Audit Report

OFFICE OF THE INSPECTOR GENERAL

PROCUREMENT OF CONTRACT RECONCILIATION SERVICES BY THE DEFENSE LOGISTICS AGENCY

Report Number 91-080

May 15, 1991

Department of Defense

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

May 15, 1991

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Report No. 91-080)

This is a final report on the Audit of the Procurement of Reconciliation Services by the Defense Logistics Agency (DLA) for your information and use. Comments on a draft of this report were considered in preparing the final report. This self-initiated audit was performed by the Contract Management Directorate from January through June 1990. The audit objective was to evaluate DLA's procedures for contracting with Network Solutions, Inc., (NSI) to reconcile contracts before their transfer from the the Defense Contract Administration Services Regions (now called Defense Contract Management Districts) to the Defense Finance Center (now called Defense Finance and Accounting Services-Columbus Center). The audit also evaluated applicable internal controls. The DLA contract with NSI totaled $7.3 million, and task order six for contract reconciliations accounted for $4.7 million.

DLA did not adequately plan and monitor the contract for accounting contract reconciliation services to ensure that competition was used to the greatest extent possible or that the Government received the best value. The audit also identified the need to improve related internal controls. The results of the audit are summarized in the following paragraphs, and the details, audit recommendations, and management comments are included in Part II of this report.

DLA procured contract reconciliation services on a noncompetitive basis by inappropriately using a task order letter contract. Consequently, there was no assurance that competition was not feasible. Also, DLA paid higher costs to have the reconciliation services performed under the task order contract than the services cost on a subsequent competitive contract. We recommended incorporating applicable findings from Federal Managers' Financial Integrity Act (FMFIA) reports into advance procurement plans for all major procurements for contracted advisory and assistance services. In addition, we recommended that the competition advocate review proposed letter contracts. Also, we recommended that the Contracting Directorate perform a follow-up review of the 1988 Procurement Management Review to determine if actions to correct weaknesses identified in that review were implemented and resolved (page 5).

NSI quality assurance and oversight reviews of the contract reconciliation work at the Defense Contract Administration Services Region (DCASR)-Los Angeles, California, and the Defense Finance Center (DFC)-Columbus, Ohio, duplicated similar reviews performed by the subcontractor, Coopers and Lybrand, and Government personnel. As a result, the Government incurred up to $696,000 in costs for apparent duplicate quality assurance services. Based on the evaluation, we recommended that DLA investigate the appropriateness of the costs billed for quality assurance services. We also recommended that the Director, DLA, require contracting officer representatives (COR's) and contracting officer technical representatives (COTR's) to actively monitor contracts and coordinate such efforts among themselves and the contracting officers (page 13).

The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were not effective to ensure the implementation and resolution of Procurement Management Review findings. Recommendation A.3. in this report, if implemented, will correct the weaknesses. A copy of this report will be provided to the senior official responsible for internal controls within DLA. We determined that no monetary benefits are attached to the internal control weaknesses identified in this report.

We provided a draft of this report to the Director, DLA, on October 19, 1990. DLA initially responded on December 27, 1990. On January 18, 1991, DLA provided revised comments on Finding A, Recommendations A.1., A.3., B.1., and B.2., after a meeting between the Office of the Inspector General and DLA representatives. The comments are summarized in Part II of this report, and the complete texts of the responses are in Appendix B.

The Deputy Comptroller, DLA, concurred with Recommendation A.3., B.1. and B.2.; and additional comments on these recommendations are not required. The Deputy nonconcurred with Recommendation A.1. and A.2. We revised Recommendations A.1. and A.2. for the final report. We believe the revised recommendations are valid for reasons discussed in Part II of the report. Accordingly, we request additional comments on Recommendations A.1. and A.2. We deleted Recommendation A.4., which requested that DLA issue and implement guidance for the use of task order-type contracts. The recommendation was deleted because we issued Report No. 91-030, "Justification for Use of Time-and-Materials Contracts," January 8, 1991; and Report No. 91-041, "Contracted Advisory and Assistance Services," February 1, 1991, which recommended additional guidance from OSD on use of task order contracts.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Accordingly, final comments on Recommendations A.1. and A.2. must be provided within 60 days of the date of this Report.

The cooperation and courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Garold E. Stephenson, Program Director, at (703) 614-6275 (DSN 224-6275) or Ms. Kim Caprio, Project Manager, at (703) 614-3463 (DSN 224-3463). A list of the audit team members is provided in Appendix E. The distribution of this report is listed in Appendix F.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosure

cc:
Director for Contracted Advisory and Assistance Services,
Office of the Under Secretary of Defense for Acquisition
Director of Defense Procurement, Office of the Under Secretary
of Defense for Acquisition

REPORT ON THE AUDIT OF THE PROCUREMENT OF CONTRACT RECONCILIATION SERVICES BY THE DEFENSE LOGISTICS AGENCY

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Prepared by:
Contract Management Directorate
Project No. 0CH-0040

REPORT ON THE AUDIT OF THE PROCUREMENT OF CONTRACT RECONCILIATION SERVICES BY THE DEFENSE LOGISTICS AGENCY

PART I - INTRODUCTION

Background

On April 14, 1989, the Defense Logistics Agency (DLA) Automatic Data Processing (ADP)/Telecommunications Contracting Office, issued a fixed price, time and materials, indefinite quantity, indefinite delivery, task order letter contract through the Small Business Administration (SBA), to Network Solutions, Inc., (NSI). NSI, which specializes in engineering and technical support services related to ADP and telecommunications, was awarded the DLA contract through the SBA section 8(a) program. The letter contract was issued to provide telecommunication circuits, equipment, and network engineering support for DLA's transition of finance and accounting operations from nine Defense Contract Administration Services Regions (DCASR's) to the Defense Finance Center, Columbus, Ohio (DFC-Columbus).

DLA had previously issued a task order to NSI under an Army task order contract to do work at DFC-Columbus. The Army task order ended on February 28, 1989, and DLA desired to continue NSI as a support contractor at DFC-Columbus. DLA officials cited urgency as the basis for issuing the letter contract to obtain NSI's support services.

The letter contract that DLA issued to NSI was a task order contract that contained a very general statement of work and permitted DLA to issue specific task orders later. DLA subsequently issued six task orders against the contract, which are described in Appendix A. The first five task orders were primarily for ADP/telecommunications studies and support services. The sixth task order was to reconcile out-of-balance contracts at DCASR-Los Angeles.

In December 1989, because of financial cutbacks, DLA notified NSI that three of the six task orders should be terminated, and that the task order for contract reconciliations should be limited to a maximum expenditure of $100,000 per month through fiscal year 1990. At that time, the other two task orders for ADP/telecommunications support services were completed. In January 1990, DLA and NSI definitized the letter contract and agreed that its amount would not exceed $24.6 million.

In April 1990, the Defense Fuel Supply Center at DLA competitively awarded a follow-on task order contract for contract reconciliation work to be performed at the other eight DCASR's. The request for proposals was sent to several sources, but Coopers and Lybrand was the only offeror. Coopers and Lybrand was awarded the follow-on task order contract, which had a ceiling amount of $15.0 million. Under the follow-on contract, NSI was identified as a subcontractor to Coopers and Lybrand.

Objectives and Scope

The audit objective was to evaluate DLA's procedures for contracting with NSI to reconcile contracts before their transfer from the Defense Contract Administration Services Regions to the Defense Finance Center. We also evaluated the adequacy of applicable internal controls.

We evaluated compliance with Federal laws and DoD, DLA, and SBA regulations, which related to contract management and administration, subcontracting, and use of the SBA section 8(a) program. We interviewed the contracting officers responsible for the procurement action, contracting officer representatives at DLA headquarters and the contracting officer technical representatives at DCASR-Los Angeles and DFC-Columbus. We also interviewed DLA officials responsible for internal reviews and for monitoring the use of competition and small business programs. In addition, we interviewed NSI and Coopers and Lybrand representatives.

We reviewed the statements of work, the contractor's proposals, the letter contract, the contract modifications, and the definitized and follow-on contracts. We also reviewed DLA's internal Procurement Management Reviews and Federal Managers' Financial Integrity Act (FMFIA) reports since 1985 to determine whether findings identified during this audit were identified previously.

We compared actual reconciliation work the contractor, subcontractor, and Government officials performed to determine the types and extent of work and the potential for duplication. We also analyzed proposed and actual costs for the contract reconciliation work to determine the magnitude of potential overcharges to the Government. For purposes of this audit, we did not rely on computer-generated data.

This performance audit was conducted from January through June 1990 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary. A list of activities visited or contacted during the audit is shown in Appendix D.

Internal Controls

The audit evaluated the internal controls within the DLA Automatic Data Processing/Telecommunications Contracting Office related to issuing and monitoring contracts and contracting under the SBA section 8(a) program. We also evaluated the implementation of the Internal Management Control Program (IMCP) within DLA as it pertained to our audit objectives. We determined that DLA did not perform adequate followup on the 1988 Procurement Management Review (PMR) of the Contracting Office. The PMR program is an internal control that is used to ensure that procurement organization operations are conducted efficiently and effectively. Followup on significant reviews is necessary to ensure corrective actions were taken. We also determined that DLA has implemented an IMCP. However, DLA's internal control systems to ensure implementation of its IMCP recommendations to correct internally identified weaknesses were not fully effective. These weaknesses are discussed in detail in Part II of this report.

Prior Audit Coverage

No prior audit reports have specifically covered this subject within the past 5 years; however, during this audit, we issued Report No. 90-092, "Quick-Reaction Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency," May 21, 1990. The report stated that the follow-on contract for contract reconciliation work between DLA and Coopers and Lybrand did not preclude Coopers and Lybrand from reconciling contracts with clients for which it also performed audit or management consulting services. This contract represents a potential conflict of interest. The report also stated that the follow-on contract was not reported to DoD as contracted advisory and assistance services in accordance with requirements outlined in the FY 1990 Department of Defense Appropriations Act.

We recommended that DLA modify the follow-on contract to preclude Coopers and Lybrand from reconciling contracts with its audit or management consulting service clients, and to report the follow-on contract as contracted advisory and assistance services. DLA concurred with the findings and recommendations and implemented corrective actions to address each finding.

PART II - FINDINGS AND RECOMMENDATIONS

A. Use of Procurement Procedures

FINDING

The Defense Logistics Agency (DLA) procured contract reconciliation services on a noncompetitive basis by inappropriately using an indefinite quantity, time and materials, task order letter contract with a statement of work that did not identify contract reconciliations as a major task. DLA awarded the contract under section 8(a) of the Small Business Act because it wanted to retain Network Solutions, Inc., (NSI) as the contractor, and it was easier than competing the requirement. DLA did not perform sufficient advance planning to avoid the use of the letter contract, and did not perform sufficient followup on a Procurement Management Review to determine that corrective actions were taken to implement the Review recommendations. As a result, DLA incurred higher costs to perform the contract reconciliations because NSI did not have the capability to perform the task without subcontracting the reconciliations to a large certified public accounting firm. Furthermore, there was no assurance that competitive procurement was not feasible.

DISCUSSION OF DETAILS

Background. Section 8(a) of the Small Business Act authorizes the Small Business Administration (SBA) to enter into contracts with other agencies and to award subcontracts for performing the work on these contracts to small disadvantaged businesses (SDB's). Such awards are statutorily exempted from the requirements of the Competition in Contracting Act. The purpose of the section 8(a) program is to:

- foster business ownership by individuals who are both socially and economically disadvantaged;

- promote the competitive viability of SDB's by providing contractual, financial, technical, and management assistance; and

- clarify and expand the program for the procurement of material, services, and construction work from business owned by socially and economically disadvantaged individuals.

SDB's are approved by the SBA for participation in the 8(a) program according to their primary industry classification and related Standard Industrial Classification (SIC) Code designations. SBA regulations provide that SDB's are only eligible to receive Government contracts under the section 8(a) program for the SIC Codes stated in their business plans and when the procurements are consistent with their financial capabilities to perform the work.

It is SBA's policy to enter into contracts with other Government agencies and subcontract performance to SDB's under the section 8(a) program at prices that enable the company to earn a reasonable profit. To ensure accomplishment of the purposes of the section 8(a) program, each SDB is required to perform work equivalent to a certain percentage of the dollar amount of each subcontract, exclusive of material costs, with its own labor force. For services, except construction, the percentage is 50 percent. Each SDB is required to include in its proposal to perform a given contract, a statement that it agrees to perform the required percentage of the work with its own labor force.

Selection of NSI as Contractor. The DLA Automatic Data Processing/Telecommunications Contract Office notified the SBA on December 14, 1988, that it had selected NSI as the support services contractor to provide telecommunications and networking design, procurement, installation and maintenance in support of the centralization of the contract payment function at the Defense Finance Center (DFC), Columbus. DLA stated that it had completed a technical evaluation of NSI and found it to be fully capable of performing the support services under SIC Code 4813, "telephone communications, except radio telephone." DLA estimated that the total value of the time and materials contract would be $143.8 million over 5 years. DLA requested SBA's permission to proceed with negotiations. SBA approved DLA's request on December 20, 1988.

DLA performed a preaward survey of NSI in February 1989. The survey determined that NSI's principal business was providing turn-key, computer-based information systems products, and network and system integration services. When the survey was performed, NSI proposed to subcontract with the management advisory services component of Arthur Anderson and Co., a large public accounting firm for any tasks requiring financial management and auditing services. NSI had previously worked on contracts with Arthur Anderson and Co., as a subcontractor. In March 1989, DLA informed NSI that definitization of its contract could be delayed because Arthur Anderson and Co., had been determined to be noncompliant with a cost accounting standard. DLA suggested that NSI pursue an alternate subcontractor arrangement. NSI subsequently selected Coopers and Lybrand as its subcontractor.

On April 14, 1989, DLA notified SBA that its requirement for support services from NSI had been revised downward to an estimated contract value of $25 million over 5 years, with the majority of the work in SIC Code 4813. On the same date, DLA issued letter contract DLAH00-89-D-0010 to the SBA and NSI to authorize NSI to commence work. The effective date of the contract was March 1, 1989, which was the day after a DLA-funded task order under an Army contract expired.

Contract Reconciliation Task Order. On April 20, 1989, the DLA contracting officer requested that NSI prepare a proposal

detailing how it would reconcile contracts at the Defense Contract Administration Services Regions (DCASR's) and Defense Finance Center (DFC)-Columbus. The request for proposals contained a statement of work that specified how NSI could perform the tasking. The statement of work in the tasking required NSI to reconcile contracts. This was different from the statement of work in the April 14, 1989 letter contract that had been accepted by SBA and NSI. The statement of work in the letter contract mentioned "data audits" related to its ADP/telecommunications support but did not define what these audits would entail.

