INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

REPORT
NO. 90-063

May 3, 1990

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
COMMANDER, U.S. ARMY MATERIEL COMMAND
COMMANDER, U.S. ARMY TROOP SUPPORT COMMAND
COMMANDER, BELVOIR RESEARCH DEVELOPMENT AND ENGINEERING CENTER

SUBJECT: Final Quick-Reaction Report on Research and Development Contracting at DoD Laboratories (Project No. 0AB-0030)

## Introduction

This final report documents a successful cooperation between our audit staff and Army management. As a result, a non-competitive follow-on contract based on urgency was avoided.

We announced our audit of Research and Development Contracting at DoD Laboratories in December 1989. The audit objective was to evaluate procurement practices at DoD laboratories. During our evaluation of procurement practices at the Belvoir Research Development and Engineering Center, Ft. Belvoir, Virginia (the Belvoir Center), we learned that in March 1989, procurement officials awarded a $4.3 million noncompetitive letter contract for the design, installation, operation, and evaluation of an automated supply system for the Army. The Army Materiel Command directed the Belvoir Center to award the contract, citing U.S.C., title 10, section 2304(c)(2), "unusual and compelling urgency" as the authority.

The Army Materiel Command was about to award a non-competitive follow-on contract to the March 1989 contract. The justification authority proposed for the sole-source contract was again based on unusual and compelling urgency. We believe the circumstances surrounding this procurement do not warrant the use of this authority. The Federal Acquisition Regulation (FAR) and DoD policy limit the use of this authority to cases where the need for the supplies or services is of such an unusual and compelling urgency that the Government would be seriously injured unless the acquiring agency were permitted to limit the number of sources from which it solicits bids or proposals. Section 6.302-2 of the FAR provides examples of when unusual and compelling urgency may be used. These include circumstances where supplies or services are needed immediately because of fire, flood, or other disaster; where equipment is needed for grounded aircraft, or aircraft about to be grounded; when such equipment is needed immediately for the performance of the operational mission of the

aircraft; etc. The estimated cost of the follow-on contract is $9.2 million. Because the contract might have been awarded as early as March 19, 1990, this matter demanded immediate attention.

## Background

The Commander, Army Materiel Command, in coordination with the Commander, Training and Doctrine Command, determined that the Army supply system was not responsive to the needs of the soldier in the field, and was detrimental to Army readiness. The Commander, Army Materiel Command chartered an Objective Supply System Task Force (Task Force) in early 1988 to develop a prototype concept to achieve near real-time processing of supply requisitions for soldiers in the field. The Objective Supply System would provide a service that would complement rather than replace the existing Army supply system.

Although there was more than one highly competitive source for this type of service, the requirement for real-time processing of supply requisitions was not advertised. In June 1988, Innovative Technology, Inc., was selected as the sole-source contractor to develop software, to purchase off-the-shelf hardware, and to demonstrate the system. Orders were placed against a basic ordering agreement, which the Library of Congress (the Library) had with Innovative Technology, Inc. The DoD use of the Library to circumvent procurement regulations was reported by the DoD Inspector General in Audit Report 90-034, "Contracting Through Interagency Agreements with the Library of Congress," February 9, 1990. This report disclosed that DoD program officials failed to obtain approval to make interagency acquisitions with the Library, and these officials did not follow DoD and FAR requirements, including requirements for competition, sole-source justifications, and cost and price analyses.

## Discussion

The Belvoir Center awarded a sole-source letter contract (DAAK70-89-C-0037) to Innovative Technology, Inc., in March 1989, to improve the Army supply system. The contract was awarded for $4.3 million without the FAR required technical evaluation, or an adequate review of the contractor's proposed costs to determine if the contract was fair and reasonable. The Army Materiel Command directed the Belvoir Center to award the contract based on unusual and compelling urgency. The urgency was created when the Library procurement office notified the Army Materiel Command that it would no longer accept orders against the basic ordering agreement with Innovative Technology, Inc. The Library returned funding documents that were to be used to pay Innovative Technology, Inc., for work already underway on the Army's

Objective Supply System. This action was taken after the Library investigated several DoD activities' practice of providing funding to the Library to contract for services and supplies through the Federal Library and Information Network (FEDLINK) procurement program. The primary function of FEDLINK is to provide information services to Federal libraries, information centers, and other Government activities through basic ordering agreements. According to the Library, the FEDLINK program was not intended to be used for the type of services and supplies that Innovative Technology, Inc., was providing to the Army.

Innovative Technology Inc., successfully demonstrated the Objective Supply System at Fort Hood, Texas. As a result of this successful demonstration, the Army Materiel Command was planning to award a follow-on sole-source contract for $9.2 million to Innovative Logistics Techniques, Inc. (INNOLOG), to demonstrate the Objective Supply System in Europe. (INNOLOG was organized out of Innovative Technology, Inc., the original sole-source contractor.) This follow-on contract was proposed for award based on unusual and compelling urgency. The Justification and Approval document states that INNOLOG is the only known technical and management source that is fully capable of delivering a product before FY 1991.

