



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-2884



REPORT
NO. 92-124

July 8, 1992

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
DIRECTOR OF DEFENSE PROCUREMENT
COMMANDER IN CHIEF, U.S. EUROPEAN COMMAND
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on the Audit of the DoD Hotline Allegation on
Certificate of Procurement Integrity Requirements
for Outside the Continental United States
(Project No. 2CK-8001)

Introduction

We are providing this final report for your information and use. The Contract Management Directorate performed the audit from November 1991 to February 1992. The objectives of the audit were to determine whether the inaccurate or incomplete submissions of Certificates of Procurement Integrity by contractors in Germany resulted in losses to the U.S. Government as alleged in a DoD Hotline complaint, and the extent of those losses. The audit also determined the causes of the inaccurate or incomplete Certificates of Procurement Integrity. There have been several improvements made at the Regional Contracting Office (RCO) Fuerth to emphasize to prospective bidders the importance of the submission of adequate Certificates of Procurement Integrity. As a result, there have been no awards to higher bidders at RCO Fuerth because of inadequate submissions of the Certificates of Procurement Integrity in FY 1992 (as of February 1992).

Scope of Audit

We contacted U.S. Air Force, Europe (USAFE), and U.S. Army, Europe (USAREUR), to determine the extent of the problem. USAFE reported that all of its contracts are negotiated and therefore not applicable to our audit. USAREUR reported that six contracting offices in Germany had \$1.4 million of losses to the U.S. Government for FY 1991 because of inadequate submissions of the Certificates of Procurement Integrity by the lowest bidders. RCO Fuerth was chosen as the audit site because it was identified in the Hotline allegation, and it reported the second greatest level of losses.

At RCO Fuerth, we reviewed sealed bid contracts over \$100,000 awarded from December 1, 1990, the effective date of the requirement, to the end of FY 1991. We reviewed the six contracts identified at RCO Fuerth for FY 1991 awarded to higher bidders because of inadequate submissions of the Certificate of Procurement Integrity. For each contract, we reviewed contract files for compliance with Federal Acquisition Regulation (FAR) 3.104, "Procurement Integrity." In addition, discussions were conducted with RCO Fuerth contracting officials to determine if losses have been incurred in FY 1992 because of inadequate certificates.

This economy and efficiency audit was made from November 1991 to February 1992 and was conducted 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. We did not rely on computerized data to perform the audit. The activities visited or contacted during the audit are listed in Enclosure 1.

Internal Controls

To determine the adequacy of internal management control procedures at RCO Fuerth, we reviewed instructions given to contractors, interviewed contracting officials, and reviewed contract documentation for compliance with Procurement Integrity requirements. The audit disclosed no material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38.

Background

The requirement for Certificates of Procurement Integrity was established by United States Code, title 41, section 423 and was implemented into FAR 3.104 by Federal Acquisition Circular 90-2, November 30, 1990. The Certificates of Procurement Integrity are required for contracts awarded or executed on or after December 1, 1990. The certificates require bidders for Government contracts over \$100,000 to certify:

- o that no violations of applicable sections of the Federal Procurement Policy Act have occurred in the completion and submission of the offer, or that any possible known violations are listed on the certification;

- o that all officers, employees, and representatives of the offeror are aware of the provisions of the Office of Federal Procurement Policy (OFPP) Act as implemented by FAR 3.104, and will immediately inform the certifier of any violations or possible violations; and

o that if awarded the contract, the certifications required under the OFPP Act will be maintained.

The failure of a bidder to submit a signed Certificate of Procurement Integrity renders their bid nonresponsive.

Prior Audits and Other Reviews

There were no prior audits of the requirement to submit a Certificate of Procurement Integrity because the requirement was only established on December 1, 1990.

Discussion

The allegation received over the DoD Hotline in Europe indicated that the improper submissions of the Certificates of Procurement Integrity rendered low bids nonresponsive, resulting in the U.S. Government awarding contracts to higher bidders. For FY 1991, USAREUR reported to auditors that losses of \$1.4 million were incurred by contracting activities in Germany because of inadequate submissions of the Certificates of Procurement Integrity. This amount represents the additional amount of money the U.S. Government spent for contracts awarded to higher bidders where lower bidders were determined nonresponsive because of inadequate submission of the Certificate of Procurement Integrity. Losses were identified in six USAREUR contracting offices in Germany. RCO Frankfurt reported the greatest additional contract cost for FY 1991, with \$662,548. RCO Fuerth was second with \$396,893 for six contracts. The total value of the six contracts awarded to higher bidders at RCO Fuerth, \$2.4 million, accounted for only 5 percent of the \$46.5 million of contracts in FY 1991.

We believe the German contractors initially did not fully understand the requirement for the adequate submission of the Certificate of Procurement Integrity. Several changes have been made at RCO Fuerth since the inception of the requirement to emphasize to prospective bidders the importance of the submission of the Certificate of Procurement Integrity. The changes include clarification of the instructions given to prospective bidders, the placement of a sign above the bid submission box that emphasizes the importance of an adequate submission, and the mailing of letters of nonresponsiveness to low bidders that failed to adequately submit the certificate detailing the reasons for rejection of the bid.

Discussions with USAREUR procurement officials and RCO Fuerth contracting personnel disclosed that this problem was related only to the initial stages of implementing a new

requirement and was self-correcting over time. This conclusion is supported by the fact that no losses have incurred in FY 1992 (as of February 1992) because of inaccurate or incomplete submissions of Certificates of Procurement Integrity at RCO Fuerth.

Report Staffing

We provided a draft of this report to the addressees on April 24, 1992. Because there were no recommendations, no comments were required of management, and none were received. Therefore, we are publishing this report in final form. Any comments on this final report should be provided by August 8, 1992.

We appreciate the courtesies extended to the audit staff. If you have any questions on this audit, please contact Mr. Joseph Doyle, Program Director, at (703) 692-3218 (DSN 222-3218) or Ms. Deborah Culp, Project Manager, at (703) 692-3343 (DSN 222-3343). Copies of this final report will be distributed to the activities listed in Enclosure 2 and the names and titles of the audit team members are shown in Enclosure 3.



Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Army
Secretary of the Air Force

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Deputy Director for Acquisition Reform, Director of Defense
Procurement, Washington, DC

Department of the Army

U.S. Army Contracting Command, Europe, Heidelberg, Germany
Regional Contracting Office, Fuerth, Germany

Department of the Air Force

U.S. Air Force, Europe, Ramstein Air Force Base, Germany

Non-DoD

General Services Administration, Washington, DC

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Commander In Chief, U.S. Army, Europe
Chief, Regional Contracting Office, Fuerth, Germany
Commander, Second Region, U.S. Army Criminal Investigation
Command, Mannheim-Seckenheim, Germany
Commander, Nuernberg District, Second Region, U.S. Army Criminal
Investigation Command, Fuerth, Germany
Auditor General, U.S. Army Audit Agency
Inspector General, Department of the Army (Operations Division)

Department of the Navy

Auditor General, Naval Audit Service

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Assistant Secretary of the Air Force (Financial Management and
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Other Defense Activities

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Office, Europe

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Office of Management and Budget
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Congressional Committees

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National Security, Committee on Government Operations

LIST OF AUDIT TEAM MEMBERS

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