market research, and understanding the program constraints, contingencies, and system design, the Program Manager, the CO, and other members of the Program Office work together to craft the appropriate contracting approach. The key to success is to craft a contract strategy that can accommodate rapid changes in technology, increased interoperability and integration risk, and potentially, multiple contractors. With the use of modular contracting, the agency acquisition strategy should divide the work for large IT contracts into discrete, contractual segments with firm, short-term performance, cost, and schedule objectives. Additionally, FAR Subpart 39.103(d) states that COs will choose the appropriate contracting technique for the particular circumstances (e.g., indefinite delivery, indefinite quantity (IDIQ), single-award contracts with options, successive contracts, multiple award task order contracts, etc.). Additionally, the contracting technique should facilitate the acquisition of subsequent increments. Whatever the contractual approach, the FAR requires that contract(s) be structured to ensure that the Government is not required to procure additional increments. One important aspect of any contract strategy is the proper allocation of risk. The selection of contract type is one means of determining the extent to which the Government and contractor share risk. A major factor in determining the amount of risk present in a requirement is the amount of “unknowns” it contains. For example, system design and requirements definition efforts have more unknowns and are usually higher-risk tasks than coding and testing or acquiring commercial-off-the-shelf goods or services.

For long-duration contracts that include significant development, it may be impossible to estimate the cost of performing the entire contract with sufficient accuracy to use a fixed price or structured incentive contract from day one. Therefore, it may be desirable to initiate the work with a small, short-duration T&M or cost-plus, fixed-fee contract for studies or early design. Upon completing the design phase, an agency can evolve to a cost plus award fee or cost-plus incentive fee contract for later design and initial development. Finally, the agency may then want to use a cost plus incentive fee, fixed price incentive, or fixed price contract for the initial and production units once all development work is complete. As the contract progresses and the ability to estimate the cost of performance increases, the use of fixed-price or cost-reimbursement contracts becomes more practical. Therefore, it may be desirable to initiate the IT systems development work with a small, short-duration T&M or cost-plus, fixed-fee contract for studies or early design, and evolve to a cost plus award fee or cost plus incentive fee contract for later design and initial development. For the initial and production units once all development work, use of a cost plus incentive fee, fixed price incentive, or fixed price contract is recommended. For contracts awarded to plan or design an IT system, it also may be desirable to negotiate an estimated cost or price in increments. The initial estimated cost or price would be for the studies or early design. As work progresses to develop the system, the estimated cost or price should be renegotiated upward at appropriate points in the contract, as those costs become more predictable. If an agency awards a contract at an estimated cost or price substantially less than the probable cost of performing the contract, the likelihood that the Government will receive the product or service on time and within the cost estimates decreases.

Using Modular Contracting Principles for Large Scale IT Acquisitions

The current statutory preference for modular contracting is the result of a considerable history of high-profile, multi-billion dollar failures of “grand design” information technology (IT) development efforts. The “grand design” approach to IT development often resulted in systems that were extremely expensive, fielded years behind schedule (if at all), provided less than the desired capabilities, and were most often technologically outdated by the time they were implemented. Modular contracting is now the preferred method for acquiring major developmental IT systems. It is most effectively applied when a requirement can be satisfied in successive acquisitions of interoperable increments completed every 6-12 months. In its simplest terms, modular contracting is the acquisition of a major IT system through smaller, successive increments of interoperable modules. Under modular contracting, an executive agency’s need for a system is satisfied in successive acquisitions of interoperable increments. Each increment complies with common or commercially accepted standards applicable to IT so that the increments are compatible with other increments comprising the system. For example, an enterprise-type system comprised of multiple business component programs would be an ideal candidate for the modular approach, and the lack of a modular approach can lead to interface and interoperability risks and requires more oversight of the contractor.

Alternatively, the difficulties associated with the traditional procurement process for the IT acquisition process can be attributed to the fact that traditional procurements require that agencies “solve” the entire operational problem during the pre-award source selection. For example, offerors are asked to propose and price the design, development, test, and implementation of a software system that, in many cases, has not been fully defined or understood. Once the contract is awarded, these estimates and assumptions became the baseline requirements by which the success or failure of the program is measured. While the standard procurement model is suitable for numerous types of federal acquisitions, it adds a significant degree of difficulty to large-scale IT systems development and modernization acquisitions. This difficulty arises from limitations in the standard model, which does not allow for the higher magnitude complexities, risks, uncertainties, and rate of technological change inherent in large-scale IT development efforts. Modular contracting is intended to reduce program risk and to incentivize contractor performance while meeting the Government’s need for timely access to rapidly changing technology.

Appendix V: Comments from the Office of Government Contracting and Business Development



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

DATE: January 23, 2014

TO: Robert A. Westbrook, Deputy Inspector General

FROM: A. John Shoraka
Associate Administrator
Office of Government Contracting and Business Development

SUBJECT: Response to OIG Draft Report

Thank you for the opportunity to respond to your Draft Report, PROJECT NO. 13011, entitled, “Review of the OneTrack System Acquisition” (The Report). Based on our review, we are providing the following comments:

- The Report notes that the Clinger-Cohen Act introduced modular contracting as a guiding principle for IT acquisitions to be used to the maximum extent practicable. You state “Modular contracting principles require federal agencies to divide their IT acquisition into smaller pieces that allow for the flexibility to adapt with rapidly changing IT capabilities.” The Report further notes that the minutes of an acquisition planning meeting indicate that GCBD personnel asked Acquisition Division officials about the possibility of using a fixed price contract. However, the Acquisition Division officials told GCBD personnel that a fixed price contract could not be used because the requirements for the system were too undefined, and that a T&M task order must be used. This in fact, is partially correct. In this meeting GCBD personnel suggested that the design phase of the project be awarded via a T & M contract and that the development phase of the project be awarded fixed price. This approach would have coincided with the modular contracting approach described in your report and would have mitigated the concerns noted by the contracting officer regarding the degree to which the requirements were defined.
- In the area regarding Market Research, The Report indicates that the extent to which the SBA conducted market research or why the agency used the ITIM multi-award contract could not be determined based upon the documentation provided by the Office of Government Contracting and Business Development (GCBD) and the Acquisition Division personnel. In this regard, the market research that was conducted was very limited. In its acquisition strategy GCBD originally proposed that the award be made via a competitive procurement pursuant to Section 8(a) procedures. However, GCBD was advised by the acquisition staff that it would be required to use the existing Agency ITIM multi-award contract, thereby limiting market research. GCBD is unaware of why this was stipulated as a requirement.