DLA procured the contract reconciliation services on task order 0006, which was issued August 18, 1989, for about $6.6 million. The statement of work in the task order was essentially the same as the statement of work in the April 20, 1989, request for proposals.

Advance Planning. Procurement planning should begin as soon as a need is identified, well in advance of the contract award. Such planning should determine the type, quality, quantity, and delivery requirement of a procurement. Federal Acquisition Regulation (FAR), subpart 7.1, "Acquisition Plans," requires agencies to perform acquisition planning and conduct market surveys for all acquisitions to promote and provide for full and open competition, or when full and open competition is not required, to obtain competition to the maximum extent practicable, with due regard to the nature of the supplies and services to be acquired. This planning should integrate the efforts of all personnel responsible for significant aspects of the acquisition. The purpose of this planning is to ensure that the Government meets its needs in the most effective, economical, and timely manner.

The contracting officer must ensure that sufficient advance planning is exercised to reduce wasteful practices and to ensure that the Government receives the best value during procurement actions. FAR, subpart 1.6, "Contracting Authority and Responsibilities," states that contracting officers are responsible for ensuring performance of all necessary actions for effective contracting, for ensuring compliance with the terms of the contract, and for safeguarding the interests of the United States in its contractual relationships.

Competition Advocates were established to challenge barriers to and promote full and open competition in all Federal procurements. The Competition Advocate at DLA accomplishes this, in part, by reviewing statements of work and proposals for contracts which did not use full and open competition. However, some contracts were not reviewed by the DLA Competition Advocate including SBA section 8(a) contracts. We believe that if the Competition Advocate had reviewed the NSI letter contract during the planning stage, DLA would have determined that the contract reconciliation requirement could have been procured competitively

under a separate contract as well as ensured that competition was used to the fullest extent.

Comptroller officials at DLA acknowledged that there was little advance planning for the reconciliation requirement, and to expedite completion of the work, they requested that the work be added to the NSI contract as a separate task order. DLA officials could not provide documentation to support procurement planning or show that any evaluation was done to determine the feasibility of completing the reconciliations through alternative means.

The contract reconciliation work was procured under the section 8(a) letter contract because it was easier for the DLA contracting officer to issue the task order than to compete the requirement as a separate contract or justify other than full and open competition. If a separate contract, either competitive or sole source, had been awarded, the contracting officer would have been required to publicize the requirement in the Commerce Business Daily and prepare a regular request for proposals. A non-section 8(a) contract would also have permitted a losing contractor to protest the award. Also, the use of regular noncompetitive procurement procedures would have required the contracting officer to prepare a justification and approval for an exception to full and open competition.

It is probable that DLA could have negotiated a separate contract for the reconciliation work. On February 15, 1989, when the contracting officer requested authority from the DLA Executive Director for Contracting to issue a letter contract, the request stated that it would take at least 4 months to complete a definitive contract. The request was forwarded about 2 months before the contracting officer requested a proposal from NSI for the contract reconciliation effort and more than 6 months before the contracting officer issued task order 0006 on August 20, 1989, to NSI to commence work on the contract reconciliations.

More Cost-Effective Alternative. On December 20, 1989, the DLA Comptroller requested that the contracting officer curtail the contract reconciliation support provided by the NSI/Coopers and Lybrand team at DCASR-Los Angeles because of budgetary constraints. DLA's Defense Fuel Supply Center subsequently issued a request for proposals using competitive procedures, in April 1990, and awarded a follow-on contract to Coopers and Lybrand, who submitted the only bid. Under this contract, Coopers and Lybrand would perform contract reconciliation work at the other eight DCASR's before transferring the contracts to DFC-Columbus. While cost should not be the only criteria in determining the best value to the Government, a comparison of hourly labor rates for Coopers and Lybrand's staff, under the NSI contract and the separate follow-on Coopers and Lybrand's contract, shows that the Government did not obtain the best value by subcontracting through NSI. Coopers and Lybrand's hourly rates were lower for every job category in the follow-on

contract. The price differentials ranged from $2.91 per hour for a financial analyst to $23.60 per hour for supervisory personnel. Furthermore, as discussed in Finding B, DLA incurred about $696,000 in unneeded costs for NSI to perform duplicate quality assurance and oversight services on task order No. 0006 of contract DLAH00-89-D-0010.

Internal Control Reports. DLA initially identified the need to centralize the DCASR functions in 1985, as part of its Federal Managers' Financial Integrity Act (FMFIA) report. At that time, DLA cited as a material weakness, the DCASRs' potential for processing duplicate and erroneous payments. To eliminate the problem, DLA cited, as the corrective action, plans to redesign the entire contract payment and reporting process used by the DCASR's and to centralize the DCASRs' contracting and reporting process. The DLA 1985 FMFIA report stated that planned implementation of the system would be complete in October 1988. DLA officials responsible for the DFC-Columbus consolidation stated that they were familiar with the FMFIA report and did not consider these internal control weaknesses as part of the planning of the DCASR redesign and centralization. Therefore, DLA did not use the findings of its FMFIA reports in planning the acquisition of the contract services and other related procurements. DLA should have recognized the need for the reconciliation services in 1985 and started planning for the services then.

Procurement Management Review. In November 1988, the DLA Contracting Directorate issued a Procurement Management Review (PMR) report on the DLA Automatic Data Processing/Telecommunications Contract Office that cited examples of abuse in using "urgency" as a justification for contracting procedures. The report stated that 5 of 10 contracts reviewed used the "urgency" justification inappropriately. This resulted in the addition of work to SBA section 8(a) contracts that was outside the scope of the original requirement, the issuance of contracts without proper acquisition plans, and the use of modifications beyond the scope of the original work. The PMR also cited examples of contracting officers adding work requirements to section 8(a) contracts that SDB's could not perform.

The PMR recommended improved procedures for properly planning, authorizing, and documenting acquisitions. It also recommended that contracting officers ensure that SDB's are capable of performing work added to SBA section 8(a) contracts. In June 1990, DLA performed a 3-day review of the implementation of corrective actions recommended in the PMR. The follow-up review concluded that sufficient corrective actions had been taken and that the 47 findings in the 1988 PMR report should be closed. We believe that the person who conducted the follow-up review did not perform sufficient tests to support the conclusion that all findings in the 1988 report should be closed. The follow-up PMR examined subsequent actions taken on the same contracts that were reviewed during the initial PMR. The follow-up PMR did not

examine any contract actions awarded after issuance of the PMR report to determine whether the identified conditions continued. This scope qualification was noted in the follow-up PMR report. Based on our audit, which examined more recent contract actions, we believe that the weaknesses identified in the 1988 PMR on use of SBA section 8(a) contracts were not fully corrected. Therefore, DLA should perform additional followup to ensure that the actions have been taken to correct the weaknesses identified by the 1988 PMR.

Use of Task Order Contracting. DLA procured the contract reconciliation services by using an indefinite quantity, time and materials, task order, letter contract. Because of the lack of guidance in the FAR on task order contracts, contracting officers have exercised latitude in the application of contracting regulations to task order-type contracts. This policy can result in the inappropriate use of task orders, which may not provide the best value for the Government and the most effective use of small businesses. For example, FAR 52.219-14, "Limitations on Subcontracting," addresses subcontracting by small business contractors. FAR requires that at least 50 percent of total personnel costs incurred shall be expended for employees of the small business. DLA interprets the rule to apply to an entire contract rather than to individual task orders.

In the case of the NSI contract, Coopers and Lybrand performed the majority of the contract reconciliation work, accounting for $3.6 million (87 percent) of a total actual labor cost of $4.1 million. DLA's actions do not provide the small business the opportunity to perform under the Government contract. DLA had in effect made NSI a "broker" to obtain the services.

DLA's November 1988 PMR report cited the need for guidance in the area of task order contracting. The PMR identified examples of task order contracting used to issue work requirements, which appeared to be outside the scope of the original contract. For example, the PMR found that, for expediency, work was added to SBA section 8(a) contracts. Often, this work was so different from the scope of the original contract that it was beyond the capability of the small business contractor to perform. The PMR report also stated that DLA was not following SBA operating procedures in regard to the percent of work performed under section 8(a) contracts. The PMR recommended that DLA ensure that the small economically disadvantaged business firms are aware of the FAR 50-percent rule and subcontract in accordance with it.

The proper use of task order contracting is more completely addressed in Report No. 91-030, "Justification for Use of Time-and-Materials Contracts," January 8, 1991 and Report No. 91-041, "Contracted Advisory and Assistance Services Contracts," February 1, 1991. These reports recommended additional OSD level

policy guidance on the use of task order contracting. Accordingly, we are making no recommendations to DLA on the use of task order contracting.

RECOMMENDATIONS FOR CORRECTIVE ACTION

A.1. We recommend that the Director, Defense Logistics Agency, require contracting officials to comply with FAR Subpart 7.1, "Acquisition Plans," by developing and maintaining advance procurement plans for contracted advisory and assistance services.

A.2. We recommend that the Director, Defense Logistics Agency, direct the Agency Competition Advocate to review proposed letter contracts, specifically contracts for contract advisory and assistance services, to ensure that the use of a letter contract is justified; that all facts are properly discussed in the justification; and that the statement of work only includes that work for which a delay would result in serious injury, financial or other harm to the Government and not work that can be procured on a separate contract using competitive procedures.

A.3. We recommend that the Director, Defense Logistics Agency, direct its Contracting Directorate to perform a follow-up review of the 1988 Procurement Management Review of the Automatic Data Processing/Telecommunications Contracting Office to determine if additional actions to correct identified weaknesses are needed.

MANAGEMENT COMMENTS

The Deputy Comptroller nonconcurred with Recommendation A.1., and stated that DLA already requires acquisition plans to be prepared for all acquisitions not covered by FAR, part 13. The Deputy Comptroller stated that DLA has an acquisition planning system in place that focuses on information resource needs well before the year in which the award is necessary. The Deputy Comptroller also stated that for the contract reconciliations, acquisition planning was undertaken to the extent necessary and practical. Further, the Deputy stated that revamping the process to require that individual acquisition plans consider FMFIA reports is not practicable considering the volume of acquisitions that DLA processes each year. The officials believed that since FMFIA reports would only relate to a small percentage of DLA acquisitions, it would be a poor use of DLA resources to burden contracting officers with considerations that would be of little overall benefit.

The Deputy Comptroller nonconcurred with Recommendation A.2., stating that having the Agency Competition Advocate review all procurements not required to have acquisition plans is not considered cost-effective. DLA has in place a detailed acquisition planning system, which includes reviews by

Competition Advocates at established criteria and thresholds where greater detail and formality is considered necessary.

The Deputy Comptroller concurred with Recommendation A.3., and stated that a follow-up Procurement Management Review would be performed during fourth quarter of FY 1992.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

Based on management comments, we revised Recommendation A.1., to limit the scope to contracted advisory and assistance services. While DLA may have policies in place that require that advance procurement planning be performed, the circumstances leading to the issuance of the letter contract to NSI and the issuance of the task order for the contract reconciliation services indicate noncompliance with the policies. During our audit, DLA could provide no evidence of advance planning for the contract reconciliation work that would justify the use of the task order as the most economic and effective way of accomplishing the requirement. Further, DLA acknowledges the possibility of a competitive procurement had planning been properly performed. We request that DLA comment on the revised recommendation in response to the final report.

Based on management comments, we revised Recommendation A.2. to limit its scope of application to letter contracts. The contracting officer's February 14, 1988, request to DLA headquarters for approval to issue the letter contract to NSI was reviewed by the DLA General Counsel and procurement policy staff but was not coordinated with either the Competition Advocate or Small Business Representative. Letter contracts represent a very small percentage of DLA's total contract placements and are all noncompetitive procurements, usually of a high dollar value. Therefore, requiring the competition advocate to review them should not increase his workload significantly. We request that DLA comment on the revised recommendation in response to the final report.

The management comments to Recommendation A.3. are considered responsive and additional comments to the final report are not required.

B. Contract Performance

FINDING

NSI's quality assurance and oversight of reconciliation work at DCASR-Los Angeles and DFC-Columbus duplicated supervisory reviews and quality assurance performed by Coopers and Lybrand and DLA personnel. This occurred because DLA did not adequately plan for and coordinate quality assurance and oversight of the contract reconciliation work in the most cost-efficient way. As a result, DLA incurred about $696,000 in unnecessary costs, for NSI to perform quality assurance and oversight services on task order 0006 of contract DLAH00-89-D-0010.

DISCUSSION OF DETAILS

Background. Contract DLAH00-89-D-0010, which the DLA Automatic Data Processing/Telecommunications Contracting Office awarded through SBA to NSI on April 14, 1989, was a time and materials, indefinite quantity, indefinite delivery letter contract. This type of contract is used when it is not possible, at the time of placing the contract, to accurately estimate the extent or duration of the work or to anticipate costs with any reasonable degree of confidence. According to the FAR 16.601, "Time-and-Materials Contracts," time and materials contracts should only be used when no other contract type is suitable. Such a contract provides for acquiring supplies and services on the basis of direct labor hours at specified fixed hourly rates and materials at cost. Because of the uncertainty of potential contract costs and delivery requirements, time and materials contracts are high-risk contracts. The use of this type of contract is not desirable in most situations because the method of charging expenses does not provide the contractor with an incentive to control costs or manage the labor force. Time and materials, cost-type contracts require more oversight to ensure that costs charged to the Government are reasonable. Therefore, without extensive surveillance, such contracts are susceptible to abuse. FAR, subpart 16.601 (b)(1), "Government Surveillance of Time-and-Materials Contracts," requires that the Government provide adequate surveillance of time and materials contracts to give reasonable assurance that efficient methods and effective cost controls are used.

After contract award, the contracting officer is responsible for contract administration and may delegate various administrative and surveillance functions to administrative contracting officers and contracting officer representatives. However, the contracting officer is ultimately responsible for contract administration.

Quality Assurance and Oversight. Letter contract DLAH00-89-D-0010 required that NSI perform oversight of any subcontracted work. However, the statement of work in the letter contract did not define NSI's quality assurance responsibilities.

The statement of work in task order 0006 for contract reconciliations required NSI to establish a system of quality control to monitor contract reconciliations. The quality control requirements included providing biweekly reports; receiving, reviewing, controlling, and correcting erroneous data records; and continuously reviewing work in-process to ensure that the work was accomplished in accordance with procedures and that it satisfied requirements for system processing to eliminate reconciliation work errors. In its proposal for performance of the contract reconciliation work, NSI indicated that it would accomplish the work by subcontracting with Coopers and Lybrand. However, the proposal did not define the responsibilities of each firm.

The FAR requires that the Government maintain appropriate surveillance of contractor performance and costs. In compliance with this requirement, DLA was responsible for ensuring that NSI provided appropriate oversight and that DLA personnel monitored contract performance. DLA Regulation, DLAR 4105.1, subpart 90.6, "Guidance for Contracting Officer Representative (COR) and Contracting Officer Technical Representative (COTR)," states that COR's and COTR's are responsible for monitoring the contract and becoming thoroughly familiar with the terms and conditions of the contract to ensure compliance with the provisions contained therein. The Regulation also states that the COR's and COTR's should promptly inform the contracting officer of any potential or actual problems requiring contract modification, changes in work scope, or other administrative action.

Duplication of Effort. NSI's quality assurance of the contract reconciliation work performed at both the DCASR-Los Angeles and the DFC-Columbus duplicated quality assurance efforts performed by Coopers and Lybrand and DLA personnel. This occurred in part because the contracting officer selected a contractor whose expertise was not performing financial management and accounting tasks. NSI lacked the in-house capabilities to perform the contract reconciliation work under task order 0006 of its contract with DLA. Therefore, NSI subcontracted the work to Coopers and Lybrand. Coopers and Lybrand designed the spread sheet format used for the reconciliation work and designed and conducted training of the NSI and Coopers and Lybrand staff. In addition, Coopers and Lybrand submitted biweekly reports to NSI on the status of its work for NSI to include in the contractually required biweekly reports from NSI to DLA.

Using a team approach, Coopers and Lybrand performed the reconciliation work. Each team's work was supervised by two levels of Coopers and Lybrand managers, who performed documented in-depth reviews of each reconciliation. After the review, both the staff member and the team leader signed the completed worksheet.

The COTR's at the DCASR-Los Angeles and DFC-Columbus also reviewed the contract reconciliations because contractor personnel were prohibited from entering changes to contract data directly into DLA's computer data system. Therefore, DCASR-Los Angeles and DFC-Columbus staff performed quality reviews of each reconciled contract to verify the accuracy of the data and any adjusting entries before entering changes into the computer system. The COTR's also signed the completed worksheet.

NSI officials stated that, as part of their duty as prime contractor, they performed detailed quality assurance of each reconciled contract. However, NSI officials could provide little evidence to document the extent of actual quality assurance efforts under this contract. As evidence of their review, NSI officials could only provide documentation of their signature on the reconciliation worksheet after the signatures of the team leader and staff member from Coopers and Lybrand, and prior to the DLA personnel. NSI officials agreed that their reviews may have duplicated steps performed by Coopers and Lybrand and DLA staff. However, NSI officials believed that as the prime contractor, NSI was required to ensure that all reconciliations were correct.

Planning and Monitoring of Quality Assurance. The duplication of quality assurance and supervisory reviews occurred because NSI did not perform the contract in the most economical way. The duplication also occurred because DLA did not properly plan for quality assurance as part of the contract process or sufficiently communicate between procurement and program personnel's monitoring of contract performances to identify and eliminate the duplication.

Since NSI did not have the necessary in-house expertise to perform the detailed reconciliation work, it is unlikely that NSI could perform quality assurance of that work. Further, since both Coopers and Lybrand staff and Government personnel performed close supervisory reviews for both numerical accuracy and compliance with data processing and reconciliation requirements, the need for NSI to repeat such steps was unnecessary. NSI also stated in its proposal, that since NSI and Coopers and Lybrand were functioning as a "team," quality assurance should have been allocated to one segment of the team, instead of both segments.

The contracting officer delegated the responsibility for monitoring contracts to a COR in the Comptroller Directorate at DLA headquarters, and to COTR's at DCASR-Los Angeles and to DFC-Columbus. The appointment letters stated that the COTR's and the COR would monitor contract performances to ensure that the work performed was within the scope of the contract. Upon discovering any inconsistencies, the COTR's were to notify the contracting officer in writing. The appointment letters, however, did not identify specific tasks required of the COR's or COTR's, beyond those identified in DLAR 4105.1, subpart 90.6, "Guidance for CORs and COTRs." According to the contracting officer, this format

was standard procedure within DLA. As a result, the COR and COTR's were not specifically tasked to actively monitor potential duplicate efforts of NSI, Coopers and Lybrand, and DLA personnel.

The COTR's at DCASR-Los Angeles and DFC-Columbus were closely involved in the reconciliation process at their respective locations and worked closely with the NSI and Coopers and Lybrand staff. The COTR's at each location identified contracts for reconciliation; validated, accepted, and rejected completed reconciliations based on detailed reviews of the work; and traced summary information to obligation/payment documents. The COTR's were also tasked with monitoring the work of NSI and Coopers and Lybrand. The COTR's verified to DLA officials that NSI personnel were participating in the reconciliation effort--assuming that the level of effort NSI provided was what was agreed to in the contract. However, the duplication was not recognized as being outside the scope of the contract and was not reported to the contracting officer. Better communication was needed between the contracting officer, the COR, and the COTR's.

As the prime contractor, NSI was required to provide oversight over its subcontractor. However, duplication of the oversight function to the extent performed by NSI unnecessarily duplicated work already performed by Coopers and Lybrand and the Government staff. The selection of a prime contractor that did not have the expertise or capability to perform financial management and accounting tasks; the lack of coordination and communication between the contracting officer, COTR's and COR in the planning of the monitoring effort to ensure adequate surveillance; and the lack of monitoring to identify and report the potential duplication to the contracting officer caused the Government to incur about $696,000 in unnecessary costs. The calculations for the costs, based on invoiced amounts, are as follows.

Incurred Cost	Amount
Total direct labor	$ 532,000
Travel	96,100
Material burden	19,100
General and Administrative expenses	48,400
Cost of money for General and Administrative expenses	800
Total	$ 696,400

Responsibility as Contractor. Contractors, when they accept a contract, are responsible for ensuring that contract costs are reasonable. Thus, as a Government contractor, NSI had a responsibility to comply with the contract requirements in the least costly manner. NSI did not accomplish the contract reconciliation work in the most efficient manner. We believe

that DLA should investigate the potential duplication of quality assurance reviews.

FMFIA Reported Corrective Actions. The need for better contract monitoring was cited in DLA's 1987 FMFIA report. The report identified the nonperformance of duties by COR's and COTR's as prescribed in official guidance as a material internal control weakness. The areas of concern included adequacy of, and compliance with, guidance and adequacy of training. The report recommended as a corrective action, the performance of a Procurement Management Review. The Review conducted in 1988, did not identify COR or COTR issues as findings and made no specific recommendations to address the need for better guidance or training.

RECOMMENDATIONS FOR CORRECTION ACTION

B.1. We recommend that the Director, Defense Logistics investigate the appropriateness of the costs billed for quality assurance services.

B.2. We recommend that the Director, Defense Logistics Agency, issue guidance on the need for ongoing communication among the contracting officers, the contracting officer's representatives and the contracting officer's technical representatives.

MANAGEMENT COMMENTS

The Deputy Comptroller concurred with Recommendation B.1., stating that the costs incurred by NSI for quality assurance were in direct accordance of the terms of the contract. The Deputy Comptroller stated that DLA personnel did not duplicate the NSI's quality assurance efforts. As part of the effort to enter adjustments into the computer system, DLA personnel did review the data to ensure it was proper and in balance. DLA personnel also did some audits to ensure that the contractor was reconciling the contracts correctly.

The Deputy Comptroller concurred with Recommendation B.2., and stated that DLA has taken action to improve communication by establishing a Postaward Branch to focus on postaward activities and relationships among the contracting officer, the contracting officer's representative, and the contracting officer's technical representative.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

We revised Recommendation B.1., based upon our meeting with DLA on January 10, 1991. We believe that the quality assurance services provided by NSI duplicated similar efforts performed by Coopers and Lybrand and DLA personnel. However, DLA did receive

the quality assurance services for which they were billed. Therefore, there is no reason for DLA to request additional funds from NSI. The action taken for Recommendation B.2. to improve communication during postaward contract administration are also considered responsive. Additional comments to the final report are not required for these recommendations.

TASK ORDERS ISSUED UNDER CONTRACT DLAH00-89-D-0010

- Task order 0001, dated May 12, 1989, was issued to Network Solutions Inc., (NSI) to review, analyze, and evaluate the mission functions of the Mechanization of Contract Administration Services (MOCAS) system at the Defense Contract Administration Services Region (DCASR) in Cleveland, Ohio. The deliverable was a study report. The estimated value of the order was $96,583. NSI delivered the final report on June 9, 1989, and billed $67,692.

- Task order 0002, dated June 9, 1989, was issued to NSI to establish a program management office to coordinate and provide contract management support to the Defense Logistics Agency (DLA) Automated Information Processing Center (DAIPC) at Columbus, Ohio. DAIPC was established to provide Automatic Data Processing and telecommunications support to the Defense Finance Center (DFC) in Columbus, Ohio. The deliverables were a work management plan, a quality assurance plan, and monthly status reports. The estimated value of the order was about $4.7 million. The work plan was delivered on September 8, 1989, and the quality assurance plan on October 6, 1989. NSI billed $663,896 for the work performed.

- Task order 0003, dated July 1, 1989, was issued to NSI to develop a critical needs analysis of the management information systems essential to the performance of the DFC mission, a continuity of operations plan for DAIPC, and related procedures and training. The deliverables were several plans, reports, and briefings. The estimated value of the order was about $1.7 million. NSI billed $447,796 for the work performed.

- Task order 0004, dated July 1, 1989, was issued to NSI to develop a computer systems operations manual, a tape management procedures manual, computer run procedures manuals for various management information systems, and other related manuals and plans for DAIPC. The deliverables were 18 manuals and documents. The estimated value of the order was about $2.5 million. NSI billed $777,241 for the work performed.

- Task order 0005, dated August 7, 1989, was issued to NSI to accomplish a study of DAIPC's telecommunications and networking needs. The deliverable was a report. The estimated value of the order was $140,037. NSI billed $117,598 for the work performed.

- Task order 0006, dated August 18, 1989, was issued to NSI to accomplish contract reconciliations at designated DCASR's. This was the last task order issued under contract DLAH00-89-D-0010. The deliverables were periodic status reports

and the results of reconciliations of out-of-balance, active contracts. The contracts to be reviewed were identified by the contracting officer's technical representative. The estimated value of the order was originally about $6.6 million. NSI monitored the contract reconciliation work, which was performed by Coopers and Lybrand under a subcontract from NSI. As of July 5, 1990, NSI had billed about $4.6 million for work performed.

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

IN REPLY REFER TO DLA-CI

18 JAN 1991

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Project No. OCH-0040)

Our revised comments to Finding A, Recommendations A.1, A.3, B.1. and B.2 are provided in accordance with an agreement made with the DoD IG and DLA during a 10 January 1991 meeting.

5 Encl

HELEN T. McCOY
Deputy Comptroller
Defense Logistics Agency

TYPE OF REPORT: AUDIT DATE OF POSITION: 18 Jan 01

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Project No. 00K-0040)

FINDING A: Use of Procurement Procedures. The Defense Logistics Agency (DLA) procured contract reconciliation services on a noncompetitive basis by inappropriately using an indefinite quantity task order contract. This method of procurement was used because DLA did not perform sufficient advance procurement planning to either provide time to publicize and compete the requirement as a separate contract or to perform market research to document that competition was not feasible. DLA used the noncompetitive procurement method as a means of exercising administrative expediency in the award of the contract. As a result, there was no assurance that competitive procurement was not feasible or that the Government received the best value.

DLA COMMENTS: Nonconcur. In accordance with FAR, Part 16, an indefinite quantity, time and materials contract was used because the exact quantities of services required were not known prior to the issuance of the delivery order and the nature of the services required that the contractor be paid on an as incurred basis. While competition is an important consideration in acquisition planning, the 8(a) program is a statutorily authorized exception to the general requirement for full and open competition. Although the use of an existing contract is more expeditious than the solicitation and formulation of a new and separate contract, the fact that it is expedient does not preclude its use under law or regulation. The use of the NSI contract was a cooperative effort between DLA and the SBA and was conducted in accordance with FAR 19.803(c).

DLA acknowledges that the preparation of an advance procurement plan for the consolidation of the DFC may have resulted in the use of a separate, full and open competitive acquisition. However, under the circumstances, with monthly interest payments nearing $1M, DLA's repeated efforts to resolve the situation failed, and the future transfer of payment operations to Columbus, Ohio nearing, the agency utilized what was considered the only appropriate means remaining to carrying out its payment mission.

DLA repeatedly attempted to accomplish contract reconciliation at the DCASR in Los Angeles using federal workers. Those efforts ranged from the recruitment of college students to supplement their full-time staff to the reassignment of experienced personnel from other functional offices, to the use of auditors and accountants throughout the DLA structure on a TDY basis. Only when these efforts failed to remedy the situation did DLA resort to the use of commercial sources. While the establishment of the DFC was expected to resolve many of the difficulties experienced in Los Angeles and at other contractor payment offices, the novice Columbus staff were not prepared to assume the volume of improper payments that were expected to be transferred. Under the circumstances, we consider the Agency's utilization of the existing contract with Network Solutions, Inc. as an appropriate means of meeting agency requirements.

MONETARY BENEFITS: None.

DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; however, weakness is not considered material. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Mr. Tom Street, DACO, 46301

DLA APPROVAL: HELEN T. McCOY, DEPUTY COMPTROLLER

Audit Response to Finding A. We considered DLA's comments and revised the finding to more explicitly detail the events that occurred before the issuance of the task order to NSI to perform the contract reconciliation services. Based on the sequence of events, adequate procurement planning was not performed, and the issuance of the task order to NSI was not justified.

TYPE OF REPORT: AUDIT DATE OF POSITION: 18 Jan 91

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Project No. OCH-0040)

RECOMMENDATION A.1: We recommend that the Director, Defense Logistics Agency, require contracting officials to comply with FAR Subpart 7.1, "Acquisition Plans," by developing and maintaining advance procurement plans for all major procurement requirements and other requirements, such as contracted advisory and assistance services. These plans should consider corrections to applicable findings from the Federal Managers Financial Integrity Act reports.

DLA COMMENTS: Nonconcur. DLA already requires that acquisition plans be prepared for all acquisitions not covered by FAR, PART 13. In addition, DLA-Z has an acquisition planning system in place that focuses on information resource needs well before the year in which award is necessary. Acquisitions are linked to the Strategic Plan, the IRM plan, the POM, and the Acquisition Execution Plan. To the extent feasible, DLA projects five years into the future in order to determine what acquisitions will be necessary to support future functional needs. In the instant case, acquisition planning was undertaken to the extent necessary and practical to accomplish the mission. Revamping the process to require that individual acquisition plans consider FMFIA reports is not practicable considering the volume of acquisitions that DLA processes each year. Since the FMFIA reports would, at best, only relate to a minuscule percentage of DLA acquisitions, it would be a poor use of DLA resources to burden Contracting Officers with considerations that would be of little overall benefit.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete (pending results of physical verification).

