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December 5, 2006

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The Honorable Lurita A. Doan
Administrator of General Services
1800 F St., NW
Washington, DC 20405

Dear Administrator Doan:

We are writing to object to your proposal to undermine the GSA pre-award audit process by replacing experienced federal auditors working for the GSA Inspector General with inexperienced private contractors.

We have seen no analysis by your office demonstrating how the taxpayer would benefit from privatizing the audit process. To the contrary, your proposal to hire private contractors to oversee other private contractors runs the risk of creating new dangers, including reduced savings for the taxpayer, conflicts of interest among contractors, and lengthy disputes over access to proprietary business information. During the last two years, IG auditors have saved taxpayers \$1.1 billion at a cost of only \$4.5 million, an investment return of 244 to 1. We request that before tampering with this extremely successful system, you provide a full description of the scope of your proposal, as well as a detailed analysis of its potential effects.

GSA's Federal Supply Schedules (FSS) make commonly used commercial items and services available to federal agencies through pre-negotiated contracts with multiple vendors. This program has grown dramatically in recent years, increasing from \$4 billion in 1992 to over \$32 billion in fiscal year 2004.¹ Under the FSS program, vendors are required to provide goods or services at the best price they provide in the commercial marketplace. Before these contracts are awarded, the IG analyzes pricing information and marketing strategies from the vendors to make sure they are not charging the government more than they charge commercial buyers.

The IG has been remarkably successful in its work. The IG reports that these pre-screening audits have saved the taxpayer \$1.1 billion over the past two years.² The IG has uncovered numerous cases in which corporate vendors have attempted to charge the government

¹ Government Accountability Office, *Contract Management: Opportunities to Improve Pricing of GSA Multiple Award Schedules Contract* (GAO-05-229) (February 2005).

² *GSA To Minimize Auditors' Role in Pre-Contract Award Reviews*, GovExec (Oct. 19, 2006).

significantly more than their commercial clients. Were it not for the IG's persistence in requiring these corporate vendors to lower their prices, some of these attempted overcharges might have gone unnoticed, to the detriment of the taxpayer.

According to reports, you plan to halt the IG's work in this area and instead hire private contractors to conduct it. You reportedly have given several rationales for this proposal. The first is that private contractors will provide "objectivity" that is lacking in the current process.³ This argument makes little sense. Congress created the IG's office by statute to provide oversight that was independent of the agency, and it appears that the IG has performed this task well, saving the federal government and the taxpayers large sums of money.

Another rationale for your proposal is that you want to award additional work to "the small business community." We fully support creating business opportunities with the federal government for small, minority-owned, and service-disabled businesses. What we question is the decision to award this work to any contractor – big or small.

Finally, you also argue that corporate vendors encounter a "fear factor" during these audits. As you stated, "if you know someone is auditing you, there is a stress factor that increases."⁴ This argument is misplaced as well. Any "fear" or "stress" felt by corporate vendors attempting to overcharge the government is deserved and may act as a deterrent against future overcharging. It is unclear how replacing IG auditors with private contractors will reduce the "stress" encountered by corporate vendors unless you also reduce the scope of what those audits examine.

Your proposal conflicts with the recommendations of the Government Accountability Office and reverses the commitments of your predecessor. In 2005, GAO issued a report recommending ways that GSA could increase and enhance pre-award audits conducted by the IG, not undermine them as you are proposing to do.⁵ Former GSA Administrator Stephen Perry stated that GAO's recommendations were "well-considered," and he committed to "work with GSA's Office of Inspector General to increase and improve the pre-award audit process."⁶ The IG has also warned about the dangers of your proposal stating that most private accounting firms "generally just look at financial statements, and not the sales and marketing practices necessary to verify prices."⁷

³ *GSA To Minimize Auditors' Role in Pre-Contract Award Reviews*, GovExec (Oct. 19, 2006).

⁴ *GSA Administrator Reduces IG's Role in Contract Audits*, Federal Times (Oct. 23, 2006).

⁵ Government Accountability Office, *Contract Management: Opportunities to Improve Pricing of GSA Multiple Award Schedules Contract* (GAO-05-229) (February 2005).

⁶ Letter from Stephen A. Perry, Administrator, General Services Administration, to David E. Cooper, Managing Director, Acquisition and Sourcing Management, Government Accountability office (Feb. 1, 2005).

⁷ *GSA To Minimize Auditors' Role in Pre-Contract Award Reviews*, GovExec (Oct. 19, 2006).

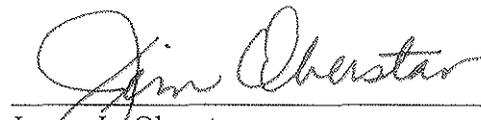
Apart from these concerns, there are also several new risks associated with your approach. First, companies conducting audits of corporate vendors may have conflicts of interest. Small businesses, in particular, often act as subcontractors to large corporations on the Federal Supply Schedule, raising concerns about their objectivity.

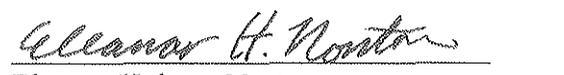
Another serious concern is the likelihood of impaired access to proprietary business information. Government auditors have a right to demand pricing information from companies seeking to do business with the federal government. It is by comparing a corporate vendor's government prices with its commercial prices that the IG has been able to identify so many attempted overcharges. As you know, corporate vendors are loathe to release their pricing or marketing information to other private contractors out of concern that such disclosures might impair their competitive advantage in the marketplace. Without this information, however, it will be impossible to compare government and commercial prices.

Fundamentally, our concern is that you have not made a coherent case that explains how your proposal would benefit the taxpayer compared to the system now in place. You seem to be reversing the commitments of your predecessor, contradicting the recommendations of GAO, and tampering with a system that works well, all to alleviate the "stress" of corporations that have attempted to overcharge the taxpayer. For these reasons, we request that you take no further action on your proposal until you provide us with a full description of the scope of your plan and a detailed analysis of its potential effects.

Sincerely,


Henry A. Waxman
Ranking Minority Member
Committee on Government Reform


James L. Oberstar
Ranking Minority Member
Committee on Transportation and
Infrastructure


Eleanor Holmes Norton
Ranking Minority Member
Subcommittee on Economic Development,
Public Buildings and Emergency
Management