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Report to Congressional Committees

September 2011

INTERAGENCY CONTRACTING

Improvements Needed in Setting Fee Rates for Selected Programs

GAO-11-784

G A O
Accountability * Integrity * Reliability

Highlights

Highlights of GAO-11-784, a report to congressional committees

September 2011

INTERAGENCY CONTRACTING

Improvements Needed in Setting Fee Rates for Selected Programs

Why GAO Did This Study

Federal agencies spend over $50 billion annually on goods and services using interagency contracts, which leverage the government's buying power, simplify procuring commonly used goods and services, and allow agencies to use the contracts and expertise of other agencies. Agencies that operate interagency contracts and provide assisted acquisition services for other agencies recover their costs by charging a fee to their customers.

In response to questions about fee rates and their composition, GAO assessed for selected interagency contracting programs (1) the current fee rates and trends in the fee rates, sales, costs, and revenues; (2) the extent to which programs subsidize, or are subsidized by, other programs; (3) the extent to which agencies identify, track, and forecast costs and revenues, manage reserves, and obtain approval for fee-rate changes; and (4) the extent to which agencies use contractor personnel to supplement program staffing.

GAO analyzed data on six interagency contract programs at four agencies—General Services Administration (GSA), Department of the Interior (DOI), National Aeronautics and Space Administration (NASA) and National Institutes of Health (NIH); reviewed agency policies; and interviewed officials from the agencies' program, policy, and financial offices.

What GAO Recommends

GAO recommends that GSA improve its tracking of costs and management of reserves and that DOI improve its assignment of overhead costs. GSA and DOI concurred with GAO's recommendations.

View GAO-11-784 or key components. For more information, contact Bill Woods at (202) 512-4841 or WoodsW@gao.gov.

What GAO Found

Fee rates for the selected interagency contract programs range from 0.25 percent to 12.0 percent of the value of the order for fiscal year 2011 and vary depending on the level of service and type of acquisition services provided. Some programs with lower fee rates provide only minimal support services while the customer agency places direct orders through an online system. Other programs provide more support services or function as the acquisition office for the customer agency. The fee rates have remained stable since fiscal year 2007 at four of the six programs reviewed—three at GSA and one at DOI. Two programs—one at NASA and one at NIH—lowered their rates. During this same period, sales have generally increased across programs, and most of the programs have generated revenue in excess of program costs. Excess revenue in a given year is permitted; however, GSA's Multiple Award Schedules (MAS) program has consistently accumulated excess revenue.

Fee Rates for Selected Interagency Contract Programs—Fiscal Year 2011

Agency: Interagency contract program	Fee rate
DOI: Assisted Acquisition Services Program	2.0% to 5.0%
GSA: Assisted Acquisition Services Program	1.0% to 12.0%
GSA: Multi-agency Contract—Networx	7.0%
GSA: Multiple Award Schedules (MAS) Program	0.75%
NASA: Governmentwide Acquisition Contract —Solutions for Enterprise-Wide Procurement	0.45%
NIH: Governmentwide Acquisition Contracts	
—Chief Information Officer Solutions and Partners 2 Innovations	0.5% to 1.0%
—Image World2 New Dimensions	0.25% to 1.0%
—Electronic Commodities Store III	0.5%

Source: GAO analysis of agency information.

All but NASA's program allow for subsidization since they are managed along with other programs under revolving funds. Subsidization allows agencies to ensure that their revolving funds remain solvent, even if they must subsidize across programs if some programs cannot cover all their costs with revenue generated by their fee rates. NASA is managed as a stand-alone program.

Agencies follow key elements of the fee-setting process, but weaknesses exist in some programs. The weaknesses include inadequate cost identification, inadequate attention to growing reserve balances, and not following internal approval processes. For example, GSA does not track Networx costs at the contract level, and does not monitor the growth of reserve balances at the program level. DOI does not assign its overhead costs proportionately between its offices. Therefore, these agencies cannot ensure that all their fee rates are set appropriately and may be missing opportunities to identify program inefficiencies.

Use of contractor personnel for support services in interagency contract programs varied widely, ranging from 5 percent of total staffing for the GSA MAS to 92 percent of staffing at NASA. In general, agencies use contractor personnel to provide acquisition support or management support. Agency officials said using contractor personnel allows them flexibility to adjust to changing workloads. NASA officials said that they will continue to review the extent to which functions should be performed by federal employees or by contractor personnel.

Contents

Tables

Figures

Abbreviations

CFO	Chief Financial Officers
CIO-SP2i	Chief Information Officer Solutions and Partners 2 Innovations
DOI	Department of the Interior
ECS III	Electronic Commodities Store III
GAO	Government Accountability Office
GSA	General Services Administration
GWAC	Governmentwide Acquisition Contract
IW2nd	Image World 2 New Dimensions
MAC	Multi-agency Contract
MAS	Multiple Award Schedule
NASA	National Aeronautics and Space Administration
NIH	National Institutes of Health
OMB	Office of Management and Budget
SEWP	Solutions for Enterprise-Wide Procurement

United States Government Accountability Office
Washington, DC 20548

September 9, 2011

The Honorable Joseph I. Lieberman
Chairman
The Honorable Susan M. Collins
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Darrell E. Issa
Chairman
The Honorable Elijah E. Cummings
Ranking Member
Committee on Oversight and Government Reform
United States House of Representatives

In recent years, federal agencies have used interagency contracts to procure over $50 billion of goods and services annually. Interagency contracts are intended to leverage the government's aggregate buying power and provide a simplified and expedited method for procuring commonly used goods and services. Interagency contracting allows agencies to use contracts or the acquisition expertise of other agencies rather than contracting on their own. Agencies operating interagency contracts and providing assisted acquisition services for other agencies seek to recover the costs of administering these contracts and providing acquisition services by charging a fee to their customer agencies. The fee is typically expressed as a fee rate, which is a percentage of the dollar value of the order.

In response to interest in the fees charged for using interagency contracts and assisted acquisition services, you asked us to review selected agencies' management of interagency contract fee rates, as well as the revenues generated by the fees. Specifically, this report addresses the following questions for selected interagency contract programs:

1. What are the current fee rates and what were the trends in these fee rates and program sales, costs, and revenues from fiscal year 2007 through fiscal year 2010?
2. To what extent are interagency contracting programs subsidizing, or being subsidized by, other agency programs?

3. To what extent do agencies identify, track, and forecast costs and revenues, manage reserve contributions and balances, and obtain approval for fee rate changes as part of their fee-setting processes?
4. To what extent do agencies use contractor personnel to supplement program staffing?

For purposes of our review, we are defining interagency contract programs to include multi-agency contracts (MAC),[1] governmentwide acquisition contracts (GWAC),[2] and multiple award schedules (MAS),[3] as well as Assisted Acquisition Services programs,[4] which provide a full range of contract award, management, and oversight services on behalf of other agencies.

We selected agencies for review that would provide examples of each type of interagency contract program across a variety of agencies. Altogether, we selected six programs that we estimate represented more than 90 percent of interagency contract sales for fiscal year 2010. These included three programs at the General Services Administration (GSA)—MAS, GSA's Assisted Acquisition Services, and one of GSA's MACs; the Assisted Acquisition Services program at the Department of the Interior (DOI); the GWAC program at the National Aeronautics and Space Administration (NASA); and the GWAC program at the Department of

[1] MACs are task-order or delivery-order contracts established by an agency that can be used governmentwide to obtain goods and services consistent with the Economy Act FAR § 2.101.

[2] GWACs are considered multi-agency contracts but, unlike other multi-agency contracts, are not subject to the same requirements and limitations, such as documentation that the contract is in the best interest of the government as set forth under the Economy Act. GWACs are contracts for information technology established by one agency for governmentwide use that are operated—(1) by an executive agent designated by the Office of Management and Budget pursuant to 40 U.S.C. 11302(e); or (2) under a delegation of procurement authority issued by the General Services Administration (GSA). Federal Acquisition Regulation (FAR) § 2.101. The Clinger-Cohen Act of 1996 authorized GWACs to be used to buy information technology goods and services. 40 U.S.C. § 11314(a)(2).

[3] MAS, also known as the Federal Supply Schedules program consists of contracts awarded by the General Services Administration or the Department of Veterans Affairs for similar or comparable goods or services, established with more than one supplier, at varying prices. FAR § 8.401 and § 8.402. The MAS offers a large group of commercial products and services ranging from office supplies to information technology services.

[4] FAR § 2.101.

Health and Human Services' National Institutes of Health (NIH).[5] To address our objectives we analyzed cost and revenue data on the selected interagency contract programs for fiscal years 2007 through 2010. Unless otherwise noted, all dollar figures are presented in nominal amounts—that is they are not adjusted for inflation. To determine how the agencies are managing their interagency contract programs, corresponding fee rates, and reserve balances, we reviewed agency financial data, policies, and guidance. We also interviewed officials from the agencies' program, policy, and financial offices. We assessed the reliability of the agencies' financial data through interviews with agency officials knowledgeable about the data. We also reviewed information about the data systems, including the most recent financial statement audit. We determined the data were sufficiently reliable for the purposes of this report. We also reviewed relevant Federal Financial Accounting Standards, the authorizing statutes for the selected interagency contract programs, and the related funding statutes that established the revolving funds used to operate the programs.[6] We reviewed relevant Office of Management and Budget (OMB) policy and met with representatives of its Office of Federal Procurement Policy to discuss governmentwide interagency contract guidance and oversight.

We conducted this performance audit from November 2010 through August 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

[5] While GSA manages the MAC we selected for review as part of a larger program, we treated it as a program. In addition, we treated NIH's three GWAC contracts as one program since NIH manages them jointly.

[6] A fund established by Congress to finance businesslike operations through amounts received by the fund. A revolving fund charges for the sale of products or services and uses the proceeds to finance its spending, usually on a self-sustaining basis. Instead of recording the collections in receipt accounts, the collections and outlays of revolving funds are recorded in the same account. GAO, *A Glossary of Terms Used in the Federal Budget Process*. GAO-05-734SP. (Washington, D.C. September 2005).

The process of managing and setting fee rates for interagency contract programs involves balancing the costs of operating the program and the revenues needed to cover these costs. Although simple in concept, creating this balance can be complex because of a variety of factors including: the types of interagency contract programs, the operational constraints created by the statutes authorizing their establishment and funding, and whether the program is managed and funded independently or along with other programs. Consequently, the management of interagency contract programs varies from program to program and agency to agency.

Interagency Contract Program Types and Statutory Authorities

Government buyers generally use three types of available interagency contracts—MAS program contracts, GWACs, and MACs—all of which can help leverage the government's buying power when acquiring goods and services. These contracts are all indefinite-delivery, indefinite-quantity contracts.[7] Along with these interagency contracts, agencies may rely on more involved acquisition assistance to fulfill their needs through Assisted Acquisition Services programs.

- GSA's MAS program consists of thousands of contracts that are grouped into 31 schedules. The MAS program is the federal government's largest interagency contracting program. Customer agencies may choose from millions of commercial goods and services available on these pre-established contracts. See appendix I for more detailed information on GSA's MAS program.
- GWACs provide a broad range of information technology goods and services for agency activities. The establishment of a GWAC program must be approved by OMB through an executive agent designation. The Environmental Protection Agency, GSA, NASA, and NIH are the only agencies permitted to operate GWACs. NASA's GWAC provides information technology products, while NIH's GWACs offers information technology services and products. See appendix II and appendix III for more detailed information on the NASA and NIH GWAC programs respectively.

[7] Indefinite-delivery, indefinite-quantity contracts allow the government to buy goods and services within stated limits when the exact times and exact quantities of future deliveries of goods and services are not known at the time of award. The government places orders for individual requirements during the term of the contracts. FAR §§ 16.501-2 and 16.504.

- MACs are established by one agency, but other agencies are allowed to place orders against the contract.[8] Until 2010, no business case analysis was required to establish a MAC and, as of September 2011, no external reporting on a MAC's use was required.[9] As a result, comprehensive data on the number of MACs governmentwide and the dollars involved with their use are not readily available. GSA operates several MACs, one of which is the Networx program, which provides telecommunications services. See appendix IV for more detailed information on GSA's Networx MAC program.
- Assisted Acquisition Services programs, such as those provided by GSA—at its information technology assistance center (FEDSIM) and its nine regional offices—and by DOI—at both its Herndon, Virginia, office and its Sierra Vista, Arizona, office—are established to allow one agency to assist other agencies with various acquisition tasks, such as defining the scope of work, and awarding and administering a contract, task order, or delivery order. When providing these acquisition services, GSA and DOI often assist customer agencies in selecting a pre-existing interagency contract to meet their needs. Since most of these contracts have a fee for use, agencies that use Assisted Acquisition Services often pay two fees—one for the servicing agency's assistance and one for using an existing interagency contract. See appendix V and appendix VI for more detailed information on the GSA and DOI Assisted Acquisition Services programs respectively.

These interagency contract programs have been established under several statutory authorities, including: (1) the Economy Act of 1932,[10] which authorizes agencies to obtain goods and services through another government agency; (2) the Clinger-Cohen Act of 1996,[11] which authorizes establishing information technology GWACs in accordance with OMB guidance; (3) the Federal Property and Administrative Services

[8] FAR § 2.101.

[9] Beginning in December 2010, a Federal Acquisition Regulation interim rule requires servicing agencies to prepare a business case analysis to establish a multi-agency contract under the Economy Act. 75 Fed. Reg. 77,733 and 77,736; (Dec. 13, 2010), which revised FAR § 17.502-2.

[10] 31 U.S.C. 1535.

[11] 40 U.S.C § 11314(a)(2).

Act of 1949,[12] as amended, which provides authority for GSA to operate all of its programs, including the MAS program and its MAC; and (4) the Government Management Reform Act of 1994, as amended,[13] which allows agencies to provide common administrative support services such as assisted acquisition services.

Funding Statutes and Cost Recovery

Each agency operates its interagency contract program through a specific revolving fund. These revolving funds—which include franchise funds, supply funds, and working capital funds—finance businesslike operations for their associated programs. Table 1 shows the specific revolving fund statutory authority that governs each of the agencies' interagency contract programs in our review.

Table 1: Statutory Revolving Fund Authorities Used by Selected Interagency Contract Programs

Program	Agency—program	Statutory authority for revolving fund for interagency contract program
Assisted Acquisition Services	GSA – Assisted Acquisition Services	GSA Modernization Act[a] • Established Acquisition Services Fund • Requires cost recovery • Fund may maintain reserves for operating needs
	DOI – Assisted Acquisition Services	Government Management Reform Act of 1994 and Department of the Interior and Related Agencies Appropriations Act of 1997[b] • Established Interior Franchise Fund (used by the Herndon, Va., office) • Requires full cost recovery • Interior Franchise Fund may maintain reserves for certain operating needs 43 U.S.C. § 1467 • Authorizes Interior Working Capital Fund (used by the Sierra Vista, Ariz., office) • Requires full cost recovery • Fund may not maintain reserves

[12] Federal Property and Administration Services Act of 1949, ch. 288, 63 Stat. 377 (codified as amended in scattered section of 40 and 41 U.S.C.).

[13] Title IV of Pub. L. No. 103-356.

Program	Agency—program	Statutory authority for revolving fund for interagency contract program
Governmentwide Acquisition Contract (GWAC)	NIH —Chief Information Officer Solutions and Partners 2 Innovations (CIO-SP2i) —Image World 2 New Dimensions (IW2nd) —Electronic Commodities Store III (ECS III)	42 U.S.C. § 231 (1945) • Established the Service and Supply Fund • Authorizes cost recovery of estimated or actual expenses • Fund may not maintain reserves
	NASA—Solutions for Enterprise-Wide Procurement (SEWP)	Consolidated Appropriations Resolution, 2003[c] • Established the Working Capital Fund • Requires cost recovery of approximate expenses • Fund may not maintain reserves
Multiple-award Schedules (MAS)	GSA – Schedules	GSA Modernization Act[a] • Established the Acquisition Services Fund • Requires cost recovery • Fund may maintain reserves for operating needs
Multi-agency Contract (MAC)	GSA – Networx	GSA Modernization Act[a] • Established the Acquisition Services Fund • Requires cost recovery • Fund may maintain reserves for operating needs

Source: GAO analysis of relevant statutes.

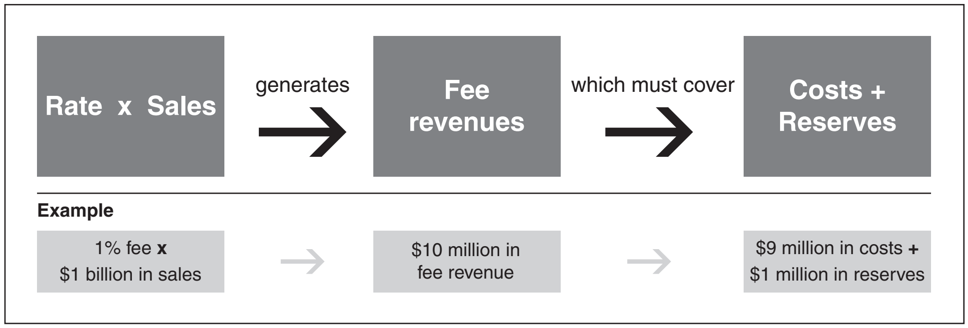
[a]Pub. L. No. 109-313, § 3 (2006) (codified at 40 U.S.C. § 321).

[b]Pub. L. No. 103-356, § 403; Pub. L. No. 104-208, 110 Stat. 3009, 3009-200-01(1996).

[c]Pub. L. No. 108-7, 117 Stat. 11, 520 (codified at 51 U.S.C. § 30102).

The specific funding statutes generally dictate that the agencies set their interagency contract fee rates to recover the costs of their operations and that, in some instances, the statutes may permit the agencies to maintain reserves to cover near-term operational expenses or to cover the costs of future improvements to the program, such as improvements to information technology systems. The fee is typically expressed as a fee rate, which is a percentage of the dollar value of the order. Figure 1 illustrates the relationship of the fee rate to the program costs and revenues.

Figure 1: Relationship among the Fee Rate and Program Costs and Revenues



Source: GAO analysis of agency processes.

Financial Management Guidance for Interagency Contract Fees

Interagency contract fees are charges assessed by one federal agency to another; therefore, they are not traditional user fees, which are fees assessed to private users for goods or services provided by the federal government. However, several aspects of various user fee guidance may be applied to analyses of interagency contract fees and can serve as good practices to consider when managing interagency contract fees. Such guidance includes the Chief Financial Officers (CFO) Act of 1990,[14] OMB Circular A-25, Federal Financial Accounting Standards, and GAO's Federal User Fee Design Guide.[15] Table 2 provides a summary of the relevant guidance related to establishing and monitoring interagency contract program fee rates.

Table 2: Selected Financial Management Guidance for Interagency Contract Fees

Guidance document	Applicable information
Chief Financial Officers Act of 1990[a]	Requires an agency's Chief Financial Officer to review, on a biennial basis, the user fees charged for services and to make recommendations on revising the fee rates to reflect costs incurred.
OMB *Circular A-25*	Defines the scope and types of activities that may be subject to user fees and the basis upon which the fee rates are set.

[14] Pub. L. No. 101-576, (codified as amended in scattered sections of 31 U.S.C).

[15] GAO, *Federal User Fees: A Design Guide*, GAO-08-386SP (Washington, D.C.: May 28, 2008).

Guidance document	Applicable information
Federal Financial Accounting Standards[b]	Prescribes managerial cost-accounting concepts and standards aimed at providing reliable and timely information on the full cost of federal programs, their activities, and outputs. These concepts and standards include a framework for how to determine costs and set fee rates. With respect to goods and services that the government provides under businesslike conditions, charges for those goods and services need not be limited to the recovery of full cost and may yield net revenue.
GAO *Federal User Fee Design Guide*[c]	Examines the characteristics of user fees and factors that contribute to a well-designed fee rate. The Design Guide describes the following principles: • Efficiency—increasing incentives to reduce costs where possible. • Equity—having all customers pay their fare share. • Revenue adequacy—obtaining fee revenues sufficient to cover the costs of the program. • Administrative burden—including the costs of administering fees in setting fee rates (includes collection, enforcement, and compliance costs).

Source: GAO analysis of statutes and related guidance.

[a]31 U.S.C. § 902(a)(8). While the CFO Act generally is applied to fees charged by government agencies to nongovernmental entities, the Act's provision requiring biennial review provides a useful leading practice for interagency contract fee review.

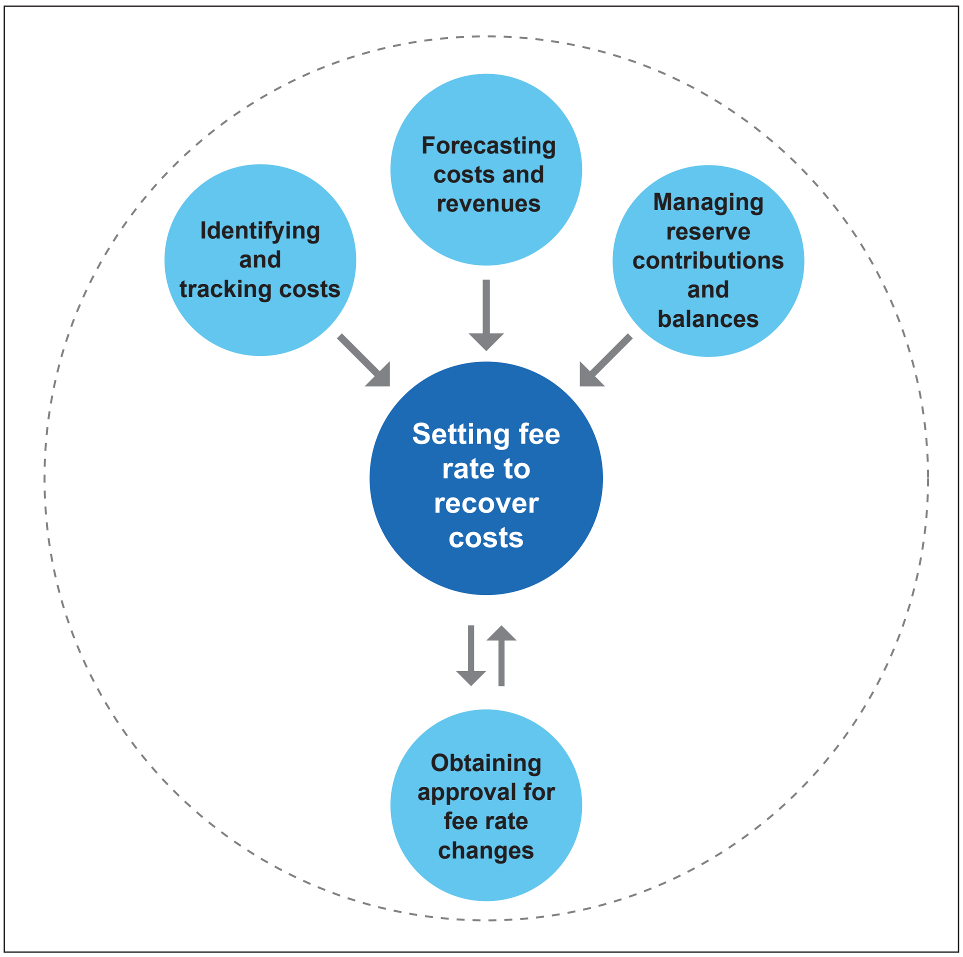
[b]Financial Accounting Standards Advisory Board, *Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts* (Washington, D.C.: July 1995).

[c]GAO, *Federal User Fees: A Design Guide*, GAO-08-386SP (Washington, D.C.: May 28, 2008). While the design guide principles are used in evaluating fees that are charged to readily identifiable users or beneficiaries of government services beyond what is normally provided to the general public. A number of these principles can serve as good practices to consider when managing interagency contract fees.

Elements of the Fee-Setting Process

The fee-setting process generally includes four key elements that are reflected in guidance provided by OMB, Federal Financial Accounting Standards, and internal agency policy. These key elements include: (1) identifying and tracking costs, (2) forecasting of costs and revenues, (3) managing reserve contributions and balances where applicable, and (4) obtaining approval for any changes in the rates. These four key elements work in combination to allow agencies to determine the appropriate fee rates. The four elements and their relationships are shown in figure 2.

Figure 2: Key Elements of the Fee-Setting Process



Source: GAO analysis of agency processes.

Identifying and tracking costs provides data on the direct and indirect costs of operating an interagency program. Forecasting entails analyzing historical cost and revenue data for an interagency contract program to help predict future costs and revenues of the program. For agencies that maintain reserves, the contribution from individual programs to reserves is another consideration that may have an impact on fee rates. Finally, programs may have internal agency-approval processes they need to comply with when making changes to fee rates.

Interagency Contract Fee Rates Vary, and Revenues Generally Exceed Costs

Fee rates for the selected interagency contract programs range from 0.25 percent to 12.0 percent of the value of the order for fiscal year 2011. The fee rates have remained stable since fiscal year 2007 at four of the six programs we reviewed, but two programs—the NASA and NIH GWACs—have lowered their rates. During this same period, total sales orders have generally increased across programs and most of the programs have generated revenue in excess of program costs.

Current Fee Rates Vary by Type of Interagency Contract Program

The current fee rates for most of the interagency contract programs we reviewed range from 0.25 percent to 1.0 percent of the order amount. Table 3 shows the current fee rates for the interagency contracts programs we reviewed at the selected agencies.

Table 3: Fee Rates for Selected Interagency Contract Programs—Fiscal Year 2011

Program	Agency	Contract	Fee rate	Fee caps and discounts
Assisted Acquisition Services	DOI		2.0% to 5.0%	-n/a
	GSA		1.0% to 12.0%	-fee percentage decreases as total value of order increases -hourly rates for information technology projects[a]
Governmentwide Acquisition Contract (GWAC)	NASA	Solutions for Enterprise-Wide Procurement (SEWP)	0.45%	-fee capped at $10,000 per order
	NIH	—Chief Information Officer Solutions and Partners 2 Innovations (CIO-SP2i)	0.5% to 1.0%	-fee percentage decreases as total value of order increases
		—Image World 2 New Dimensions (IW2nd)	0.25% to 1.0%	-fee percentage decreases as total value of order increases
		—Electronic Commodities Store III (ECS III)	0.5%	-fee capped at $10,000 per order or modification
Multi-agency Contract (MAC)	GSA	Networx	7.0%	-n/a
Multiple Award Schedules (MAS)	GSA		0.75%	-n/a

Source: GAO analysis of DOI, GSA, NASA, and NIH data.

[a]GSA allows hourly rates for services supporting long-term information technology projects. The rates range from $173 per hour to $212 per hour for services provided for a full-term project, and range from $254 per hour to $311 per hour for services provided on a consulting basis.

The GSA MAS and NASA and NIH GWAC programs charge the lowest fee rates and, generally, provide only minimal support services while the customer agency places direct orders through an online system. The GSA MAC contract charges a fee of 7.0 percent of the value of the order because the program provides more support services for the customer agency due to the technical nature of the contract. The current fee rates for programs providing assisted acquisition services on a project-by-project basis range from 2.0 percent to 12.0 percent. These programs provide a greater level of support, such as start-to-finish acquisition services for customer agencies that may lack their own acquisition staff.

Fee Rates Generally Have Remained Stable

Fee rates for all of interagency contracting programs we reviewed remained relatively stable from fiscal years 2007 through 2011. Two of the programs—NASA's and NIH's GWACs—lowered their fee rates during this period and one program—DOI's Assisted Acquisition Services—plans a slight increase in fees for fiscal year 2012.

- NASA's GWAC program decreased its fee rate by 0.05 percentage points annually since fiscal year 2007 from 0.65 percent to its current fee rate of 0.45 percent. NASA program officials said this decrease was possible because of increased revenues from increased use of the program. For example, in fiscal year 2009, program use increased by 37 percent. Additionally, the program officials explained that because the fund through which the program operates is not permitted to maintain reserves, it must return all excess fee revenue to the Treasury at the end of each fiscal year. However, according to NASA program officials, the GWAC program has not generated any excess funds because of the decreases in the program's fee rates.[16]
- NIH's GWACs program lowered its fee in April 2009 for one of its three GWAC contracts (ECS III) from 1.0 percent to 0.50 percent, and instituted a fee cap of $10,000 per order on orders valued at $2 million

[16] Unless a statue provides otherwise, excess fee revenue must be returned to the Treasury as miscellaneous receipts. 31 U.S.C. § 3302.

or more.[17] NIH officials said this was done in an effort to compete with the NASA GWAC's fee, which was 0.60 percent with a $10,000 fee cap for that fiscal year. NIH officials acknowledged that the decreased fee rate was set at a level that might not provide sufficient revenue to cover costs. In fact, the officials anticipated that the fee rate would produce a short-term loss, but expected the decreased fee rate to attract additional customers and provide for increased sales and fee revenue in the long term. Prior to fiscal year 2009, NIH did not charge its NIH customers the percentage fee rate; instead NIH charged them a small transaction-based fee for the individual support services they required.[18] NIH now charges both internal and external customers the same fee rates.

- DOI's fee rates have been relatively stable at a range of 2.0 percent to 5.0 percent, but DOI plans to raise its fee rates for customers of one of its two offices—the Sierra Vista, Arizona, office—by approximately 0.50 percentage points per project in fiscal year 2012. The planned fee increase is because of an increase in rent costs. DOI has discussed the expected increase with its customer agencies and will have to re-negotiate the agreements with them to reflect the new fee rates.

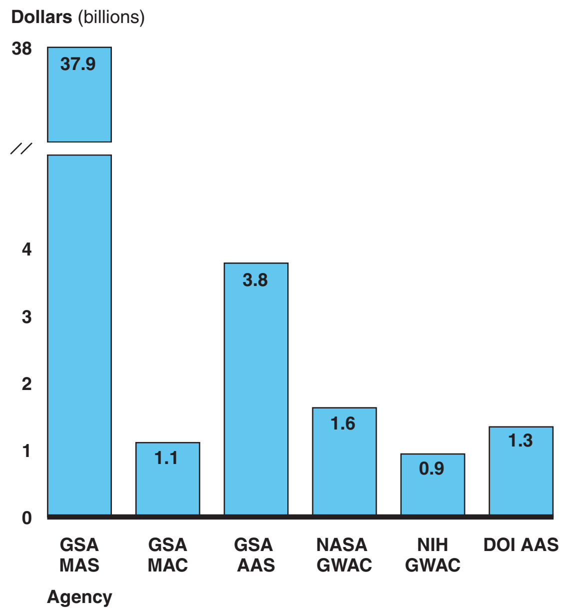
Interagency Contract Program Sales Generally Increased

The interagency contract programs we reviewed vary greatly in terms of their size, as indicated by annual sales. Sales represent the value of the orders for products and services placed through the interagency contract programs. Figure 3 illustrates the average annual sales by each of the selected programs from fiscal year 2007 through fiscal year 2010.

[17] According to NIH officials, the NIH GWAC fee cap of $10,000 for all delivery orders valued at or over $2 million applied to all new orders awarded after June 30, 2009.

[18] Prior to April 2009, NIH customers paid only Service and Supply Fund fees, which from fiscal year 2005 through fiscal year 2007 were $160 for each record of call, $3.75 for each credit card purchase, $110 for each purchase order greater than $2,500, and $85 for each purchase order less than $2,500.

Figure 3: Average Annual Sales Orders on Selected Interagency Contract Programs—Fiscal Years 2007 through 2010



Source: GAO analysis of agency financial statements.

Notes: All data calculations are in nominal dollars. The Networx data are estimates provided by the program office.

Overall, sales totaled nearly $49 billion for the selected programs in fiscal year 2010. Table 4 illustrates each program's annual sales from fiscal year 2007 through fiscal year 2010.

Table 4: Sales through Selected Interagency Contract Programs—Fiscal Years 2007 through 2010 and Percentage Change

		Sales for Fiscal Year				
Program	Agency	2007	2008	2009	2010	Percentage increase (decrease) from fiscal year 2007 to 2010
Assisted Acquisition Services	DOI	$1,572,952,630	$1,175,791,123	$1,240,473,266	$1,381,194,919	(12.19)
	GSA	$3,719,935,521	$3,655,610,171	$3,808,389,718	$3,948,631,160	6.15
Governmentwide Acquisition Contract (GWAC)	NASA	$996,531,496	$1,322,190,259	$1,824,048,987	$2,365,963,255	137.42
	NIH	$914,332,167	$1,103,899,117	$979,804,727	$755,521,109	(17.37)

Program	Agency	Sales for Fiscal Year 2007	2008	2009	2010	Percentage increase (decrease) from fiscal year 2007 to 2010
Multi-agency Contract (MAC)	GSA	$962,490,451	$1,051,132,353	$1,154,087,763	$1,262,674,208	31.19
Multiple Award Schedules (MAS)	GSA	$35,186,752,513	$37,699,440,547	$39,141,569,225	$39,519,056,000	12.31
Total		**$43,352,994,778**	**$46,008,063,571**	**$48,148,373,686**	**$49,233,040,651**	

Source: GAO analysis of DOI, GSA, NASA, and NIH financial data.

Notes: All data and calculations are in nominal dollars. The Networx data are estimates provided by the program office.

Overall, the sales of selected programs have varied since fiscal year 2007; half of the programs have experienced increases and half decreases. The largest percentage increase in sales was NASA's GWAC, which grew from $997 million in fiscal year 2007 to $2.4 billion in fiscal year 2010—a 137.4 percent increase (127.3 percent in real dollars). In contrast, the largest decrease was in the NIH GWAC program, whose combined sales decreased from $914 million in fiscal year 2007 to $756 million in fiscal year 2010—a 17.4 percent decrease.

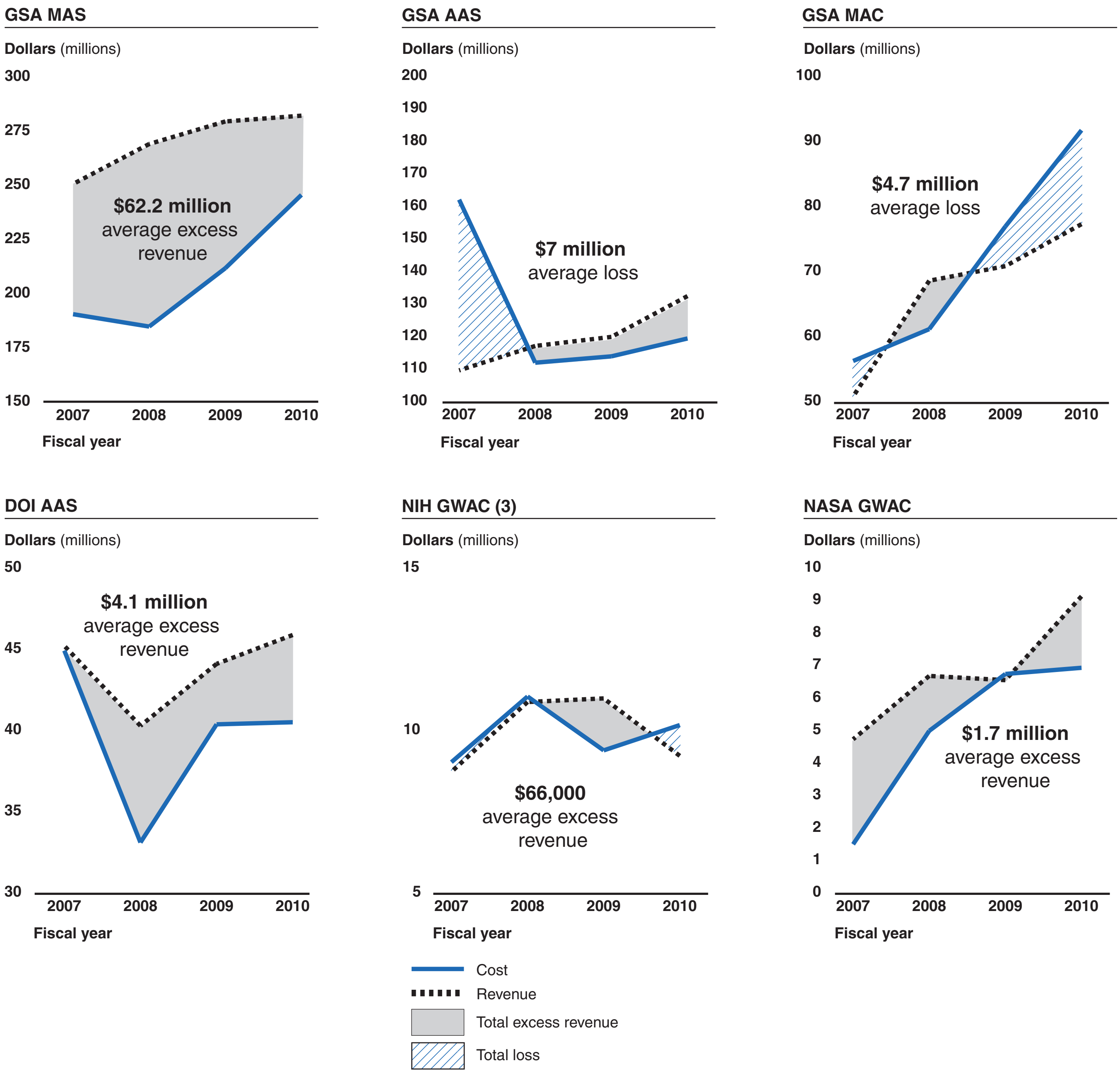
We also calculated the inflation-adjusted change in these programs.[19] When we did this calculation, we found that the GSA Assisted Acquisition program sales increased by 6.1 percent in nominal dollars, which represented a 1.6 percent increase in real dollars. The NASA GWAC's sales grew 127.4 percent in real dollars, and the NIH GWAC decreased by 20.9 percent in real dollars. The GSA MAC program experienced an increase of 31.2 percent in nominal dollars—25.6 percent in real dollars—for total program sales. Finally, the GSA MAS program, which is the largest program we examined, grew a little over 12 percent in nominal dollars or 7.6 percent in real dollars.

[19] We used the Fiscal Year Chain-Weighted Gross Domestic Product Price Index with fiscal year 2010 as the base year for all inflation-adjusted calculations in this report.

Most Programs Generated Excess Revenue

According to agency officials, the fee revenue generated from the sales orders of the interagency contract programs is intended to cover costs and contributions to reserves, where permitted; however, the programs are not required to break even on an annual basis. As such they are permitted to have excess revenue or costs that exceed their revenue in a given year. According to officials from the selected programs we reviewed, each program is managed with a goal of having its revenues and costs, including contributions to reserves, break even over a period of up to 5 years. We observed, however, that four of the six programs generated excess revenue over their costs for almost every fiscal year since fiscal year 2007. Figure 4 illustrates the fee revenue generated as compared to program costs, before contributions to reserves, for the selected interagency contract programs over the past 4 fiscal years, and the magnitude of the difference between the fee revenue and program costs.

Figure 4: Fee Revenues versus Costs for Selected Interagency Contract Programs—Fiscal Years 2007 through 2010



Source: GAO analysis of DOI, GSA, NASA, and NIH financial data.

Notes: All data and calculations are in nominal dollars. The Networx cost and revenue data are estimates provided by the program office.

The interagency contract program with the largest amount of excess fee revenue over operating costs was the GSA MAS program, which earned excess revenues averaging $62 million each year from fiscal years 2007 through 2010. In contrast, the program where costs were not covered overall by revenue was GSA's Assisted Acquisition Services program, which did not cover an average of $7 million in costs per fiscal year over the same period. Although the NIH GWAC had revenue in excess of costs that averaged $66,000 over the last 4 fiscal years, the costs were not covered by revenue for 3 of the 4 fiscal years.

Most Interagency Contract Programs Are Managed Jointly with Other Programs and Allow Subsidization of Program Costs

All of the programs we reviewed are operated under revolving funds, and all but one are managed along with other programs in their respective revolving funds. Generally, under a revolving fund structure, the agencies are not required to ensure that each program covers its costs, but rather that the fund as a whole remains solvent. This arrangement allows for subsidization across programs if an individual program cannot cover its costs with revenue generated by its fee rate. While subsidization across programs is allowed and can help ensure that a fund remains solvent, it can also allow inefficiencies of individual programs to remain undetected. Monitoring whether an individual program is recovering its costs allows managers to assess whether the program's fee rate is aligned with cost-recovery principles.

We observed that each agency has a different approach to whether its selected interagency contract program is managed independently or in conjunction with one or several other programs using the same revolving fund. A description of how agencies manage the various types of programs we reviewed follows:

- The three GSA interagency contract programs—Assisted Acquisition Services, MAS, and the MAC—are managed collectively with 24 other programs as part of the Federal Acquisition Service office through the Acquisition Services Fund. Operationally, the office manages some of its programs individually, such as the Assisted Acquisition Services program, and some in groups with other programs, such as the MAC; however, the MAS program is managed in segments that group similar schedules together, such as the general supplies and services schedules. The office allows fee revenue generated from individual programs to help cover the costs of operations for others. For example, GSA used revenue from other programs to cover costs of the Assisted Acquisition Services program when it was not generating sufficient revenue in fiscal year 2007 and prior years. In addition, the

MAS program has used excess revenue from one schedule to support other schedules operated through the same fund that were not earning enough revenue to cover their total costs. GSA managers acknowledge that the individual programs may not be breaking even, but said the fund overall is solvent. GSA officials further noted that any subsidization that occurs among programs is readily visible to management since each program's costs are tracked and monitored on a continuous basis.

- The three GWACs NIH manages are treated as a single operational program; however, the program is managed alongside over 200 other programs in NIH's Service and Supply Fund. According to NIH program officials, the GWAC program has used funds from other NIH programs to cover its total costs. With respect to its three GWACs, NIH has used fee revenue from one of its GWAC contracts to cover expenses for the other two GWAC contracts that were not fully recovering their costs.
- DOI's Assisted Acquisition Services program, which is comprised of two units that operate under the same overall management, uses two different revolving funds. The two units—the Herndon, Virginia, office and the Sierra Vista, Arizona, office—set their fee rates independently. The Assisted Acquisition Services program in the Herndon office is managed along with another program through the Interior Franchise Fund, which is allowed to accumulate excess revenue in reserve funds for acquisition of capital equipment and improvement of support systems.[20] The Assisted Acquisition Services program in the Sierra Vista office is managed independently through a working capital fund, which does not authorize reserves and, according to agency officials, must pay for its capital improvements as operating costs. The Herndon office currently pays for most of the overhead costs for the entire Assisted Acquisition Services program.
- NASA manages its GWAC program separately from all other programs that the agency operates. According to NASA GWAC program officials, NASA manages its GWAC finances with other programs in a revolving fund but uses a unique accounting code that allows NASA to identify and manage the GWAC program's costs and revenues independently. The NASA GWAC has not been subsidized by other programs and has not been used to subsidize other programs, according to the program officials.

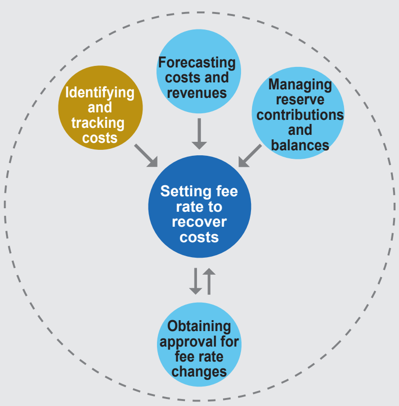
[20] The amount of reserves is limited to 4 percent of the total annual income to the fund. Amounts in excess of this reserve limitation are required to be transferred to the Treasury Department.

Agencies Follow Key Elements of the Fee-Setting Process, but Weaknesses Exist in Some Programs

The agencies we reviewed generally follow the four key elements of the fee-rate-setting process—identifying and tracking costs, forecasting costs and revenues, managing reserve contributions and balances where applicable, and obtaining approval for fee rate changes—but we found weaknesses in some agency programs. The weaknesses include inadequate cost identification, inattention to growing reserve balances, and not following internal agency approval processes.

Four of the Six Interagency Contract Programs Fully Capture Program Costs

Identifying and tracking costs



Source: GAO analysis of agency processes.

Two agencies—NASA and NIH—are tracking the total costs for the GWAC programs we reviewed. In addition, GSA tracks total costs for its MAS and Assisted Acquisition Services programs. However, we found weaknesses in the processes of two interagency programs—GSA's MAC and DOI's Assisted Acquisition Services programs.

Specifically, GSA does not track the costs for its Networx MAC separately.[21] GSA officials stated that the total direct and indirect costs of operations for the Networx MAC are tracked only as part of a larger program. The officials told us that the other contracts within the program have similar, if not identical, requirements. Because the Networx MAC is managed jointly with several other contracts, costs are not tracked at the individual program level.[22] As a result, GSA managers do not know the true costs of operations for the Networx MAC. In the absence of this information, GSA may be missing opportunities to improve the Networx MAC program's efficiency and the rates may not be set at the level needed to recover its costs.

According to DOI program officials, one of the agency's two Assisted Acquisition Services program offices—the Sierra Vista, AZ office—has not included all of its indirect costs when calculating whether the fee rates it sets will generate sufficient revenue to cover the total costs of fulfilling a customer's requirements. The two offices (Sierra Vista, AZ, and Herndon, VA) function separately and negotiate the fee rates for the services they provide independently; however, the Herndon, VA office provides some support services, such as policy and legal guidance, to the Sierra Vista,

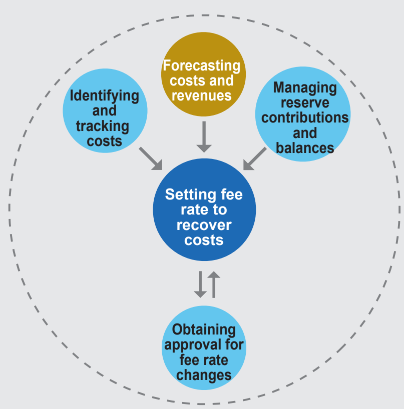
[21] GSA officials told us that because operating costs are not tracked individually, the data they provided for this report are only estimates of the Networx MAC's portion of the larger program.

[22] GSA manages the Networx MAC along with several other interagency contracts as GSA's Long Distance program. According to program officials, the Networx MAC represents about 90 percent of the Long Distance program.

AZ office. Currently, the Sierra Vista, AZ office does not include the costs of the administrative and management support the office receives from the Herndon, VA office as a cost of its operations when it calculates fee rates. The Sierra Vista, AZ office's fee rates average 2 to 3 percent, while the Herndon, VA office's fee rates average 4 to 5 percent. DOI program officials acknowledge that the assignment of overhead costs does not represent the total costs, and said they are considering how best to address the situation.

Cost and Revenue Forecasts Generally Used in Establishing Fee Rates

Forecasting costs and revenues



Source: GAO analysis of agency processes.

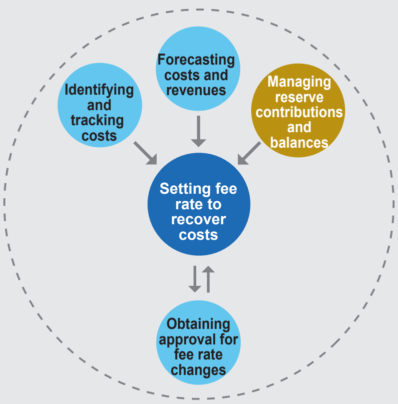
According to agency officials, all of the selected programs incorporate some level of cost and revenue planning, or forecasting, to inform their fee setting process. Generally, the selected interagency contract programs use current and historical data to forecast total costs and fee revenues when determining fee rates for the following fiscal year. Program officials noted that the previous year's financial data can be a good predictor of customer usage. Forecasting helps to ensure that the fee revenue will be adequate to cover the expected costs of operating the program. We previously reported that utilizing this principle of revenue adequacy is generally a good practice when determining user fee rates.[23] As previously mentioned, officials for each program told us they manage their respective program fee revenues, costs, and rates over a period of up to 5 years.

In the course of discussing the use of cost and revenue forecasts with NIH GWAC program officials, they noted another issue. They told us that the cost and revenue forecast data presented in the GWAC report the officials provide annually to OMB are different than those used within the agency. NIH GWAC program officials explained that they are in the process of changing how the information is presented in the reports to OMB to better present the forecast data used in the internal fee-rate management process.

[23] GAO, *Federal User Fees: A Design Guide*, GAO-08-386SP (Washington, D.C.: May 29, 2008). While interagency contracting fees are not strictly defined as user fees, this aspect of user fee guidance can be applied in the analysis of interagency contract fees.

Growing Reserve Balances at Two Agencies

Managing reserve contributions and balances



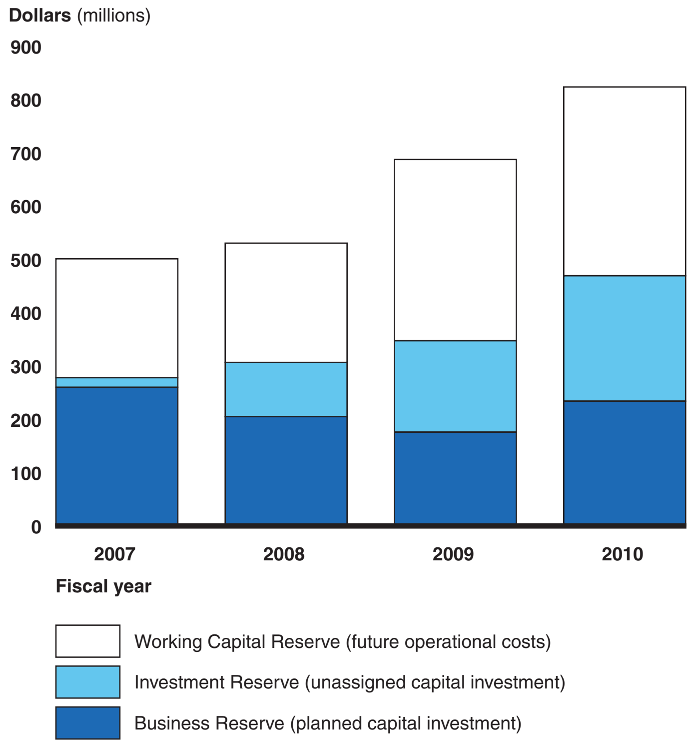
Source: GAO analysis of agency processes.

GSA and DOI maintain reserves within their respective revolving funds, which are used to operate their interagency contract programs. These agencies maintain two types of reserves: (1) an operating reserve for near-term operating costs and (2) a capital investment reserve for improvements to equipment or processes that benefit the program. Reserve funds provide programs with management flexibility, but if a program consistently accumulates excess fee revenue in reserves, this excess could indicate that the fee rate is set higher than needed to recover costs and could possibly be reduced.

Currently, GSA maintains three reserves for all the programs operated within the fund; one operating reserve—the Working Capital Reserve—and two investment reserves—the Business Reserve, which is to be used for planned improvement projects, and the Investment Reserve, which is to be used for improvements that were not planned when the revenue was placed in the reserve. GSA officials have developed internal guidance for maintaining its reserve funds, which includes a limit on annual contributions.[24] GSA's fund management processes include developing an annual Cost and Capital Plan that details the planned uses of the reserve balances. According to officials, if reserve balances beyond the amount needed for the planned investments were to remain, the agency would then review whether changes are needed in individual programs' fee rates. The main focus of this planning process is on reserve balances and not on whether an individual program is continuing to transfer excess revenue to the reserve fund year after year. While the reserve contributions and balances for the past 4 fiscal years fall within their limits, the reserves have continued to grow. Figure 5 shows the fiscal year end balances for GSA's reserves for the last 4 fiscal years.

[24] GSA has established a target of maintaining an average cash balance equal to 8 percent of its annual total revenues in the Working Capital Reserve to support 30 days of operating funds. The annual contribution to the Investment Reserve cannot equal more than 4 percent of revenues in any given fiscal year.

Figure 5: GSA Federal Acquisition Service Reserve Fund Balances—Fiscal Years 2007 through 2010



Source: GAO presentation of GSA financial data.

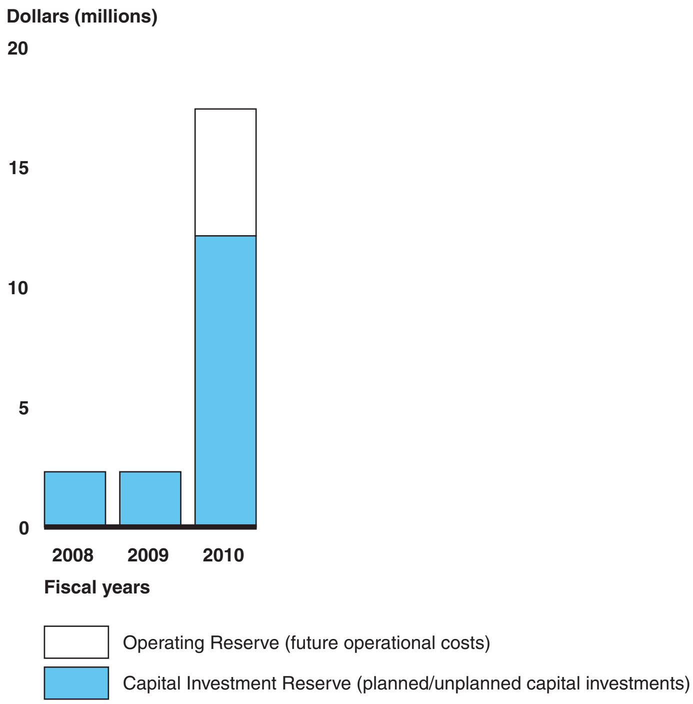
Note: All data are in nominal dollars.

At the end of fiscal year 2010, the combined balance of GSA's three reserves was over $800 million—about $350 million of which resides in the Working Capital Reserve that is to cover shortfalls in operating funds. As shown in figure 5, GSA's reserve balances have grown significantly in recent years, largely due to the excess revenue generated annually by GSA's largest interagency contract program, which is the MAS program. As indicated previously in figure 4, the MAS program has generated over $62 million on average annually in recent years. Although GSA reviews all programs' fee rates annually as part of its budget process, there is nothing in GSA's internal guidance that would trigger an evaluation of the fee rate of an individual program that consistently generates excess revenue resulting in the continuous growth of reserve balances.

One of DOI's two Assisted Acquisition Services program offices—the Herndon, Virginia, office—operates under a revolving fund that is allowed to place excess fee revenue into reserves. Until October 2010, DOI's Herndon, Virginia, office had been placing its excess revenue in a capital improvement fund, but did not maintain an operating reserve. The DOI's Office of the Inspector General reported in June 2009 that this practice was not in accordance with DOI's funding authority and that DOI could not set aside reserves for capital improvements until a sufficient amount of funds were placed in an operating reserve. As a result, DOI changed its funding policy and created an Operating Reserve in October 2010. DOI's fund management policy includes a limit on the annual contribution made to its Capital Investment Reserve, but does not specify a limit for the reserve's balance that would trigger a fee-rate review.[25] While the reserve contributions for fiscal year 2010 fall within the new limits, the establishment of the Operating Reserve and the limit on the Capital Investment Reserve are so recent that DOI has not yet had the opportunity to evaluate the effectiveness of the new policy. In fiscal year 2010, the balance in the Capital Investment Reserve fund was over $12 million. Figure 6 shows the fiscal year end balances for DOI's reserves generated by the Herndon, Virginia, office's Assisted Acquisition Services program for the last 3 fiscal years.

[25] The annual contribution to DOI's Capital Investment Reserve cannot equal more than 4 percent of the total annual income for the program in any given fiscal year. If the contribution exceeds the limit, the fee rate is to be adjusted downward to slow or halt the accumulation of excess funds in the reserve. Amounts in excess of the reserve limitation are required to be transferred to the Treasury Department.

Figure 6: DOI Franchise Fund Reserve Fund Balances for the Acquisition Services Directorate—Fiscal Years 2008 through 2010



Source: GAO presentation of DOI financial data.

Note: All data are in nominal dollars.

According to agency officials, NIH has the statutory authority to maintain reserves within its Service and Supply Fund but elects not to use reserves for its revolving fund. These officials said that NIH maintained reserves in the past, but no longer does because it found that reserve funds were being used for purposes other than the intended improvements.

Programs Generally Set Fee Rates through Annual Review Process

Obtaining approval for fee rate changes

Source: GAO analysis of agency processes.

Five of the six selected agency programs—GSA MAS, MAC, and Assisted Acquisition Services, as well as the NIH GWAC and DOI Assisted Acquisition Services—review their fee rates on an annual basis as part of the budget review process. NASA's GWAC is not subject to fee-rate review and approval during the annual budget process, but is reviewed every 6 months. We found that one program—GSA's MAC—did not follow its review policy.

GSA did not follow its internal fee approval process when it negotiated a reduced fee rate for one customer agency on the GSA Networx MAC. According to agency officials, the GSA MAC program has a memorandum of understanding with the Treasury Department that allows for a 3.5 percent fee rather than the usual 7 percent once Treasury has completed its transition from the predecessor contract to the Networx MAC. The decision to provide Treasury the lower fee rate did not follow GSA procedures and was made by the prior GSA Administrator. It was not based upon the program's costs, but rather to maintain Treasury's business since Treasury was planning to seek telecommunication services on its own. Current program officials indicated that the 3.5 percent fee rate will not allow the program to recover the total costs of providing services to Treasury, though the overall fund that is used to operate the Networx MAC should remain solvent due to the multitude of other programs operated through the fund. This practice, however, is not aligned with the cost recovery principles of ensuring that all customers pay a fee rate that is equitable to their share of the costs. GSA officials stated that they are currently reviewing whether to implement the memorandum of understanding negotiated by the former Administrator and are evaluating the impact of providing Treasury the lower fee.[26]

NASA GWAC officials indicated that because the program has not had to increase its fee rate, it has not had to submit a formal fee-rate change request to NASA management. The current process is simply to e-mail NASA budget and financial officials about plans to keep the fee rate the same or if any change in the rate was planned. However, as a result of our review, NASA is revising its policy to require better documentation for

[26] The GSA Networx officials noted that they had expected to reduce the Networx fee by 1.0 percent, from 7.0 to 6.0 percent, in fiscal year 2010 once the transition from the predecessor contract was complete; however, the transition was not completed by fiscal year 2010. The officials plan to reconsider reducing the fee rate once the Networx transition is complete.

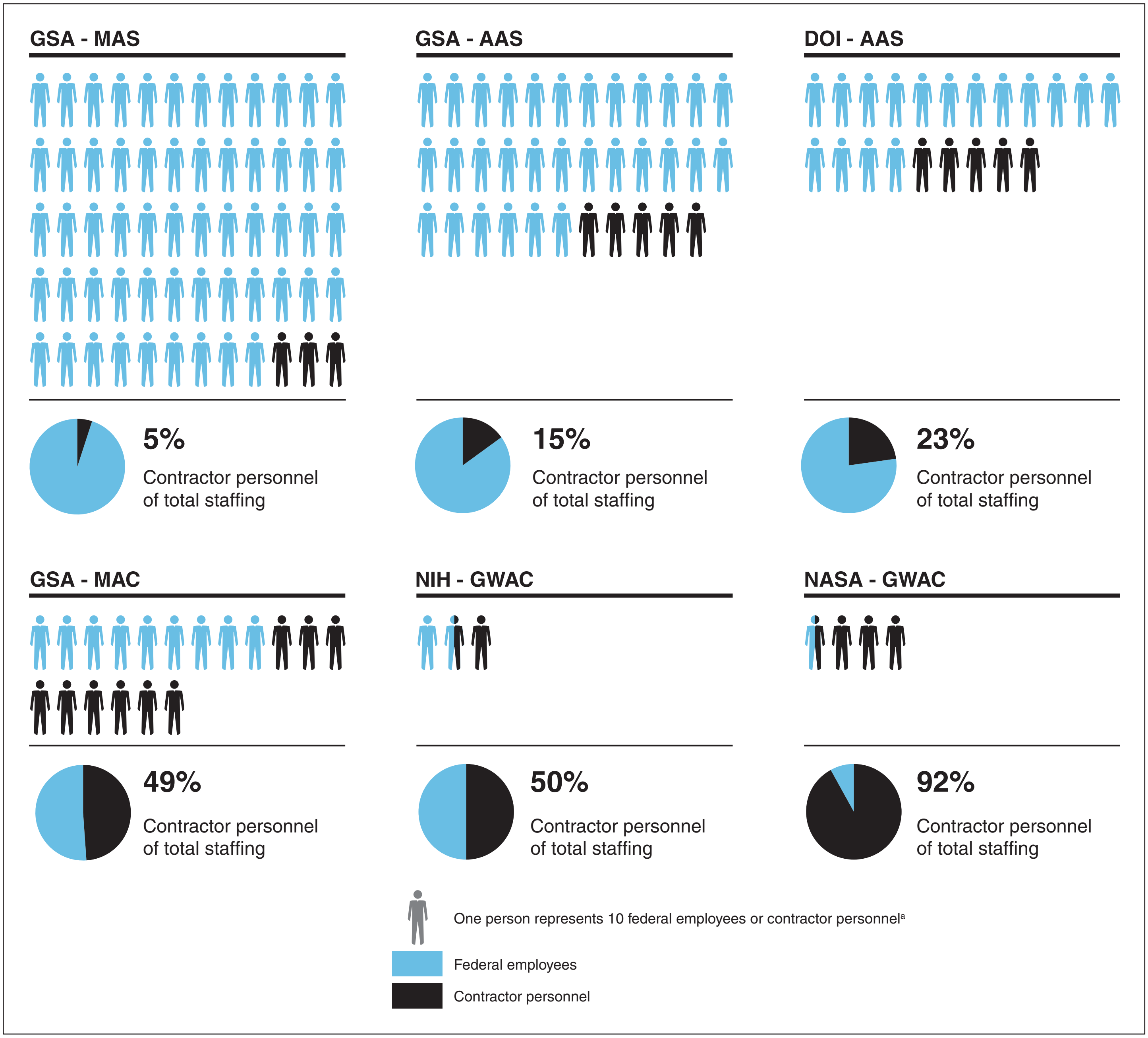
its fee determination and approval process on an annual basis and plans to implement its new policy by the end of fiscal year 2011.

Use of Contractor Staff to Support the Programs Varies

The use of contractor personnel for support services in the selected interagency contract programs varies widely as do the acquisition support services the contractor personnel provide. In general, the agencies use contractor personnel mainly to provide acquisition support functions similar to the duties of a contract specialist, such as invoice processing, data entry, and contract closeout, or to provide program management support. Some agencies also use contractor personnel for administrative support, website services, data systems support, and marketing services.[27] As figure 7 illustrates, the use of contractor personnel among the selected agencies ranges from 5 percent of total staffing for GSA's MAS program to 92 percent of staffing for NASA's GWAC program.

[27] The use of contractor personnel to provide acquisition support is a management decision, and GAO and other organizations have previously reported that a critical shortage in the federal government acquisition workforce exists, which can require agencies to utilize contractor personnel to find qualified personnel to perform contract support services. GAO, *Department of Homeland Security: A Strategic Approach Is Needed to Better Ensure the Acquisition Workforce Can Meet Mission Needs*, GAO-09-30 (Washington, D.C.; November 2008); Report of the Acquisition Advisory Panel to the Office of Federal Procurement Policy and the United States Congress, January 2007.; and GAO, *Department of Defense: Additional Actions and Data Needed to Effectively Manage and Oversee DOD's Acquisition Workforce,* GAO-09-342 (Washington, D.C.; March 2009).

Figure 7: Use of Contractor Personnel at Selected Interagency Contract Programs—Fiscal Year 2010



Source: GAO analysis of agency personnel data.

[a]Figures are rounded for graphical presentation.

According to agency officials, the interagency contract programs that use contractor personnel for support generally do so because of the flexibility of being able to use contractor personnel on a short- or long-term basis as needed to adjust to changing workloads caused by the cyclical nature of the interagency contract programs' work. For example, GSA officials indicated that when headquarters offices or regional offices request additional staff, such as within the Assisted Acquisition Services program, the program officials usually determine if the position can be filled by contractor personnel in an effort to provide more flexibility to the program. If the program cannot use contractor personnel to fill the needed position(s), GSA will then begin the process to hire a federal worker. Additionally, the NIH GWAC program officials stated they utilize contractor personnel to obtain subject matter expertise that is not typically available in the federal government. In addition, they said that using contractor personnel also provides more flexibility in managing resources, as contractor personnel can be more easily added to or removed from the program than federal employees as programmatic requirements change. According to agency officials, this flexibility helps the program adapt to the changing nature of the work. For example, if NIH decided to stop providing its GWAC services, contractor personnel could more easily be released while NIH would have to find other work for federal personnel on the program.

On the other hand, NASA GWAC officials explained that the program was originally established as a contractor-operated center since the program was limited to having only three federal employees. In addition, according to NASA officials, while the work currently performed by the contractor staff is not inherently governmental, the separation between inherently governmental and non-inherently governmental activities has started to present challenges. The officials said that the limited number of federal employees coupled with the continuing increase in business and work could lead to contractor personnel's performing activities that might best be performed by federal employees, such as strategic planning, contract compliance checks, and performing contract administration. SEWP managers told us that they will need to continue to review carefully the extent to which functions should be performed by federal employees or by contractor staff.

We previously reported that while there are benefits to using contractors to perform services for the government—such as increased flexibility in fulfilling needs—concerns exist about the federal government's increasing reliance on contractor services.[28] Of key concern is the risk associated with the loss of government control and accountability for mission-related policy and program decisions when contractors provide services that closely support inherently governmental functions. According to agency program officials at the selected agencies, the agencies have appropriate checks in place, such as annual contractor-performance reviews, to ensure contractor support staff are providing services within the scope of their contracts and are not performing inherently governmental functions. Further, officials at all of the agencies that use contractor personnel for support services stated that all contractor personnel must sign non-disclosure agreements. We did not assess whether such checks are actually being used or whether they are effective.

Conclusion

Billions of taxpayer dollars flow through the MAS, GWAC, MAC, and Assisted Acquisition Services programs, and customer agencies pay millions of dollars in fees for using interagency contracts. Customer agencies receive many benefits from using the interagency contracts and should reasonably expect the fees they pay to be based on accurate and complete financial data, reasonable reserve levels, and sound forecasting practices. For the most part, the programs we reviewed follow the key elements of the fee-setting process in accordance with applicable guidance. In some cases, agencies are planning actions that will bring their fee practices more in line with established cost recovery principles, such as GSA's plan to review the reduced fee it negotiated with Treasury for using Networx. But further improvements are needed.

Specifically, because GSA does not track costs for Networx at the program level, it does not have an important tool for identifying possible inefficiencies in the program. In addition, GSA's MAS program has consistently generated excess revenue in recent years, contributing significantly to growing reserve balances, yet GSA does not have guidance on when a consistent pattern of excess revenues by a program should lead to a review of that program's fee rates. As a result, GSA may be missing an opportunity to reduce the fee rate for MAS, a reduction that would mean savings for customer agencies. Every dollar spent on fees is

[28] GAO, *Department of Homeland Security: Improved Assessment and Oversight Needed to Manage Risk of Contracting for Selected Services,* GAO-07-990 (Washington, D.C.; September 2007).

a dollar not available for the goods and services agencies require. Finally, DOI could bring its fee structure more in line with cost recovery principles by ensuring that each of its locations bears the appropriate share of program overhead costs. Until improvements occur, the federal agencies using these programs may pay fees that are not always commensurate with the services they are receiving.

Recommendations for Executive Action

To improve aspects of specific interagency contracting programs and to better adhere to cost recovery principles, we are making three recommendations—two to GSA and one to DOI. We recommend that the:

- Administrator of General Services direct the Federal Acquisition Service Commissioner to:
    - begin tracking cost information on the Networx MAC at the program level to enable agency managers to identify possible inefficiencies in the program, and
    - develop and implement guidance for evaluation of current fee rates when an individual program consistently transfers excess revenue to the reserve funds.
- Secretary of the Interior direct the National Business Center Director to revisit the assignment of costs of its Assisted Acquisition Services program to ensure that the overhead costs of the program are properly assigned between its two offices to ensure that each carries its fair share of the overhead costs consistent with cost recovery principles.

Agency Comments and Our Evaluation

We provided a draft of this report to GSA, NASA, DOI, and the Department of Health and Human Services. NASA and the Department of Health and Human Services had no comments. We received written comments from GSA and DOI, which are included as appendixes VII and VIII, respectively. GSA and DOI concurred with our recommendations. They also provided technical comments that were incorporated, as appropriate.

GSA also provided some clarifying information related to the annual review of its programs' fee rates as part of its Performance Management Process and the management of its reserve contributions and balances. In addition, GSA provided additional information regarding the value of the additional services it provides through each of its programs. We revised the language of this report to reflect GSA's additional input, as appropriate.

We are sending copies of this report to the Administrator of General Services, the Administrator of the National Aeronautics and Space Administration, the Secretaries of the Departments of the Interior and Health and Human Services, and the Director of the National Institutes of Health. In addition, the report is also available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-4841 or WoodsW@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IX.

William T. Woods
Director, Acquisition and Sourcing Management

Appendix I: Multiple Award Schedules (MAS) Data Sheet: General Services Administration (GSA)

Program

Multiple Award Schedules (MAS).

Products/Services

Over 11 million commercial products and services through nearly 40 schedules; products include building materials, furniture, hardware, office supplies, environmental activities, scientific equipment, training aids, automotive supplies, and vehicles; services include advertising and marketing, facilities management, financial and business operations, logistics, engineering, and security.

Legal Authority

Established under Federal Property and Administrative Services Act of 1949; Acquisition Services Fund established by the GSA Modernization Act.

Contract Information

19,204 multiple indefinite-delivery, indefinite-quantity contracts; 18,735 vendors.

Operating Results

Table 5: GSA MAS Program Operating Results—Fiscal Years 2007-2010

Fiscal year	2007	2008	2009	2010
Sales	$35,913,475,000	$36,854,488,000	$38,024,820,000	$38,923,811,000
Revenues	$250,326,724	$268,793,884	$279,748,944	$281,860,830
Costs	$190,245,161	$184,544,662	$211,740,790	$245,323,600
Net revenue (loss)	$60,081,563	$84,249,222	$68,008,154	$36,537,230

Source: GSA Controller's Office.

Fund Balances

The balances in the Acquisition Services Fund are cumulative for all the programs operated in the fund; therefore, they represent more than the reserves for the MAS program.

Table 6: GSA Acquisition Services Fund Balances—Fiscal Years 2007-2010

Fiscal year	2007	2008	2009	2010
Working Capital Reserve[a] (operating reserve)	$223,000,000	$223,700,000	$340,000,000	$354,200,000
Business Reserve (planned improvements)	$260,100,000	$205,000,000	$176,000,000	$235,200,000
Investment Reserve (investments not yet planned)	$18,000,000	$101,800,000	$171,400,000	$234,100,000

Source: GSA data.

[a]GSA places all of its working cash available to operate the programs in the fund into its Working Capital Reserve. GSA's Working Capital Reserve is the equivalent to the carryover balance for funds that do not maintain reserves.

Fee Rates

Table 7: GSA MAS Program Fee Rates—Fiscal Years 2007-2011

Fiscal year	2007	2008	2009	2010	2011
Fee rate	0.75%	0.75%	0.75%	0.75%	0.75%

Source: GSA MAS Program.

Fiscal Year 2010 Staffing

569 government employees and 33 contractor personnel.

Biggest Customers

U.S. Army, Department of Homeland Security, GSA.

Appendix II: Governmentwide Acquisition Contract (GWAC) Data Sheet: National Aeronautic and Space Administration (NASA)

Program

Solutions for Enterprise-Wide Procurement IV (SEWP).

Products/Services

High-performance information technology that includes peripheral equipment, network equipment, data storage devices, software including security tools, and other information technology products and system solutions.

Legal Authority

Established via Office of Management and Budget designation based on the Information Technology Management Reform Act of 1996, renamed the Clinger-Cohen Act of 1996; Working Capital Fund established by the Consolidated Appropriations Resolution, 2003.

Contract Information

Set of fixed-price, indefinite-delivery, indefinite-quantity contracts; maximum value of $5.6 billion over 7 years; 38 vendors, including 21 small businesses, through 48 competed contracts—45 contracts awarded May 1, 2007, and 3 contracts awarded June 8, 2007.

Operating Results

Table 8: NASA GWAC Program Operating Results—Fiscal Years 2007-2010

Fiscal year	2007	2008	2009	2010
Sales	$996,531,496	$1,322,190,259	$1,824,048,986	$2,365,963,255
Orders	22,890	24,707	24,805	26,732
Revenues	$4,710,370	$6,664,538	$6,526,271	$9,108,235
Costs	$1,482,266	$4,974,777	$6,721,049	$6,906,483
Net revenue (loss)	$3,228,104	$1,689,761	($194,778)	$2,201,752

Source: NASA SEWP program data.

Fund Balances

Table 9: NASA Working Capital Fund Balances—Fiscal Years 2007-2010

Fiscal Year	2007	2008	2009	2010
Carryover balance[a]	$1,535,248	$2,416,338	$1,393,254	$3,435,324

Source: NASA SEWP program data.

[a]The carryover balance represents the working cash available in the fund used to operate the program. NASA requires the fund to maintain a balance sufficient to cover 30 days of operating expenses and six months of disbursements.

Fee Rates

Table 10: NASA GWAC Program Fee Rates—Fiscal Years 2007-2011

Fiscal year	2007	2008	2009	2010	2011
Fee rate	0.65%	0.60%	0.55%	0.50%	0.45%
Maximum fee per order[a]	$10,000	$10,000	$10,000	$10,000	$10,000

Source: NASA SEWP program data.

[a]The maximum fee cap is applied per order or contract modification.

Fiscal Year 2010 Staffing

Three full-time government employees and 35 contractor personnel.

Biggest Customers

Departments of Veterans Affairs, Defense, and Justice.

Appendix III: Governmentwide Acquisition Contract (GWAC) Data Sheet: National Institutes of Health (NIH)

Program

Governmentwide Acquisition Contract (GWAC) program—includes three contracts:

(1) Chief Information Officer Solutions and Partners 2 Innovations (CIO-SP2i),

(2) Image World 2 New Dimensions (IW2nd), and

(3) Electronic Computer Store III (ECS III).

Products/Services

Information technology products and services focused on emerging technologies and solutions.

Legal Authority

Established via Office of Management and Budget based on the Information Technology Management Reform Act of 1996, renamed the Clinger-Cohen Act of 1996. Service and Supply Fund established by 42 U.S.C. § 231.

Contract Information

Table 11: NIH GWAC Program Contracts

Contract	Number of vendors	Period of performance when orders may be placed on contract	Maximum cumulative value of orders permitted on contract
CIO-SP2i	44 primary	12/2000 – 12/2011	$19.5 billion
IW2nd	24 primary	12/2000 – 12/2010	$15 billion
ECS III	56 primary	11/2002 – 11/2012	$6 billion

Source: NIH GWAC program.

Operating Results

Table 12: NIH GWAC Program Operating Results—Fiscal Years 2007-2010

Fiscal year	2007	2008	2009	2010
Sales	$914,332,167	$1,103,899,117	$979,804,727	$755,521,109
Orders	3,500	2,572	2,485	2,663
Revenues	$8,789,735	$10,857,022	$10,967,668	$9,199,685
Costs	$9,006,552	$11,026,846	$9,369,369	$10,148,173
Net revenue (loss)	($216,817)	($169,824)	$1,598,229	($948,488)

Source: NIH GWAC program data.

Fund Balances

Table 13: NIH GWAC Service and Supply Fund Balances—Fiscal Years 2007-2010

Fiscal year	2007	2008	2009	2010[a]
Carryover balance[b]	$4,377,268	$4,207,444	$5,805,743	$4,857,255

Source: NIH GWAC program data.

[a]For fiscal year 2010, NIH changed its reporting methods, as a result the fiscal year 2010 data is not directly comparable to prior years' data.

[b]The carryover balance represents the working cash available in the fund used to operate the program, and does not include funds set aside in the reserves.

Fee Rates

Table 14: NIH GWAC Program Fee Rates—Fiscal Years 2007-2011

	2007	2008	2009	2010	2011
CIO-SP2i large business	1%	1%	1%	1%	1%
CIO-SP2i small business	0.5% – 1%	0.5% – 1%	0.5% – 1%	0.5% – 1%	0.5% – 1%
IW2nd large business	1%	1%	1%	1%	1%
IW2nd small business	0.25% – 1%	0.25% – 1%	0.25% – 1%	0.25% – 1%	0.25% – 1%
ECS III	1%	1%	0.5%	0.5%	0.5%

Source: NIH GWAC program data.

Note: Starting in fiscal year 2009, NIH began charging 0.5% for all Recovery Act orders.

Fiscal Year 2010 Staffing

16 government employees and 16 contractor personnel.

Biggest Customers

Departments of Health and Human Services, Defense, and Justice.

Appendix IV: Multi-agency Contract (MAC) Data Sheet: General Services Administration (GSA)

Program

Networx.

Products/Services

Over 50 telecommunications services including: legacy flip switch connections, managing networks, and secure interoperable services.

Legal Authority

Established via Federal Property and Administrative Services Act of 1949 and Clinger-Cohen Act of 1996; Acquisition Services Fund established by the GSA Modernization Act.

Contract Information

Table 15: GSA MAC Program Contracts

Contract	Number of vendors	Period of performance when orders may be placed on contract	Maximum cumulative value of orders permitted on contract
Networx Universal	3	3/29/2007 - 3/28/2017	$20.1 billion
Networx Enterprise	5	5/31/2007 - 5/30/2017	$48.1 billion

Source: GSA Networx program.

Operating Results

Table 16: GSA MAC Program Estimated Operating Results—Fiscal Years 2007-2010

	2007	2008	2009	2010
Sales	$962,490,451	$1,051,132,353	$1,154,087,763	$1,262,674,208
Revenues	$50,636,373	$68,448,441	$70,687,385	$77,148,690
Costs	$56,137,071	$61,049,425	$76,780,872	$91,549,170
Net revenue (loss)	($5,500,698)	$7,399,016	($6,093,487)	($14,400,480)

Source: GSA Networx program.

Note: Data provided are estimates, according to Networx program officials.

Fund Balances

The balances in the Acquisition Services Fund are cumulative for all the programs operated in the fund; therefore, they represent more than the reserves for the Networx MAC program.

Table 17: GSA Acquisition Services Fund Balances—Fiscal Years 2007-2010

Fiscal year	2007	2008	2009	2010
Working Capital Reserve[a] (operating reserve)	$223,000,000	$223,700,000	$340,000,000	$354,200,000
Business Reserve (planned improvements)	$260,100,000	$205,000,000	$176,000,000	$235,200,000
Investment Reserve (investments not yet planned)	$18,000,000	$101,800,000	$171,400,000	$234,100,000

Source: GSA data.

[a]GSA places all of its working cash available to operate the programs in the fund into its Working Capital Reserve. GSA's Working Capital Reserve is the equivalent to the carryover balance for funds that do not maintain reserves.

Fee Rates

Table 18: GSA MAC Program Fee Rates—Fiscal Years 2007-2011

Fiscal year	2006	2007	2008	2009	2010	2011
Fee rate	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%

Source: Networx Program.

Fiscal Year 2010 Staffing

92 government employees and 90 contractor personnel.

Biggest Customers

Departments of Homeland Security, Defense, and Veterans Affairs.

Appendix V: Assisted Acquisition Services Data Sheet: General Services Administration (GSA)

Program

Assisted Acquisition Services.

Products/Services

Acquisition support services including contracting, project management, and financial management, such as for large information technology product and services.

Legal Authority

Established via Federal Property and Administrative Services Act of 1949; Acquisition Services Fund established by the GSA Modernization Act.

Contract Information

As identified to meet requirements of each project—indefinite-delivery, indefinite-quantity contracts; multiple-award contracts; and orders placed on pre-existing contracts.

Operating Results

Table 19: GSA Assisted Acquisition Services Program Operating Results—Fiscal Years 2007-2010

Fiscal year	2007	2008	2009	2010
Sales	$3,719,935,521	$3,655,610,170	$3,808,389,718	$3,948,631,160
Task orders (new and modifications)	14,936	10,803	8,477	9,082
Revenues	$109,309,189	$116,832,418	$113,625,042	$119,132,920
Costs	$161,845,248	$111,684,753	$119,605,072	$132,170,640
Net revenue (loss)	($52,536,059)	$5,147,665	($5,980,030)	($13,037,720)

Source: GSA Controller's Office.

Fund Balances

The balances in the Acquisition Services Fund are cumulative for all the programs operated in the fund; therefore, they represent more than the reserves for the Assisted Acquisitions Services program.

Table 20: GSA Acquisition Services Fund Balances—Fiscal Years 2007-2010

Fiscal year	2007	2008	2009	2010
Working Capital Reserve[a] (operating reserve)	$223,000,000	$223,700,000	$340,000,000	$354,200,000
Business Reserve (planned improvements)	$260,100,000	$205,000,000	$176,000,000	$235,200,000

Fiscal year	2007	2008	2009	2010
Investment Reserve (investments not yet planned)	$18,000,000	$101,800,000	$171,400,000	$234,100,000

Source: GSA data.

[a]GSA places all of its working cash available to operate the programs in the fund into its Working Capital Reserve. GSA's Working Capital Reserve is the equivalent to the carryover balance for funds that do not maintain reserves.

Fee Rates

Fee rates negotiated on a project-by-project basis:

- range from 1 percent to 12 percent and
- average of 4 percent.

Fiscal Year 2010 Staffing

296 full-time government employees and 51 contractor personnel.

Biggest Customers

U.S. Army, U.S. Air Force, and the Department of Defense Office of the Secretary of Defense.

Appendix VI: Assisted Acquisition Services Data Sheet: Department of the Interior (DOI)

Program

Assisted Acquisition Services.

Products/Services

Project planning, soliciting and evaluating offers, administering contracts and agreements through closeout, paying bills, and project management activities such as preparing statements of work and tracking expenditures.

Legal Authority

The Government Management Reform Act of 1994; Herndon, VA, office's Interior Franchise Fund established by the Government Management Reform Act of 1994 and the Department of the Interior Appropriations Act of 1997; Sierra Vista, AZ, office's Working Capital Fund established by 43 U.S.C. § 1467.

Contract Information

As identified to meet requirements of each project—new single-award contracts or orders placed on pre-existing contracts including indefinite-delivery, indefinite-quantity contracts, multiple-award contracts, or interagency contracts.

Operating Results

Table 21: DOI Assisted Acquisition Services Program Operating Results—Fiscal Years 2007-2010

Fiscal year	2007	2008	2009	2010
Herndon office				
Sales	$1,065,184,952	$758,065,297	$843,513,166	$946,637,266
New task orders	2,168	828	440	458
Modifications	3,700	2,236	2,489	2,256
Revenues	$37,194,629	$31,890,175	$35,661,795	$36,138,507
Costs	$34,737,003	$24,684,702	$31,251,726	$32,259,540
Net revenue (loss)	$2,457,626	$7,205,473	$4,410,069	$3,878,967
Sierra Vista office				
Sales	$507,767,678	$417,725,827	$396,960,100	$434,557,652
New task orders	225	221	289	319
Modifications	1,501	1,173	901	816
Revenues	$7,980,727	$8,359,863	$8,401,697	$9,695,073
Costs	$10,143,155	$8,380,534	$9,088,955	$8,206,710
Net revenue (loss)	($2,162,428)	($20,671)	($687,258)	$1,488,363

Source: DOI program data.

Fund Balances

Table 22: DOI Interior Franchise Fund and Working Capital Fund Balances—Fiscal Years 2007-2010

Fiscal year	2007	2008	2009	2010
Herndon Office—Interior Franchise Fund				
Carryover balance[a]	$4,464,618	$10,123,397	$15,088,430	$4,760,645
Operating Reserve	n/a	$2,300,000	$2,300,000	$5,287,849
Capital Reserve	n/a	n/a	n/a	$12,136,574
Sierra Vista Office—Working Capital Fund				
Carryover balance[b]	$13,742,763	$17,928,062	$17,136,057	$3,798,678

Source: DOI program data.

[a]The carryover balance represents the working cash available in the fund used to operate the program, and does not include funds set aside in the reserves.

[b]The carryover balance represents the working cash available in the fund used to operate the program.

Fee Rates

Fee rates negotiated on a project-by-project basis:

- average between 4 and 5 percent for Herndon, Virginia, office and
- average between 2 and 3 percent for Sierra Vista, Arizona, office.

Fiscal Year 2010 Staffing

Herndon, Virginia, office: 115 government employees and 27 contractor personnel.

Sierra Vista, Arizona, office: 45 government employees and 21 contractor personnel.

Biggest Customers

Herndon, Virginia, office: Office of the Secretary of Defense, the National Telecommunications and Information Administration (Department of Commerce), and Food and Drug Administration.

Sierra Vista, Arizona, office: Defense Advanced Research Projects Agency, National Guard Bureau, and U.S. Army Program Executive Office, Enterprise Information Systems.

Appendix VII: Comments from the General Services Administration

GSA

GSA Administrator

September 7, 2011

The Honorable Gene L. Dodaro
Comptroller General of the United States
Government Accountability Office
Washington, DC 20548

Dear Mr. Dodaro:

Thank you for the opportunity to comment on the U.S. Government Accountability Office (GAO) draft report, "INTERAGENCY CONTRACTING: Improvements Needed in Setting Fee Rates for Selected Programs" (GAO 11-784).

The U.S. General Services Administration (GSA) agrees with the GAO recommendations pertaining to GSA; however, we would like to clarify some of the information contained in the report. Additional details have been provided in the enclosure.

Should you have any questions, please do not hesitate to contact me. Staff inquiries may be directed to Ms. Agnes Leung, Controller, Federal Acquisition Service, Office of the Controller. Ms. Leung can be reached at (703) 603-8145.

Sincerely,

Martha Johnson

Martha Johnson
Administrator

U.S. General Services Administration
1275 First Street, NE
Washington, DC 20417
www.gsa.gov

Appendix VIII: Comments from the Department of the Interior

United States Department of the Interior
OFFICE OF THE SECRETARY
Washington, DC 20240

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Mr. William T. Woods
Director, Acquisition and Sourcing
Management Enclosure
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Woods:

Thank you for giving the Department of the Interior the opportunity to review and comment on the Government Accountability Office (GAO) revised draft report entitled *Interagency Contracting: Improvements Needed for Setting Fee Rates in Selected Programs* (GAO-11-784).

The Department concurs with the GAO recommendation to the Secretary of Interior directing the NBC to revisit assignment of costs.

If you have any questions, please contact Dean Martin, the NBC Audit Liaison Officer at (303) 969-5195.

Sincerely,

Pamela Hare (Acting)

Rhea Suh
Assistant Secretary
Policy, Management and Budget

Appendix IX: GAO Contact and Staff Acknowledgments

GAO Contact

William T. Woods, (202) 512-4841 or WoodsW@gao.gov

Staff Acknowledgments

In addition to the contact name above, James Fuquay (Assistant Director); Marie Ahearn; Ami Ballenger; Morgan Delaney-Ramaker; R. Eli DeVan; Georgeann Higgins; Katheryn Hubbell; Jean McSween; John K. Needham; Kenneth Patton; Carol Petersen; Roxanna Sun; and Jack Warner made key contributions to this report.

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