- In respect to the technical evaluation of the proposals, note that while consideration was given to the disparity in the price proposals by the Technical Evaluation panel, the more expensive proposal was not rated as highly by the technical evaluation panel. Further, additional questions were asked of the low bidder to ensure that the Government's requirement was fully understood. Based on the additional questions asked, discussions and the ability for the firm to ask clarifying questions, the determination was made that the vendor understood the government's requirement. Also noteworthy is that the low bidder included in the proposal a partner who previously performed a review of the BDMIS system and the HUBZone system. At that time there was no indication that the bidders didn't understand the government's requirement. Both proposals demonstrated that the bidders had familiarity with the government's requirement. It was not until the Awardee's request for additional funding was denied that it asserted that it did not fully understand the requirements of the contract.

Also, the Contracting Officer was notified of the labor class discrepancy and the technical evaluation panel was verbally told that contract award to the low bidder could continue. Finally, the technical evaluation panel was not provided a copy of the ITIM contract although it was requested.

The technical evaluation panel did raise concerns regarding the disparity in the vendor price proposals to the Contracting Officer and the decision was made to move forward in the process. As mentioned earlier technical reviewers with an IT background suggested that the price difference could be caused by the types of tools proposed by the higher bidder.

- The Report indicates that SBA did not properly manage this acquisition at all levels—from the Program Office (GCBD) to the OCIO to the Acquisition Division. For example, the GCBD had concerns about the vendor's performance throughout the task order, but did not notify the appropriate personnel and only tried to build a case against the vendor after the task order was off course. Some of the concerns dated back to early summer 2012; however, GCBD personnel did not present these concerns to the Acquisition Division until the end of 2012.

Throughout this project the GCBD worked closely with the Vendor on a daily basis. Additional there were weekly formal progress meetings held with the Vendor that included the Contracting Officer assigned at that time. During these meetings the GCBD concerns were clearly articulated. At all times the Contracting Officer was aware of the program office concerns. However, in many instances, the Contracting Officer would contradict the project team; ignore information provided by the project team, and, disregard OMB guidance regarding Information Technology acquisitions. More importantly, the efforts of the program office were significantly impacted by the Contracting Officer's independent telephone conversations with the vendor following regular scheduled weekly meetings. Although the Contracting Officer participated in the schedule meeting, subsequent independent telephone conversations were held with the vendor wherein the vendor was advised to not follow directions or respond to request made by the program office. This was evidenced on many occasions when the program office was told by the vendor that they were told by the Contracting officer that they were not required to respond to a program office request.

- On a final note, The Report states, "In early 2012, the vendor began to use an open-source technology that was not compliant with the SBA's system architecture. Due to the GCBD allowing for the use of this unapproved open-source technology, the schedule and cost of the

system were negatively impacted because the vendor had to perform additional, unplanned work to make the system compliant with SBA's architecture." In this regard, it should be noted that the open source technology was clearly allowed for in the OCIO new application infrastructure page on the CASE environment. Further the use of open source technology was included in the low bidder's proposal. There was representation from OCIO on the technical evaluation panel and it was not voiced that open source technology was prohibited.

In conclusion, GCBD concurs with the recommendation contained in this report. However, implementation of Recommendation No. 1 and further system development are predicated on the availability of funds.

Appendix VI: Comments from the Chief Acquisition Officer



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

To: Robert Westbrooks
Deputy Inspector General

From: Jonathan Carver
Chief Financial Officer

Date: January 16, 2014

Re: CFO Comments to Draft Report on “The SBA Did Not Follow Federal Regulations and Guidance in the Acquisition on the OneTrack System”, Project 13011

The Office of the Chief Financial Officer (OCFO) appreciates the opportunity to respond to the draft report “The SBA Did Not Follow Federal Regulations and Guidance in the Acquisition on the OneTrack System, Project 13011.” We reviewed the report and appreciate that you addressed a number of concerns we raised from our review of the discussion draft.

OCFO however still disagrees with statements in the report that lay blame on acquisition personnel for directing “the Program Office to use a T&M contract vehicle.” Pre-decisional discussions during the acquisition planning process are not relevant since the strategy was codified in the Acquisition Strategy document that was signed by all parties.

As a point of clarification, Draft pages 13, 15 and 16 state that the Acquisition Division used four different Contracting Officers over the course of two years for the contract award and performance. While that statement is true, the report should mention that part of the reason was due to the transfer of a majority of the acquisition function from DC to Denver. In addition, Figure 5 on Draft page 15 is not accurate since the original contracting officer was located in DC and remained in DC after the transfer. Therefore, we request that you add DC as a location for the Acquisition Division.

OCFO concurs with the three recommendations outlined in the draft report for the Chief Acquisition Officer, the Chief Information Officer and the Associate Administrator for GCBD. In fact, SBA has already completed the requirements analysis and awarded a fixed price definitized letter contract to complete work on the OneTrack system.

Thank you for the opportunity to review the draft report. Please let me know if you need additional information or have any questions regarding our response.