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; however, weakness is not considered material. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Mr. Tom Street, DACO, 46301

DLA APPROVAL: HELEN T. McCOY, DEPUTY COMPTROLLER

TYPE OF REPORT: AUDIT DATE OF POSITION: 18 Jan 91

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Project No. 0CH-0040)

RECOMMENDATION A.3: We recommend that the Director, Defense Logistics Agency, direct the Comptroller, DLA, to perform a followup review of the 1988 Procurement Management Review to determine if additional actions to correct identified weaknesses are needed.

DLA COMMENTS: Concur. The DLA Contracting Directorate in lieu of the DLA Comptroller Directorate performs Procurement Management Reviews (PMRs) on its contracting activities. A PMR followup was performed on the ADP/T Contracting Office in June 1990. The ADP/T Contracting Office has taken adequate remedial actions on weaknesses as noted during the 1988 review. The next PMR on the ADP/T Contracting Office is scheduled for 4th Qtr. FY 1992.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete (pending results of physical verification).

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
( ) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
(X) Concur; however, weakness is not considered material. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Peter Runfola, DLA-PPP, X47936

DLA APPROVAL: HELEN T. McCOY, DEPUTY COMPTROLLER

TYPE OF REPORT: AUDIT DATE OF POSITION: 18 Jan 95

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Project No. 0CH-0040)

RECOMMENDATION B.1: We recommend that the Director, Defense Logistics Agency, require the contracting officer to prepare a Determination and Finding on whether the Defense Logistics Agency should assert a claim against Network Solutions, Inc. in accordance with United States Code, title 41, section 605(a) for the unnecessary costs incurred for duplicative quality assurance services.

DLA COMMENTS: Concur. The costs incurred by the vendor were in direct performance of the contract in accordance with its terms and conditions. The Government required that quality assurance be performed by the vendor and its subcontractor. Government personnel did not duplicate the quality assurance efforts of NSI. As part of the effort to enter adjustments into the computer system, Government personnel did review the data to ensure it was proper and in balance. These personnel did not review source documents or perform a quality assurance effort. Government personnel only did some random audits to ensure that the vendor was indeed reconciling the contracts correctly.

DISPOSITION:
( ) Action is ongoing: Final Estimated Completion Date:
(X) Action is considered complete (pending results of physical verification).

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
( ) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
(X) Concur; however, weakness is not considered material. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur: weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Maj Liakos, DACO, 43210

DLA APPROVAL: HELEN T. McCOY, DEPUTY COMPTROLLER

TYPE OF REPORT: AUDIT DATE OF POSITION: 18 Jan 91

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Project No. 0CH-0040)

RECOMMENDATION B.2: We recommend that the Director, Defense Logistics Agency, reemphasize the need for ongoing communication among the contracting officers, the contracting officer's representatives and the contracting officer's technical representatives.

DLA COMMENTS: Concur. DACO has taken action to improve communication between its Contracting Officers and CORs/COTRs by establishing a Postaward Branch that will more closely focus on postaward activities and Contracting Officer, COR/COTR relationships.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 30 Sep 91
( ) Action is considered complete (pending results of physical verification).

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
( ) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
(X) Concur; however, weakness is not considered material. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Maj Liakos, DACO, 43210

DLA APPROVAL: HELEN T. McCOY, DEPUTY COMPTROLLER

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

IN REPLY REFER TO DLA-CI

27 Oct 1990

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Project No. 0CH-0040)

The enclosed comments to the draft report are provided in response to your memorandum dated 19 October 1990. The comments have been approved by Mr. Richard J. Connelly, Comptroller, Defense Logistics Agency.

8 Encl

for Sheila P Reines
REATHEA E. HOLMES
Chief, Internal Review Division
Office of Comptroller

TYPE OF REPORT: AUDIT DATE OF POSITION: 27 Dec 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Project No. 0CH-0040)

FINDING A: Use of Procurement Procedures. The Defense Logistics Agency (DLA) procured contract reconciliation services on a noncompetitive basis by inappropriately using an indefinite quantity task order contract. This method of procurement was used because DLA did not perform sufficient advance procurement planning to either provide time to publicize and compete the requirement as a separate contract or to perform market research to document that competition was not feasible. DLA used the noncompetitive procurement method as a means of exercising administrative expediency in the award of the contract. As a result, there was no assurance that competitive procurement was not feasible or that the Government received the best value.

DLA COMMENTS: Nonconcur. In accordance with FAR, Part 16, an indefinite quantity, time and materials contract was used because the exact quantities of services required were not known prior to the issuance of the delivery order and the nature of the services required that the contractor be paid on an as incurred basis. While competition is an important consideration in acquisition planning, the 8(a) program is a statutorily authorized exception to the general requirement for full and open competition. Although the use of an existing contract is more expeditious than the solicitation and formulation of a new and separate contract, the fact that it is expedient does not preclude its use under law or regulation. The use of the NSI contract was a cooperative effort between DLA and the SBA and was conducted in accordance with FAR 19.803(c). (RESPONSE REVISED)

DLA acknowledges that the preparation of an advance procurement plan for the consolidation of the DFC may have resulted in the use of a separate, full and open competitive acquisition. However, under the circumstances, the urgent need to establish the DFC led to the Agency's utilization of the existing contract with Network Solutions, Inc. as an appropriate means of meeting and carrying out the mission requirements. Established time schedules would have been delayed if full and open competition had been used.

DLA-Z's establishment of the five year IRM plan and heavy emphasis on reformulating the Budgetary, POM, Acquisition Planning, and Acquisition Execution processes will help preclude the use of expedient actions of this nature in the future.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
( ) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)

(X) Concur; however, weakness is not considered material. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Mr. Tom Street, DACO, 46301, 18 Dec 90

DLA APPROVAL: Richard J. Connelly

TYPE OF REPORT: AUDIT DATE OF POSITION: 27 Dec 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Project No. 0CH-0040)

RECOMMENDATION A.1: We recommend that the Director, Defense Logistics Agency, require contracting officials to comply with FAR Subpart 7.1, "Acquisition Plans," by developing and maintaining advance procurement plans for all major procurement requirements and other requirements, such as contracted advisory and assistance services. These plans should consider corrections to applicable findings from the Federal Managers Financial Integrity Act reports.

DLA COMMENTS: Nonconcur. DLA already requires that acquisition plans be prepared for all acquisitions not covered by FAR, PART 13. In addition, DLA-Z has an acquisition planning system in place that focuses on information resource needs well before the year in which award is necessary. In the instant case, acquisition planning was undertaken to the extent necessary and practical to accomplish the mission. (RESPONSE REVISED)

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete (pending results of physical verification).

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; however, weakness is not considered material. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Mr. Tom Street, DACO, 46301, 18 Dec 90

DLA APPROVAL: Richard J. Connelly

TYPE OF REPORT: AUDIT DATE OF POSITION: 27 Dec 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Project No. 0CH-0040)

RECOMMENDATION A.2: We recommend that the Director, Defense Logistics Agency, direct the Agency Competition Advocate to perform a review of procurements not required to have an advance procurement plan to determine if those procurements are being performed in a manner that permits effective competition.

DLA COMMENTS: Nonconcur. Having the Agency Competition Advocate review all procurements not required to have acquisition plans is not considered cost effective.

The Agency complies with FAR requirements for Acquisition Planning. The Agency has in place a detailed acquisition planning system with established criteria and thresholds at which greater detail and formality is required so as to direct proper resources to appropriate contract actions. The system includes Agency Competition Advocate review of written justification and approvals for other than full and open competition and accompanying acquisition plans at established thresholds. Written justifications and approval are not required for sole source awards under the 8(a) Program. These sole source awards to the SBA are authorized by statute (15 USC 637). As such, the instant procurement was not reviewed by the Agency Competition Advocate.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete (pending results of physical verification).

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; however, weakness is not considered material. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Diana Baker, DLA-PPP, X47936, 27 Nov 1990

DLA APPROVAL: Richard J. Connelly

TYPE OF REPORT: AUDIT DATE OF POSITION: 27 Dec 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Project No. OCH-0040)

RECOMMENDATION A.3: We recommend that the Director, Defense Logistics Agency, direct the Comptroller, DLA, to perform a followup review of the 1988 Procurement Management Review to determine if additional actions to correct identified weaknesses are needed.

DLA COMMENTS: Nonconcur. DLA Contracting performs Procurement Management Reviews (PMRs) on its contracting activities. A PMR followup was performed on the ADP/T Contracting Office in June 1990. The ADP/T Contracting Office has taken adequate remedial actions on weaknesses as noted during the 1988 review. (RESPONSE REVISED)

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete (pending results of physical verification).

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; however, weakness is not considered material. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Peter Runfola, DLA-PPP, X47936, 26 Nov 90

DLA APPROVAL: Richard J. Connelly

TYPE OF REPORT: AUDIT DATE OF POSITION: 27 Dec 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Project No. 0CH-0040)

RECOMMENDATION A.4: We recommend that the Director, Defense Logistics Agency, issue and implement guidance for the use of task order-type contracts, and the application of other Federal Acquisition Regulations and Defense Logistics Agency regulations to such contracts.

DLA COMMENTS: Nonconcur. DLA should not be initiating policy on contracting practices that apply DoD-wide (not unique to DLA). DLA recommends that the DASD(P) be asked to promulgate DoD-wide uniform policy to the Services and Defense Agencies on task order type contracts. Once this has been accomplished, the Services and Defense Agencies will have uniform direction upon which any decision to promulgate further can be based.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete (pending results of physical verification).

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; however, weakness is not considered material. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Peter Bunfola, DLA-PPP, X47936, 26 Nov 90

DLA APPROVAL: Richard J. Connelly

TYPE OF REPORT: AUDIT DATE OF POSITION: 27 Dec 90

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FINDING B: Contract Performance. NSI's quality assurance and oversight of reconciliation work at DCASR Los Angeles and DFC duplicated supervisory reviews and quality assurance performed by Coopers and Lybrand and Government personnel. This condition occurred because DLA did not properly plan for quality assurance as part of the contracting process or sufficiently monitor contract performance to identify and eliminate the duplication. Also, NSI did not accomplish the reconciliation work in the most cost-efficient way. As a result, based on actual costs, the Government could incur up to $700,000 in unnecessary costs, for duplicative quality assurance services performed by NSI on task order 6 of contract DLAH00-89-D-0010.

DLA COMMENTS: Nonconcur. NSI's level of involvement in managing the entire reconciliation effort, to include the quality assurance function, was justified on the basis that they were the prime contractor and were ultimately responsible to the Government for performance under the contract. The degree of technical knowledge NSI was required to possess in order to manage the subcontractor effectively was great. The crux of the effort was to search and review complex contractual abstracts and identify, reconcile and report on situations where overpayments had been made. NSI's management structure for this task was responsible for the detailed planning, analysis, execution and quality assurance for making this effort happen. This effort was neither clear-cut nor easily accomplished as great amounts of NSI expertise and talent were applied to the strategy and development of a logical approach to undertake the task. The NSI management of the reconciliation effort included the entire spectrum of planning and QA efforts; from initial set-up and review of contracts and establishing processes for dealing with irreconcilable differences, to the quantification of the severity of the reconciliation problems and developing and implementing solutions to the many contractual problems identified within the DLA financial system. The large amount of risk accepted by NSI in this program which required them to provide the Government a method of transferring previously unaudited, non-reconciled contracts to a new system and allow DLA to transition to a centralized payment system for contractor payments, fully justifies NSI's quality assurance oversight role as the prime contractor responsible for the overall outcome of the project. The IG has not presented any evidence that would justify the assertion of a claim by the Government. (RESPONSE REVISED)

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)

( ) Concur; however, weakness is not considered material. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Major Liakos, DACO, 43210, 18 Dec 1990

DLA APPROVAL: Richard J. Connelly

Audit Response to Finding B. NSI, as the contractor, and DLA, as the contract administrator, should have attempted to provide the required contract services using the most prudent methods available for the expenditure of public funds.

TYPE OF REPORT: AUDIT DATE OF POSITION: 27 Dec 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Project No. OCH-0040)

RECOMMENDATION B.1: We recommend that the Director, Defense Logistics Agency, require the contracting officer to prepare a Determination and Finding on whether the Defense Logistics Agency should assert a claim against Network Solutions, Inc. in accordance with United States Code, title 41, section 605(a) for the unnecessary costs incurred for duplicative quality assurance services.

DLA COMMENTS: Nonconcur. A claim against the vendor could not be justified or substantiated. The costs incurred by the vendor were in direct performance of the contract in accordance with its terms and conditions. (RESPONSE REVISED)

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete (pending results of physical verification).

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; however, weakness is not considered material. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Maj Liakos, DACO, 43210, 18 Dec 1990

DLA APPROVAL: Richard J. Connelly

TYPE OF REPORT: AUDIT DATE OF POSITION: 27 Dec 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Procurement of Contract Reconciliation Services by the Defense Logistics Agency (Project No. 0CH-0040)

RECOMMENDATION B.2: We recommend that the Director, Defense Logistics Agency, reemphasize the need for ongoing communication among the contracting officers, the contracting officer's representatives and the contracting officer's technical representatives.

DLA COMMENTS: Concur. DLA will take action to improve communication and will place greater emphasis on the post award function. (RESPONSE REVISED)

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 31 Dec 90
( ) Action is considered complete (pending results of physical verification).

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
( ) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
(X) Concur; however, weakness is not considered material. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Maj Liakos, DACO, 43210, 18 Dec 1990

DLA APPROVAL: Richard J. Connelly

SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A. 1.	Internal Control. Requires the development and maintenance of advance procurement plans, to include incorporation of applicable Federal Managers' Financial Integrity Act report findings.	Nonmonetary.
A. 2.	Internal Control. Requires evaluation of use of letter contracts.	Nonmonetary.
A. 3.	Internal Control. Requires follow-up review of Procurement Management Review recommendations to ensure implementation and resolution.	Nonmonetary.
B. 1.	Compliance with Regulation. Completion of review to identify costs for potential duplicative services.	Questioned Cost, $696,000.
B. 2.	Internal Control. Requires reemphasis of the need to actively monitor contracts and to coordinate work with Contracting Officer.	Nonmonetary.

ACTIVITIES VISITED OR CONTACTED

Department of Defense

Headquarters, Defense Logistics Agency, Alexandria, VA
Defense Contract Administration Services Region, Los Angeles, CA
Defense Finance Center, Columbus, OH
Defense Logistics Agency Automated Information Processing Center, Columbus, OH

Other Government Activities

Small Business Administration, Office of the Regional Inspector General, Arlington, VA
Small Business Administration, Washington District Office, Washington, DC

Contractors

Network Solutions, Inc., Herndon, VA
Coopers and Lybrand, Arlington, VA

AUDIT TEAM MEMBERS

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Director of Defense Procurement
Director for Contracted Advisory and Assistance Services

Defense Agency

Defense Logistics Agency

Non-DoD

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