When "unusual and compelling urgency" is the authority cited, FAR section 6.302-2(c)(2) requires that offers be solicited from as many potential sources as is practicable under the circumstances. Technical personnel at the Army Materiel Command and the Belvoir Center agree that there are other companies with similarly skilled personnel, and the capability to perform this work. Army Materiel Command officials told us they originally intended to compete all follow-on contracts, but that the rapid expansion of the Objective Supply System, and the need to have it tested in Europe before FY 1991, did not permit competitive award. The proposed cost of $9.2 million was determined without price competition. Experience has shown that when there is adequate price competition, costs are reduced. We believe savings can be realized if this requirement is competed. Citing urgency as a reason to limit competition is restricted to circumstances beyond the control of the DoD. Because the proposed contract is a follow-on to an effort started in early 1988, procurement planning was, and still is, entirely within the control of the Army. Therefore, we believe the circumstances do not warrant use of urgency as a basis for a sole-source award to INNOLOG.

**Recommendation**

We recommended that the Commander, U.S. Army Materiel Command suspend all procurement action on the Objective Supply

System until a competitive acquisition package could be prepared for use in soliciting competitive bids.

**Management Comments**

The management responses to a draft of this report conformed to the provisions of DoD Directive 7650.3 (see Enclosure 1). The Army is to be commended for being entirely responsive to the draft report and agreeing with its recommendation. No unresolved issues existed on the audit recommendation. Accordingly, additional management comments on the final report are not required.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Raymond Spencer at (202) 694-3995 (AUTOVON 224-3995), or Ms. Geraldine M. Edwards at (202) 693-0350 (AUTOVON 223-0350). Copies of this report are being provided to the activities listed in Enclosure 2.

Stephen A. Trodden
Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Army

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
U S ARMY CONTRACTING SUPPORT AGENCY
WASHINGTON DC 20310-0103

REPLY TO
ATTENTION OF

27 MAR 1990

SFRD-KI

MEMORANDUM FOR CHIEF, OPERATIONS, PLANS AND ANALYSIS DIVISION, OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Draft Quick Reaction Report on Research and Development Contracting at DOD Laboratories (OAB-0030)

1. Reference your memorandum of 16 March 1990, subject as above.

2. Subject Audit Report and the Command reply have been reviewed and the Army concurs with the ~~USAAA~~ DOD IG recommendation. Action on the follow-on procurement has been suspended. The follow-on requirements will be competed on a full and open competition.

3. Point of contact is LTC John C. McLaughlin, 756-7572.

J. Bruce King
for NICHOLAS R. HURST
Brigadier General, GS
Director, U.S. Army Contracting
Support Agency

J. BRUCE KING
Acting Director
U.S. Army Contracting
Support Agency

**DEPARTMENT OF THE ARMY**
**HEADQUARTERS, U. S. ARMY MATERIEL COMMAND**
**5001 EISENHOWER AVENUE, ALEXANDRIA, VA 22333-0001**

AMCPP-MA (36-2b) 26 March 1990

MEMORANDUM FOR Brigadier General Nicholas R. Hurst, Commander, U.S. Army Contracting Support Agency, 5109 Leesburg Pike, Suite 916, Falls Church, VA 22041-3201

SUBJECT: Draft Department of Defense Inspector General (DODIG) Quick-Reaction Report on Research and Development Contracting at DOD Laboratories (Project No. OAB-0030) (AMC No. D9012)

1. We have reviewed the subject findings and concur with the DODIG. Our comments are provided in the enclosed Command Reply. Further investigation by the Army Materiel Command (AMC) indicates that the proposed follow-on contract for the Objective Supply System should be competed on the basis of full and open competition.

2. To speed up the procurement process, AMC is forming a team of dedicated individuals to work on developing the procurement package. The intention is to ensure correct procurement practices are followed and to expeditiously award a competitive follow-on contract.

3. We appreciate the opportunity to comment on the findings issued in the draft quick reaction report.

Encl

JOHN G. COBURN
Brigadier General, USA
Deputy Chief of Staff
for Procurement

COMMAND REPLY
DRAFT DODIG QUICK-REACTION REPORT ON
RESEARCH AND DEVELOPMENT CONTRACTING AT DOD LABORATORIES
PROJECT NO. OAB-0030 (AMC NO. D9012)

FINDING.

A letter contract for the design, installation, operations, and evaluation of the automated Objective Supply System (OSS) was awarded noncompetitively in March 1989 on the basis of "unusual and compelling urgency." A similar noncompetitive follow-on contract is proposed to be awarded on an urgent basis. The circumstances do not warrant use of urgency as the basis for a sole source award. Further, savings could be realized if this requirement were competed.

RECOMMENDATION.

Suspend all procurement action on the Objective Supply System until a competitive acquisition package can be prepared.

ACTION TAKEN.

Concur with regard to suspending action on the follow-on procurement until a competitive acquisition package can be prepared. The follow-on requirements will be competed on a full and open competition basis. A special task force is being formed to develop a procurement package suitable for competition. Completion of the procurement package is estimated for the third quarter of Fiscal Year 1990.

## FINAL REPORT DISTRIBUTION

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Director, U.S. Army Contracting Support Agency
Commander, U.S. Army Materiel Command
Commander, U.S. Army Troop Support Command
Commander, Belvoir Research Development and Engineering Center

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations