

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DOD HOTLINE ALLEGATION OF OVERPRICING
OF DOD DEPENDENTS SCHOOLS STUDENT BUS
TRANSPORTATION**

Report No. 92-131

August 31, 1992

Department of Defense

The following acronyms are used in this report.

Community.....	Nuernberg Military Community
COR.....	Contracting Officer's Representative
DM.....	Deutsche Marks
DoDDS.....	DoD Dependents Schools
KMs.....	Kilometers
RCO.....	Regional Contracting Office
SY.....	School Year



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

August 31, 1992

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

SUBJECT: Report on the DoD Hotline Allegation of Overpricing of
DoD Dependents Schools Student Bus Transportation
(Report No. 92-131)

We are providing this final report for your information and use. The audit was in response to a DoD Hotline allegation concerning overpricing of DoD Dependents Schools student bus transportation in the Nuernberg Military Community. Comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, we request that the Army, the Air Force, and the Director, Department of Defense Dependents Schools, provide final comments on the unresolved recommendations and monetary benefits by September 30, 1992. See the "Response Requirements Per Recommendations" section for the unresolved recommendations and the specific requirements for your comments.

DoD Directive 7650.3 also requires that the comments indicate concurrence or nonconcurrence in the recommendations addressed to you. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and the estimated completion dates for planned actions. If you nonconcur, please state your specific reasons. If appropriate, you may propose alternative methods for accomplishing desired improvements. If you nonconcur with the estimated monetary benefits or any part thereof, you must state the amount you nonconcur with and the basis for your nonconcurrence. We also ask that your comments indicate concurrence or nonconcurrence with the internal control weaknesses highlighted in Part I.

The cooperation and courtesies extended to the audit staff are appreciated. If you have any questions on this report, 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). The planned distribution of this report is listed in Appendix H.



Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosures

cc:

Secretary of the Army
Secretary of the Navy
Secretary of the Air Force
Commander, U.S. Army, Europe
Commander, U.S. Naval Forces, Europe
Commander, U.S. Air Force, Europe
Director of Defense Procurement

Office of the Inspector General, DoD

AUDIT REPORT NO. 92-131
(Project No. 2CK-8002)

August 31, 1992

REPORT ON THE DoD HOTLINE ALLEGATION
OF OVERPRICING OF DoD DEPENDENTS SCHOOLS
STUDENT BUS TRANSPORTATION

EXECUTIVE SUMMARY

Introduction. This audit was in response to a DoD Hotline allegation concerning overpricing of DoD Dependents Schools (DoDDS) student bus transportation in the Nuernberg Military Community (the Community). The Community provides, on a reimbursement basis, the required facilities, logistics, and administrative support for DoDDS. Contract prices for the Community student bus transportation increased from Deutsche Marks (DM) 3.7 million (\$2.3 million) in school year (SY) 1990, to DM8.3 million (\$5.1 million) in SY 1991, to an estimated DM10.1 million (\$6.2 million) for SY 1992. However, the number of bus routes decreased 23 percent from SYs 1991 to 1992.

Objective. The audit objective was to determine whether DoD paid fair and reasonable prices for student bus transportation in the Nuernberg Military Community.

Audit Results. The audit disclosed that contract specifications were too rigid to allow for changes in requirements, and contract administration was materially inadequate. As a result, contract specifications were overstated by about 68 percent and 41 percent for bus capacity and kilometers, respectively. In addition, 31 percent of the buses observed were smaller than the size required. Busing overpayments decreased the amount of funds available for student education. Annual costs on some routes were extremely high, ranging to as much as \$77,944 per student on one route. After issuance of our draft report, the Army did not exercise the options on the existing Nuernberg contracts and new contracts were solicited. The new bus contract for SY 1993 is \$5,102,470 lower than the old contracts.

Internal Controls. The audit identified material internal control weaknesses. Existing controls were not followed to effectively manage the bus contracts. Details of Internal Controls reviewed are in Part I, page 2.

Potential Benefits of Audit. The deficiencies identified, if corrected, will result in improved controls over operations. Potential monetary benefits of the audit can result in reduced costs of about \$5.1 million through SY 1993 (Appendix F).

Although we customarily project the monetary benefits of our audits through the Future Years Defense Program period, in this case we limited the monetary benefits to the upcoming SY because of the uncertainty in the out-year requirements in Germany and the fact there will be a new contract for SY 1994. Therefore, we consider the estimate of monetary benefits to be conservative.

Summary of Recommendations. We recommended that student bus contracts be modified to reflect current requirements and that procedures be established to monitor the contracts on a continuing basis. In addition, we recommended that inspectors be provided to monitor Nuernberg busing operations. We also recommended that there be better coordination between all parties involved and that only authorized personnel make contract changes. We recommended that contractors' invoices be adjusted to reflect bus capacity violations and that future bus contract solicitations provide greater flexibility in ordering services.

Management Comments. The Army and Navy concurred with the recommendations to review current bus contracts, to modify contracts as necessary, and to monitor the contract requirements. The Air Force concurred with the intent of the above recommendations stating that it supports a review of existing contracts when standardized criteria from the Joint DoD Management Task Force are approved. The DoDDS nonconcurred with the recommendations to require each school to provide enrollment data to the transportation office and provide the funds for Community or DoDDS inspectors to monitor the bus contracts.

The Army concurred with the recommendations that the transportation office should stop making unauthorized changes to contracts and notify the contracting officer's representative of required changes. The Army concurred with the recommendations to modify the contracts to reflect current requirements, to direct the contracting officer's representative to monitor and inspect the school bus routes on a regular basis, and to prepare future bus contract solicitations with greater flexibility. The Army nonconcurred with the recommendation to reduce contractors invoices by DM26,516 (\$16,368) for bus size violations. The Army indicated that contracts DAJA04-91-D-0075 and DAJA04-91-D-0073 were closed at the end of the school year. Accordingly, we have deleted our draft report Recommendation 4.e. to terminate the contracts for default.

We request that the Army, Air Force, and DoDDS officials provide additional comments to the final report by September 30, 1992. A discussion of the responsiveness of management comments is in Part I of this report. The complete text of management comments is in Part III.

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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Information Officer, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

PART I - RESULTS OF AUDIT

Introduction

The audit was performed in response to a DoD Hotline allegation of overpricing of DoD Dependents Schools (DoDDS) student bus transportation. The audit objective was to determine whether DoD paid fair and reasonable prices for student bus transportation in the Nuernberg Military Community (the Community). The audit disclosed that the Community school bus contract specifications were too rigid to allow for changes in requirements. Contract administration was not adequately performed because there was a lack of coordination between all parties involved. As a result, contract specifications for bus capacity were overstated by about 68 percent, and kilometers (KMs) for bus routes were overstated by about 41 percent. Potential monetary benefits of at least Deutsche Marks (DM) 3,547,596 (\$2,189,874)¹/ for February 1992 through school years (SYs) 1993 and 1994 should result if deficiencies identified are corrected.

Background

In 1978, Congress established a DoD dependent schools system under the Secretary of Defense (United States Code, title 921, section 1402). DoD Directive 1342.6, "Department of Defense Dependents Schools (DoDDS)," October 1978, implemented the law. The mission of DoDDS is to provide a quality education from kindergarten through grade 12 for minor dependents of U.S. Military and DoD civilian personnel stationed overseas. The responsibilities of the Director, DoDDS, are to manage, fund, and direct the complete operation of DoDDS. The Military Departments provide, on a reimbursement basis, the required facilities, logistics, and administrative support for the operation of DoDDS.

The allegation received over the DoD Hotline in Europe concerned the continued acceleration of the cost of the Community school bus contracts. The contracts for the Community student buses increased from DM3.7 million (\$2.3 million) in SY 1990, to DM8.3 million (\$5.1 million) in SY 1991, and to an estimated DM10.1 million (\$6.2 million) in SY 1992. The increase in contract costs for SY 1992 occurred even with a 23-percent decrease in the number of bus routes from the previous year.

The student bus transportation solicitation for SY 1992 was for an indefinite delivery-type contract with a minimum and maximum requirement per route. The solicitation was for a basic year

¹/Exchange rate used throughout the report was DM1.62 per \$1.00.

with two priced option years for eight groups of routes. There was a split award to three contractors based on their bids per group. The total cost of the three contracts awarded was 40 percent above the Independent Government Estimate for the basic contract year. Contract daily rates per bus route ranged from DM480 (\$296) to DM890 (\$549).

Scope

We discussed the Nuernberg student bus contracts with personnel from DoDDS, Regional Contracting Office (RCO) Fuerth, and the Community Transportation Office. We obtained actual school enrollment data for SY 1992 and the projected school enrollment data for SY 1993. We reviewed student bus contract file documentation at RCO Fuerth for SYs 1991 and 1992. We also reviewed documentation for pending modifications for the SY 1992 student bus contracts.

For the 72 bus routes in the Community, we documented the number of passengers, the bus capacity, and the contractor or subcontractor. The documentation obtained was used to determine use of bus capacities, percentage of the subcontracted routes, and compliance with the contract bus sizes. We selected a representative sample of 13 of the 72 bus routes and followed the buses on their routes on 9 days to compare the actual distances to the contract specifications. The factors considered in route selections were the contractor, the bus capacity, and the route distance. See Appendix A for statistical methodology.

This economy and efficiency audit was made from November 1991 to March 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 considered computer-generated data used in the performance of our audit generally reliable for school enrollment data. Activities visited or contacted during the audit are listed in Appendix G.

Internal Controls

The audit identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Existing controls were not followed to effectively manage the bus contracts. Contract administration responsibilities were not adequately performed. Transportation personnel changed contract specifications without authorization and notification to the proper contracting officials. Implementation of Recommendations 1.a., 1.b., 2.a., 2.b., 3.a., 3.b., and 4.b. in this report will correct the internal control weaknesses. We identified no monetary

benefits related to correcting the internal control weaknesses. Other potential benefits related to correcting the internal control weaknesses are described in Appendix F. A copy of the final report will be provided to the senior officials responsible for internal controls within DoDDS and the Office of the Secretary of the Army.

Prior Audit and Other Reviews

The Inspector General, DoD, Report No. 89-113, "DOD Dependents Schools Student Transportation," September 21, 1989, found that DoDDS and Military Departments needed to improve the management of student transportation to enhance the efficiency of operations. The Military Departments did not effectively manage contracted bus routes. Conditions found in the prior audit report are similar to those discussed in this report. DoDDS did not have the personnel necessary to monitor busing operations. As a result, a Joint DoD Management Task Force was established consisting of members from DoDDS and each Military Department to identify mutually acceptable solutions to the problems cited in the report. The Task Force's initial report is scheduled for issuance in November 1992 with the final report scheduled for June 1993.

Discussion

Contract administration of school bus contracts for the Community was materially inadequate. Further, the specifications for student bus contracts were not written with flexibility to allow for continuous changes to the requirements. Contract modifications were required for any changes in bus stops, bus size, or distances traveled. However, the contracts were not modified to reflect these changes.

Contract administration. Contract administration was deficient in some critical aspects. Bus contract problems occurred because there was a lack of coordination and communication among the parties involved. DoDDS did not inform the Community transportation office of changes in student enrollment necessary to determine changes in bus routes and bus sizes. Also, DoDDS did not inform the Community transportation office when bus routes were no longer needed. In addition, DoDDS did not authorize or fund inspectors to monitor the bus contracts.

Community transportation office personnel, when available, were assigned inspection duties. Transportation personnel changed contract specifications without authorization. For example, transportation personnel changed the bus routes by changing bus stops and provided updated copies of routes to the contractors. The changes were not communicated to the contracting officer's

representative (COR) for the required contract modifications. The COR did not sufficiently monitor contract performance or provide the proper liaison between RCO Fuerth and the contractors. The COR needs to report the contractor's noncompliance to the Contracting Officer, and on a regular basis, monitor and inspect the bus routes and coordinate these changes with the transportation officer, as well as with the contractors.

Contract specifications. The bus capacity specifications were overstated for the current requirements. The contracted routes were based on outdated student enrollment from the previous school year. Based on the total observed counts of students, there was 68 percent unused bus capacity. We observed 50-passenger buses used to transport as few as 2 students. This unused bus capacity resulted in several instances of exorbitant average daily cost per bused student. For 9 of 72 routes, the average daily cost per bused student was over \$100. The three highest average daily cost per student routes are shown below.

<u>Bus Route</u>	<u>Per Bused Student</u>	
	<u>Average Daily Cost</u>	<u>Average Annual Cost</u>
28	\$259	\$47,444
29	\$150	\$27,488
31	\$426	\$77,944

Overall, the unused bus capacity resulted in an average daily cost to transport each student of about DM43 (\$26 or an annual average cost of \$4,817). See Appendix B for more details.

Our computation showed that if bus capacities were reduced as of February 1992, a potential savings of DM335,830 (\$207,302) would result by end of the school year. Additional potential savings of DM1,429,230 (\$882,241) will result by reducing bus capacity specifications for the two option years (Appendix A, paragraph 1). Our computation was a conservative estimate based on a 34-percent reduction in capacity, using the greater of school enrollment or an observed count of students on the buses on each route. These savings computations do not reflect additional student enrollment reductions anticipated for SYs 1993 and 1994.

The contracts specify that "a minimum of 40 [percent] of the total awarded contract routes shall be performed by the Prime Contractor." On the days observed in February 1992, only one of the three prime contractors performed the required minimum of 40 percent. For contracts DAJA04-91-D-0075 and DAJA04-91-D-0073, the prime contractors performed only 21 and 7 percent of their respective routes.

Bus size. Thirty-one percent of the student buses observed were smaller than the contract specified. In one case, a contractor used a 6-passenger mini-van instead of the 26-passenger bus required by the contract. Furthermore, only one seat was available to transport students because the remainder of the mini-van was occupied by car parts. The Schedule of Deductions on the contracts required a 45-percent reduction of the daily rate for failure to perform the route with the required bus size. Based on 245 observations of bus capacities during 9 school days in February 1992, we identified 77 discrepancies that should result in deductions of about DM26,516 (\$16,368) (Appendix C). We believe that our observations were not isolated instances, and additional undeterminable amounts of deductions could have been made if the buses were properly monitored by inspectors.

Route distances. The distances for bus routes in the contract specifications were overstated. Distances actually driven on the bus routes were an average of 41 percent less than the contract specifications for the 13 sampled bus routes (Appendix D). The contracts state that the contractor is required to adjust the monthly invoice when there is a net increase or decrease in the route distance of 10 percent or more (DM1 per KM for less than or equal to 16-passenger capacity and DM1.5 per KM for greater than 16-passenger capacity). Contract renegotiation is required when the difference is equal to or greater than 25 percent. All of the 13 sampled routes had a decrease of greater than 10 percent. Three out of thirteen routes were within the 10- to 25-percent range. The remaining 10 routes exceeded 25 percent and required renegotiation. The contractors did not adjust invoices for changes in KMs, nor did the contractors request renegotiations.

The results from the 13 sampled routes were used to project the potential savings for the 72 routes. The projections were possible because in the selection of 13 sampled routes we used statistical methods to represent the 3 contractors. A potential monetary benefit of DM334,110 (\$206,241) would result from February 1992 to the end of the school year. Additional monetary benefits of DM1,421,910 (\$877,722) would result for SYs 1993 and 1994 (Appendix A, paragraph 2). The potential monetary benefits projections were a conservative estimate based on a DM1 or DM1.5 per KM reduction for the 72 bus routes. These projections represent the minimum benefits that would occur. Proper renegotiation of routes would provide even greater benefits.

Proposed contract modifications. On January 23, 1992, RCO Fuerth sent modification price requests to the three contractors. The modifications would have reduced bus capacity by 25 percent through a reduction of bus size and consolidation of routes. However, the contractors' proposed prices for contract daily rates were decreased by only 6.3 percent (Appendix E). The price

reductions proposed by the contractors appear to be unreasonable. For example, the pending modification combined routes 2E and 3E. Route 2E had a daily rate of DM739 (\$456) for a 50-passenger bus for 70 KMs, and Route 3E had a daily rate of DM780 (\$481) for a 60-passenger bus for 50 KMs. The combined route has a proposed daily price of DM* (\$*), a decrease of only \$* from the total of the two routes. The capacity and KMs for the proposed combined route did not change from the original 2E route; however, the price increased by DM* (\$*).

The contract minimum ordering requirement of 25 days had been met for SY 1992. The net increase or decrease in KMs of adding route 3E stops to 2E stops is less than 10 percent, and there should be no change in contract price. By not ordering route 3E, DM* (\$*) per day could be saved, as opposed to DM* (\$*) per day for the remainder of SY 1992. For option SYs 1993 and 1994, an additional DM* (\$*) savings would result by ordering the minimum number of days for route 3E and then only running route 2E. Similar savings would result by considering this option for other routes or by a stronger Government position in negotiations.

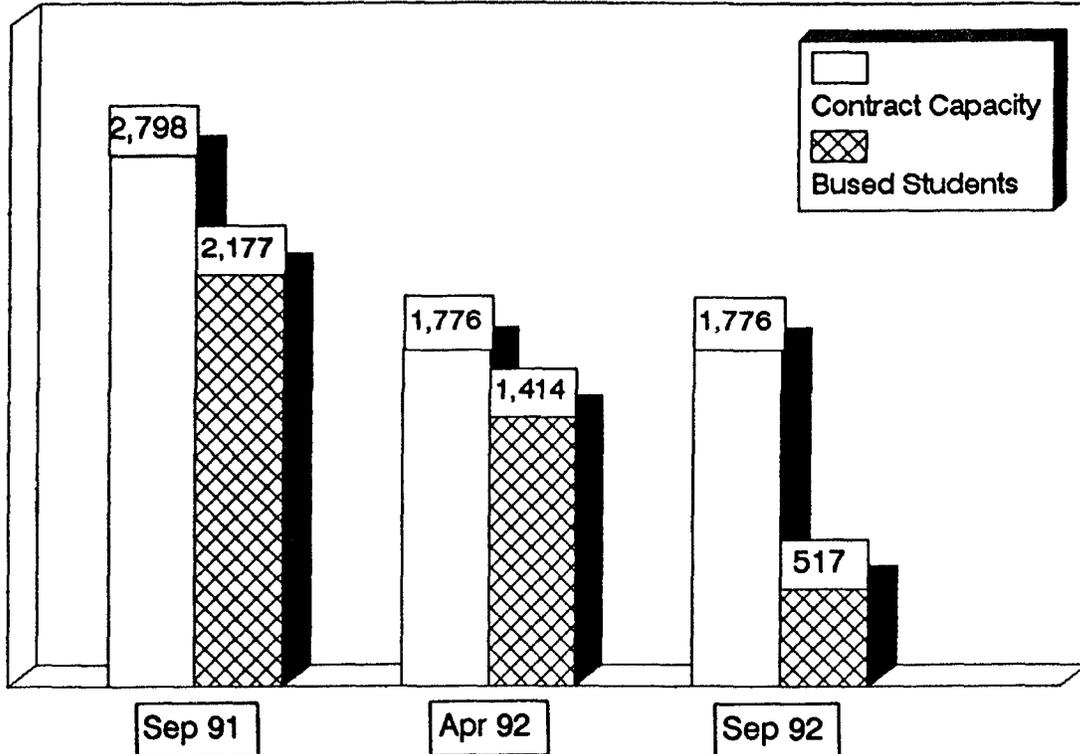
As of April 2, 1992, RCO Fuerth had 2 other pending modifications that combined routes, reduced bus capacities, and reduced kilometer specifications on 28 routes. On July 13, 1992, we were informed by RCO Fuerth that none of the pending modifications were acted on because of constantly changing requirements and time constraints.

Conclusion. We believe that wasting funds for unneeded bus transportation hurts the education of children because it reduces the amount of funds available for education. School enrollment will continue to decline due to the troop reductions in Europe. Therefore, it will become even more important to monitor contract requirements and inspect contractors' performances. The potential monetary benefits in this report were based on conservative estimates. We believe greater benefits will result from a combination of consolidating routes and reducing bus capacities and KMs.

The following table shows the original contract specifications and the effects of the pending modifications that were canceled after the audit was completed. In addition, the table portrays the expected decline in bused students in the Community for SY 1993 (September 1992). The figures were based on actual and projected enrollment and the percentage of bused students, which the Office of the Superintendent of Schools, Nuernberg District provided. Kalb Elementary student data were excluded from the table because the two routes that serviced Kalb were part of other bus routes and did not affect the capacities on the contracts.

*Proprietary data removed.

Contract Capacity VS Bused Students



The total contract specification for bus capacity was 2,798 at the start of SY 1992 (September 1991). Effective modifications (as of April 1992) had increased the total bus capacity to 2,822. The three pending modifications (April 1992) would have reduced the bus capacity to 1,776 (37 percent) if they had not been canceled. The bused students in the Community had declined 35 percent since the start of the SY 1992. The projection for bused students for the beginning of SY 1993 (September 1992) is 517. Therefore, additional modifications are needed to reduce the bus capacity in proportion to the projected requirement.

Based on discussions with DoDDS personnel, we believe that similar problems exist throughout Europe for all the Military Departments. The Commanders of U.S. Army, Europe; U.S. Naval Forces, Europe; and U.S. Air Force, Europe, should initiate actions to review current student bus transportation contracts and modify as necessary to reflect current requirements and continue to monitor contract requirements in light of the military downsizing.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

1. We recommend that the Commander of U.S. Army, Europe; U.S. Naval Forces, Europe; and U.S. Air Force, Europe:

a. Review current student bus transportation contracts and modify as necessary to reflect current requirements.

b. Continue to monitor the contract requirements in light of military downsizing.

Management comments. The Army and the Navy concurred and agreed to review the bus contracts and monitor the contract requirements. The Air Force concurred with the intent of the recommendations, stating that they support a review of existing school bus contracts when standardized criteria from the Joint DoD Management Task Force have been approved.

Audit response. We consider the Air Force comments to be partially responsive. We do not believe that it is necessary or realistic for the Air Force to wait until the Task Force Report is issued to implement the recommendations. The Joint DoD Management Task Force's final report is not scheduled for issuance until about June 1993. Waiting for the Task Force Report could result in additional losses of funds that could be put to better use. Therefore, we request that the Air Force reconsider its position on the recommendations in responding to the final report, indicating concurrence or nonconcurrence with the recommendations and provide a completion date.

2. We recommend that the Director, Department of Defense Dependents Schools:

a. Require each school in Europe to provide, to its applicable transportation office, current school enrollment data on at least a monthly basis. The enrollment data should include names and addresses of student additions and withdrawals.

Management comments. The Director, DoDDS, nonconcurred and stated that parents are required to arrange for transportation with the transportation office and to clear the transportation office when departing. He also stated that the transportation office does not obtain student busing information from the school, and parents do not always inform the school when they move. DoDDS is in the process of revising its Student Information Management System to produce special reports with student transportation data for its own use. DoDDS is willing to share student information with the transportation office and suggested that the data report for students enrolled could be provided in August, with monthly updates for changes.

Audit response. DoDDS nonconcurred with the recommendation, but we consider the potential actions to be partially responsive. The current Support Agreement between DoDDS and the Community states that DoDDS will provide the transportation office with appropriate information, such as the name, grade, and address of each student to be transported. DoDDS is also required to advise the transportation office of enrollment changes as they occur. Although DoDDS' suggestion meets the intent of the recommendation, it is not clear whether DoDDS intends to supply this information. Therefore, we request that the Director, DoDDS, reconsider his position on this recommendation, clarify what actions will be taken, and provide an estimated completion date.

b. Provide the necessary funds for the Community inspectors or provide DoD Dependents Schools inspectors to monitor school bus contracts at Nuernberg Military Community.

Management comments. The Director, DoDDS, nonconcurred with Recommendation 2.b. and stated the schools have never been funded for school bus contract management or inspection/quality assurance. The funding responsibility is reflected in DoD Manual 4000.19, "DoD Regional Interservice Support (DRIS)," March 1984, which stated that the administrative aspects of transportation services are not reimbursable.

Audit response. We consider the Director's response to be nonresponsive. DoD Instruction 4000.19 "Interservice, Interdepartmental, and Interagency Support" dated April 15, 1992, canceled DoD Manual 4000.19 and permitted the Community to require reimbursement if DoDDS chooses to use contract administration services. The inspection of contract performance is included in contract administration services. We still believe that the school bus contracts need to be adequately monitored and that DoDDS should use the contract administration services and reimburse the Community for inspection. Based on our audit observations, the money saved from contract violations would pay for the cost of the inspectors many times over. We request that the Director, DoDDS, reconsider his position on this recommendation in responding to the final report, indicating concurrence or nonconcurrence with the recommendations and provide a completion date.

3. We recommend that the Nuernberg Military Community Transportation Office:

a. Stop making unauthorized changes to the contract.

b. Notify the contracting officer's representative of required changes to kilometers, bus routes, and bus size.

Management comments. The Army concurred and stated that unauthorized contract changes have ceased, and the COR will be informed of all changes to bus routes. For SY 1993 the previous 72 bus routes were reduced to 33.

4. We recommend that the Regional Contracting Office Fuerth:

a. Modify the student bus transportation contracts to reflect the current requirements. The modifications should combine routes when feasible and reduce the specifications for bus capacities and kilometers. Routes that are not needed should be either canceled or not included on the delivery orders.

b. Direct the contracting officer's representative in charge of student bus transportation contracts at Nuernberg Military Community to report contractors' noncompliance to the contracting officer and on a regular basis, monitor and inspect the school bus routes and coordinate changes with the transportation office.

c. Reduce the contractors' invoices by DM26,516 (\$16,368) according to the Schedule of Deductions for bus capacity violations for the days observed by the auditors (Appendix C).

d. Prepare future bus contract solicitations that will provide for greater flexibility in ordering bus size, kilometers, and stops.

Management comments. The Army concurred with Recommendations 4.a., 4.b., and 4.d., and stated that the cited bus contracts were closed but future contracts will be made to achieve flexibility in ordering bus service. Further, the COR will monitor and inspect bus routes on a regular basis. The Army nonconcurred with Recommendation 4.c., stating that the schedule of deductions does not address bus capacity violations and that our observations could not be used as a basis for the deductions had the contract contained such provisions.

Audit response. We disagree with the Army's position that the schedule of deductions does not address bus capacity violations and that our observations cannot be used as a basis for the deductions. The contract includes Federal Acquisition Regulation clause 52.246-4, "Inspection of Services--Fixed Price (APR 1984)." This clause states that

the Government has the right to inspect and test all services called for by the contract; and it is in addition to a contract clause that addresses inspection by the COR, inspectors, and assistants designated by the COR. RCO Fuerth had previously assessed deductions on contractors' invoices when the bus capacity was not in accordance with the contract. The daily rates were reduced by 45 percent on these invoices. Therefore, the invoices should be reduced by 45 percent according to E-6, Schedule of Deductions, paragraph 1.b. of the contracts.

The Community transportation office inspectors were present when we observed bus capacities. We provided RCO Fuerth with a detailed schedule of the bus capacity violations (see Appendix C) that we observed in February 1992. The schedule included the observed route number, the date, and the bus capacity. RCO Fuerth had also received a schedule from the COR stating bus capacity violations. Appendix C and the COR schedule reflected similar observed route numbers, dates, and bus capacities; which were smaller than contracted.

The Army also did not comment on the potential monetary benefits related to modifying the contracts to reflect a reduced need for bus service. The Army has closed the bus contracts and has resolicited for new contracts for SY 1993 that will reflect a reduced need for bus service. We request the Army provide the difference in cost between the SY 1993 option costs on the closed contracts and the cost of the new SY 1993 contracts. We request that the Army reconsider its position and provide additional comments to the final report, indicating concurrence or nonconcurrence with the recommendation and related monetary benefits and provide a completion date.

Deleted recommendation. Comments received from the Army indicated that contracts DAJA04-91-D-0075 and DAJA04-91-D-0073 were closed at the end of the school year. In addition, on July 1, 1992, U.S. Army, Europe, personnel verbally informed us that the options were not exercised on these contracts, and they were resoliciting the contracts for SY 1993. Accordingly, we have deleted our draft report Recommendation 4.e. to initiate termination for default for contractors' nonperformance of 40 percent of the contracted routes.

RESPONSE REQUIREMENTS PER RECOMMENDATIONS

<u>Number</u>	<u>Addressee</u>	<u>Response Should Cover:</u>			<u>Related Issues*</u>
		<u>Concur/ Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>	
1.a.	Air Force	X	X	X	
1.b.	Air Force	X	X	X	
2.a.	DoDDS	X	X	X	
2.b.	DoDDS	X	X	X	
4.a.	Army				M
4.c.	Army	X	X	X	M

* M = monetary benefits

PART II - ADDITIONAL INFORMATION

- APPENDIX A - Statistical Methodology
- APPENDIX B - Daily Rate Per Bused Student
- APPENDIX C - Bus Capacity Observations
- APPENDIX D - Kilometer Observations
- APPENDIX E - Proposed Daily Rates for Pending Modification
- APPENDIX F - Summary of Potential Benefits Resulting from Audit
- APPENDIX G - Activities Visited or Contacted
- APPENDIX H - Report Distribution

APPENDIX A - STATISTICAL METHODOLOGY

1. Use of Regression Modeling on the Entire 72 Routes. We took data from all regular (commuting) bus routes recording bus size, the existence or nonexistence of a mid-day run, the contractor's name, the distance, and the contractor's daily contract price in Deutsche Marks (DM). Because of the irregular way that price related to distance, the distance did not lend itself to consistent modeling. We did, however, produce a curvilinear equation in the three variables, for price as a function of bus size and the existence or nonexistence of a mid-day run. Keeping in mind that all of these variables were recorded and modeled based on actual contract specifications, and that further deviations could cause additional monetary savings, we proceeded to fit the model. We found that the bus size, the square of the bus size, and the existence or nonexistence of a mid-day run all had significant influence on the contract price. Very high correlations were exhibited, and the equation was used to separate the effects of the variables on price. For the purpose of computation only, proposed changes were made on bus size for the various routes based on school enrollment figures and observed student counts. The new bus size was then inserted into the model and new computed expected prices were displayed. Differences between current and proposed operations were taken, and the potential savings were computed resulting in DM1,429,230 (\$882,241)1/ for the two contract option years.

Since we used all regular bus routes in the formulation of the model and the computation of savings, this is not a projection and not subject to sampling variability.

2. Sampling of 13 of 72 routes. For each of the three contractors' routes, we selected specific routes to be observed for actual distance traveled. In order to be representative, we selected, in accordance with the following table, short and long distances and small and large capacities ensuring that all would be captured in the process.

	<u>Bus Capacity</u>	
	<u>< 30</u>	<u>≥ 30</u>
< 90 Kilometers	1	2
≥ 90 Kilometers	3	7

1/ The exchange rate used was DM1.62 per \$1.00.

APPENDIX A - STATISTICAL METHODOLOGY (cont'd)

We performed the ultimate selection within these categories by contractor, using random selection. The results of the 13 selected routes can be used to estimate potential results for all 72 routes using a weighted average technique.

The computation involving number of school days and distance associated costs project to a saving of DM1,421,910 (\$877,722) for the 2 option years of the contracts. With 90 percent confidence, this projection is correct within \pm DM214,700 (\$132,531).

APPENDIX B - DAILY RATE PER BUSED STUDENT

<u>Route Number</u>	<u>Contract Bus Capacity</u>	<u>Average Student Count</u>	<u>Contract Daily Rate</u>
1	50	14	DM 840
1 K 1/	50	3	
1E	50	2/	730
2	50	15	840
2 K	50	12	
2E	50	38	739
3	26	16	790
3 K	26	4	
3E	60	29	780
4	50	41	730
4E	60	29	780
5	50	29	730
5E	50	13	730
6	40	5	840
6 K	40	24	
6E	50	19	840
6E K	50	1	
7	26	2	790
7 K	26	1	
7E	40	20	840
7E K	40	0	
8	8	4	589
8 K	8	5	
9	8	4	590
9 K	8	4	
9E	30	14	840
9E K	30	1	
10	26	6	680
10E	30	8	730
11	26	4	680
11E	26	6	680
11E K	3/	3	
12	60	16	780
12E	40	12	749
13	60	17	780
13E	40	5	749
14	26	6	680
15	40	5	840
15 K	40	4	
16	26	5	680
17	60	27	730
17E	50	20	802

See footnotes on last page of appendix.

APPENDIX - B DAILY RATE PER BUSED STUDENT (cont'd)

<u>Route Number</u>	<u>Contract Bus Capacity</u>	<u>Average Student Count</u>	<u>Contract Daily Rate</u>
18	35	10	DM 840
18 K	35	3	
18E	40	7	840
18E K	40	2	
19	26	2	790
19 K	26	5	
19E	50	8	840
19E K	50	31	
20	40	8	840
20 K	40	3	
20E	30	7	840
20E K	30	1	
21	26	6	680
21E	40	5	840
21E K	40	3/	
22	60	45	780
23	26	14	790
23 K	26	8	
24	26	7	790
24 K	26	1	
25	26	3	790
25 K	26	1	
26	26	4	790
26 K	26	2	
27	30	18	730
28	35	1	840
28 K	35	1	
29	50	2	730
30	26	3	790
30 K	26	1	
31	26	1	690
33 4/	50	20	780
33 5/	50	39	
34 4/	60	21	780
34 5/	60	24	
34A	50	25	750
35	26	10	680
36	26	6	689
37	50	23	840
37 K	50	26	
38	8	6	480
39	30	9	730

See footnotes on last page of appendix.

APPENDIX B - DAILY RATE PER BUSED STUDENT (cont'd)

<u>Route Number</u>	<u>Contract Bus Capacity</u>	<u>Average Student Count</u>	<u>Contract Daily Rate</u>
40	26	8	DM 680
41	26	3	680
42	60	11	780
43	60	8	780
44	50	12	840
44 K	50	21	
45	8	6	480
46	40	28	730
47	60	32	890
47 K	60	13	
48	35	16	780
49	26	15	680
50	30	16	680
51	35	10	780
52	60	23	780
53	60	25	780
54	60	27	780
55	60	22	840
55 K	60	37	
55	<u>6/</u>	<u>35</u>	
Totals	<u>3,946</u>	<u>1,278</u>	<u>DM54,497</u>

The contract capacities for the Kindergarten and Kalb routes were used in the above table to show total unused capacity. The total bus capacity including Kindergarten midday and Kalb elementary runs was for 3,946 students. The total of the average head count of bused students was 1,278. This represents a 68-percent unused bus capacity. The total daily rate for the 72 routes was DM54,497 (\$33,640)7/. The average daily cost per bused student was about DM43 (\$26)7/ (DM54,497/1,278). Therefore, the average annual cost per bused student was DM7,803 (\$4,817)7/. See computations below:

Daily cost per student	DM42.64
Number of days per school year	X <u>183</u> days
Total	DM <u>7,803</u>

See footnotes on last page of appendix.

APPENDIX B - DAILY RATE PER BUSED STUDENT (cont'd)

Footnotes:

1/ Kindergarten (K) mid-day runs and Kalb Elementary runs are not separate contract line items but are included in their respective routes.

2/ Route number 1E was contracted but not observed.

3/ We observed a bus with route 11E K sign. We believe the bus was listed as 21E K on the contract because there is no 11E K bus route.

4/ Route numbers 33 and 34 were observed at Nuernberg High School.

5/ Route numbers 33 and 34 were observed at Kalb Elementary.

6/ The contract included only one route 55; however, two buses with route 55 signs were observed.

7/ The exchange rate used was DM1.62 per \$1.00.

APPENDIX C - BUS CAPACITY OBSERVATIONS

Nuernberg High and Middle School:

<u>Route Number</u>	<u>Contract</u>		<u>Observed Bus Capacities</u>			
	<u>Number</u>	<u>Capacity</u>	<u>Feb 6</u>	<u>Feb 7</u>	<u>Feb 11</u>	<u>Feb 12</u>
10E	DAJA04-91-D-0075	30	8	16	15	15
11E	DAJA04-91-D-0075	26	N/O	N/O	8	8
12E	DAJA04-91-D-0073	40	N/O	OK	N/O	30
13E	DAJA04-91-D-0073	40	N/O	28	N/O	N/O
34 <u>1</u> /	DAJA04-91-D-0075	60	N/O	N/O	40	40
36	DAJA04-91-D-0073	26	N/O	12	8	8
41	DAJA04-91-D-0073	26	N/O	16	8	N/O
43	DAJA04-91-D-0073	60	N/O	26	26	26
44	DAJA04-91-D-0074	50	N/O	N/O	30	24
50	DAJA04-91-D-0075	30	24	N/O	20	20
51	DAJA04-91-D-0075	35	N/O	N/O	28	28
54	DAJA04-91-D-0075	60	35	40	40	N/O

Nuernberg Elementary School (Montieth):

<u>Route Number</u>	<u>Contract</u>		<u>Observed Bus Capacities</u>			
	<u>Number</u>	<u>Capacity</u>	<u>Feb 7</u>	<u>Feb 10</u>	<u>Feb 18</u>	<u>Feb 25</u>
6	DAJA04-91-D-0075	40	N/O	8	8	8
7	DAJA04-91-D-0075	26	N/O	8	8	8
11	DAJA04-91-D-0073	26	N/O	8	8	8
12	DAJA04-91-D-0073	60	N/O	N/O	50	45
17	DAJA04-91-D-0075	60	N/O	40	50	50
20	DAJA04-91-D-0074	40	N/O	12	OK	30
24	DAJA04-91-D-0074	26	N/O	8	OK	OK
24 K <u>2</u> /	DAJA04-91-D-0074	26	6	OK	N/O	N/O
25	DAJA04-91-D-0074	26	N/O	12	12	OK
25 K	DAJA04-91-D-0074	26	12	N/O	N/O	N/O
26	DAJA04-91-D-0074	26	N/O	8	10	OK
26 K	DAJA04-91-D-0074	26	8	N/O	N/O	N/O
30	DAJA04-91-D-0074	26	N/O	8	7	N/O
30 K	DAJA04-91-D-0074	26	6	N/O	N/O	N/O
31	DAJA04-91-D-0073	26	N/O	8	8	8
37 K	DAJA04-91-D-0073	50	N/O	N/O	30	N/O
47 K	DAJA04-91-D-0074	60	N/O	OK	50	50
55 K	DAJA04-91-D-0075	60	N/O	OK	50	OK

See acronyms and footnotes at end of the appendix.

APPENDIX C - BUS CAPACITY OBSERVATIONS (cont'd)

Erlangen Elementary School:

Route Number	Contract		Observed Bus Capacities			
	Number	Capacity	Feb 11	Feb 12	Feb 13	Feb 14
3E	DAJA04-91-D-0073	60	N/O	N/O	40	OK
6E K	DAJA04-91-D-0075	50	N/O	10	N/O	N/O
7E K	DAJA04-91-D-0075	40	10	N/O	N/O	N/O
9E	DAJA04-91-D-0075	30	N/O	N/O	16	N/O
9E K	DAJA04-91-D-0075	30	17	16	N/O	N/O
18E	DAJA04-91-D-0073	40	N/O	N/O	20	20
20E	DAJA04-91-D-0073	30	N/O	N/O	13	OK
20E K	DAJA04-91-D-0073	30	8	8	N/O	N/O
21E	DAJA04-91-D-0075	40	N/O	N/O	10	12
21E K	DAJA04-91-D-0075	40 <u>3/</u>	12	11	N/O	N/O

The observations of bus capacities were performed from February 6 through February 25, 1992. This chart only includes observations for routes that should result in adjustments. The observed bus capacity columns show the observed bus capacity recorded on that date. In our observations, we identified 77 incidents of contractor's nonconformance to contract specifications that should have resulted in deductions to contractors' invoices. Using the 45-percent reduction to the daily rate in the Schedule of Deductions in the contract, should result in a total identified savings of DM26,516 (\$16,368)4/.

Acronyms:

N/O Not observed on that date
 OK Observed but not a problem

Footnotes:

- 1/ Kalb Elementary observation, Nuernberg High School not included.
- 2/ K is a Kindergarten route, either morning or midday.
- 3/ We observed a bus with route 11E K sign. We believe the bus was actually 21E K on the contract. There is no 11E K bus route.
- 4/ The exchange rate used was DM1.62 per \$1.00.

APPENDIX D - KILOMETER OBSERVATIONS

<u>Route Number</u>	<u>Contract Kilometers</u>	<u>Observed Kilometers</u>	<u>Percent of Difference</u>
9E	170	80	53
12	100	60	40
13	100	80	20
23	150	70	53
25	150	55	63
34	130	80	38
38	80	65	19
43	90	60	33
44	110	75	32
47	60	45	25
48	130	75	42
49	100	50	50
55	<u>80</u>	<u>65</u>	<u>19</u>
Total	<u>1,450</u>	<u>860</u>	<u>41</u>

The kilometers for bus routes in the contract specifications were overstated. Kilometers actually driven on the bus routes were an average of 41 percent less than the contract specifications for the 13 sampled bus routes.

APPENDIX E - PROPOSED DAILY RATES FOR PENDING MODIFICATION

<u>Contract</u>				<u>Proposed Combination</u>					
<u>Route</u>	<u>KM</u>		<u>Rate</u>	<u>Route</u>	<u>KM</u>	<u>Rate</u>		<u>Difference</u>	
Contract DAJA04-91-D-0073:									
2E	70	DM	739	2E	70	DM	*	DM	*
3E	50		780						
10	120		680	10	120		*		*
31	140		690						
12	100		780	12	100		*		*
13	100		780						
42	90		780	42	90		*		*
43	90		780						
Contract DAJA04-91-D-0074:									
19	40		790	19	40		*		*
21	40		680						
26	90		790	26	90		*		*
30	160		790						
28	80		840	28	80		*		*
29	45		730						
24K	N/A		N/A 1/	25K	N/A		*		*
25K	N/A		N/A						
26K	N/A		N/A	26K	N/A		*		*
28K	N/A		N/A						
30K	N/A		N/A						
Contract DAJA04-91-D-0075:									
16	60		680	17	60		*		*
17	40		730						
53	70		780	53 & 55	150		*		*
54	80		780						
55	80		840						
6E	60		840	6E	60		*		*
7E	75		840						
Total	<u>1,680</u>		<u>DM16,119</u>		<u>860</u>		<u>DM13,469</u>		<u>DM(3000)2/</u>

See acronym and footnotes on last page of appendix.

APPENDIX E - PROPOSED DAILY RATES FOR PENDING MODIFICATION
 (cont'd)

<u>Contract</u>			<u>Proposed Specifications</u>		
<u>Route</u>	<u>Bus Size</u>	<u>Rate</u>	<u>Bus Size</u>	<u>Rate</u>	<u>Difference</u>
Contract DAJA04-91-D-0073:					
4E	60	DM 780	50	DM *	DM *
5E	50	730	26	*	*
11	26	680	8	*	*
12E	40	749	26	*	*
13E	40	749	8	*	*
18E	40	840	26	*	*
36	26	689	8	*	*
41	26	680	13	*	*
Contract DAJA04-91-D-0074:					
2	50	840	26	*	*
15	40	840	26	*	*
20	40	840	26	*	*
Contract DAJA04-91-D-0075:					
6	40	840	26	*	*
10E	30	730	13	*	*
19E	50	840	26	*	*
21E	40	840	26	*	*
52	<u>60</u>	<u>780</u>	<u>50</u>	<u>*</u>	<u>*</u>
Total	<u>658</u>	<u>DM12,447</u>	<u>384</u>	<u>DM12,037</u>	<u>DM(410)3/</u>

The proposed rates were received by RCO Fuerth on April 2, 1992. All three prime contractors were affected by this pending modification. The modification combined routes and reduced bus capacity specifications for portions of 39 routes. The rates shown were expected to be negotiated before the modification was approved.

The busing cost per student, before the modification, was DM7,803 (\$4,817)^{4/} per school year (see Appendix B). If the above proposed rates were accepted, the average cost per student would be reduced by DM488 (\$301) per school year. The pending modification would reduce the total contract bus capacity by about 25 percent and total kilometers by 12 percent; however, the proposed daily rates reduce the total contract amount only by about 6.3 percent.

See acronym and footnotes on last page of appendix.

APPENDIX E - PROPOSED DAILY RATES FOR PENDING MODIFICATION
(cont'd)

Acronym:

N/A Not applicable

Footnotes:

* Proprietary data removed.

1/ Kindergarten (K) mid-day runs are not separate contract line items; therefore, kilometers and rates were not separately stated.

2/ The pending modification eliminated portions of 23 routes and reduces kilometers from 1,680 to 860 (49 percent). The proposed rates were reduced from DM16,119 to DM13,119 (19 percent). The proposed rates for kindergarten mid-day runs were not considered.

3/ The pending modification reduced bus capacity specifications on 16 routes. The proposed bus capacity was reduced from 658 to 384 (42 percent), and the proposed rates were reduced from DM12,447 to DM12,037 (3 percent).

4/ The exchange rate used was DM1.62 per \$1.00.

APPENDIX F - SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefit</u>
1.a. and 1.b. 2.b.	Internal Control. Current requirements will be reflected and monitored.	Nonmonetary
2.a. 3.b.	Internal Control. Will facilitate coordination between the Director, DoDDS, the Military Departments, and appropriate Contracting Offices.	Nonmonetary
3.a.	Internal Control. Changes will go through the proper channels.	Nonmonetary
4.a.	Economy and Efficiency. Bus contracts were closed at the end of SY 1992. Contracts resolicited to reflect reduced requirements.	Funds put to better use of at least DM8,266,001 <u>1/</u> (\$5,102,470)
4.b.	Internal Control. Improve oversight and monitoring of requirements for bus contracts.	Nonmonetary
4.c.	Economy and Efficiency. Invoices for bus contracts will be reduced according to schedule of deductions.	Funds put to better use of DM26,516 (\$16,368)
4.d.	Economy and Efficiency. Future bus contract solicitations will provide for greater flexibility.	Nonmonetary

1/ This monetary benefit is the cost difference between the new and old contracts. The monetary benefit DM3,521,080 (\$2,173,506) in our draft report was based on use of modifications to the contracts that were closed. The Army has resolicited for new contracts and reduced the number of bus routes from 72 to 33.

APPENDIX G - ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Director of Defense Procurement, Washington, DC
Comptroller of the Department of Defense, Washington, DC

Department of the Army

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

Department of the Air Force

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

Other Defense Activities

Headquarters, Department of Defense Dependents Schools,
Arlington, VA
Headquarters, Department of Defense Dependents Schools,
Germany Region, Wiesbaden, Germany
Department of Defense Dependents Schools, Nuernberg District,
Germany

APPENDIX H - REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Assistant Secretary of Defense (Force Management and Personnel)
Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Director of Defense Procurement
Comptroller of the Department of Defense
Deputy Director Foreign Contracting, Director of Defense
Procurement

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Commander In Chief, U.S. Army, Europe
Inspector General, Department of the Army (Operations Division)
Auditor General, U.S. Army Audit Agency
Commander, 99th Area Support Group
Chief, Regional Contracting Office, Fuerth
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

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Commander, U.S. Naval Forces, Europe
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and
Comptroller)
Commander, U.S. Air Force, Europe
Auditor General, Air Force Audit Agency

Defense Agencies

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange
Director, National Security Agency/Chief Central Security Service
Inspector General, Defense Intelligence Agency

APPENDIX H - REPORT DISTRIBUTION (cont'd)

Other Defense Activities

Commander in Chief, U.S. European Command
Office of the Inspector General, Inspector General Regional
Office, Europe
Director, Department of Defense Dependents Schools, Headquarters,
Alexandria, VA
Director, Department of Defense Dependents Schools, Germany
Region, Weisbaden, Germany
Department of Defense Dependents Schools, Nuernberg District,
Germany

Non-DoD

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

Chairman and Ranking Minority Member of the following
Congressional Committees:

Senate Subcommittee on Defense, Committee on
Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Subcommittee on Investigations, Committee on Armed
Services
House Subcommittee on Readiness, Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

PART III - MANAGEMENT COMMENTS

Department of the Army

Department of the Navy

Department of the Air Force

Department of Defense Dependents Schools

DEPARTMENT OF THE ARMY COMMENTS

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DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
U.S. ARMY CONTRACTING SUPPORT AGENCY
5100 LEESBURG PIKE
FALLS CHURCH, VIRGINIA 22041-3201



1 JUL 1992

REPLY TO
ATTENTION OF

SPRD-KI

MEMORANDUM FOR THE INSPECTOR GENERAL (AUDITING), DEPARTMENT OF
DEFENSE, 400 ARMY NAVY DRIVE, ARLINGTON,
VIRGINIA 22202-2884

SUBJECT: Quick-Reaction Report on DOD Hotline Allegation of
Overpricing DOD Dependents Schools Student Bus
Transportation (Project No. 2CK-8002)

1. The following response to each recommendation is provided
reference the DOD Hotline Allegation of overpricing of the DOD
Dependents Schools Student Bus contract.

a. Recommendation: The Commanders of U.S. Army, Europe,
U.S. Naval Forces, Europe and U.S. Air Force, Europe:

(1) Review current student bus transportation
contracts and modify as necessary to reflect current
requirements.

Response: Concur. Each Base Support Battalion (BSB) which
initially annotates school bus contract requests will advise
the Regional Contracting Office (RCO) having coordinated with
DOD Dependents School (DODDS) District of necessary adjustments
to the contract during the school year. USAREUR Office of the
Deputy Chief of Staff for Logistics (ODCSLOG) Nontactical
Vehicle Office will publish a memorandum to all parties prior
to the start of the school year (August 1992), advising
personnel of established procedures and the need to intensively
manage bus services throughout the drawdown.

(2) Continue to monitor the contract requirements in
light of military downsizing.

Response: Concur. See above comments.

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1.b.,
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SUBJECT: Quick-Reaction Report on DOD Hotline Allegation of
Overpricing DOD Dependents Schools Student Bus
Transportation (Project No. 2CK-8002)

b. Recommendation: The Nuernberg Military Community
Transportation Office:

(1) Stop making unauthorized changes to the contract.

Response: Concur. Unauthorized changes have ceased. All parties involved in the contract were advised the Contracting Officer Representative (COR) is the only designated representative to coordinate changes with the Contracting Officer.

(2) Notify the COR of required changes to kilometers, bus routes and bus size.

Response: Concur. The Nuernberg Military Community will ensure the COR is informed of all bus route changes and student increases or decreases. For school year (SY) 92-93, the previous 72 bus routes have been reduced to 33.

c. Recommendation: The RCO Fuerth:

(1) Modify the student transportation contract to reflect the current requirements. The modifications should combine routes when feasible and reduce the specifications for bus capacity and kilometers. Routes that are not needed should be either canceled or not included on the delivery orders.

Response: Concur. RCO Fuerth cannot make the recommended modifications after the fact. The contract was closed out this past Spring. For this contract, the constant fluctuations in student populations and their physical locations occurred rapidly. The result was the RCO was negotiating changes which were no longer valid. With the reduced routes (33 versus 72) and basing future contracts on combined routes, kilometer changes and appropriate customer requested changes, the contract will be more manageable. Although the permanent population of the community is not stabilized and won't be for some time, the RCO will make every effort to stay current with the changes caused by the drawdown.

(2) Direct the COR for the Nuernberg Military Community student bus contract to monitor and inspect the school bus routes on a regular basis, report contractor noncompliance and coordinate on a regular basis with the transportation office.

3.a.,
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3.b.,
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4.a.,
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4.b.,
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SUBJECT: Quick-Reaction Report on DOD Hotline Allegation of Overpricing DOD Dependents Schools Student Bus Transportation (Project No. 2CK-8002)

Response: Concur. The COR has been advised of the necessity to inspect and monitor on a regular basis and to promptly report contractor noncompliance to the Contracting Officer. RCO Fuerth will also ensure the COR coordinates regularly with the transportation office reconciling student count, accuracy of routes and bus capacities, and identify necessary changes. Because of the manpower drawdown, it is unlikely the COR will be resourced with the necessary number of Quality Assurance Evaluators (QAE) required to monitor all aspects of the bus contract.

4.c.,
page 10

d. Recommendation: Reduce the contractor's invoices by \$16,368 according to the schedule of deductions for bus capacity violations for the days observed by the auditors.

Response: Nonconcur.

(1) The schedule of deductions does not address bus capacity violations. Additionally, the contract does not provide another mechanism for assessing a deduction for contractors use of a larger bus than required for the number of students riding or adjusting bus size to compensate for fewer riders.

(2) Had the contract contained provisions for reductions based on bus capacity violations, the observations would have had to be verified by the COR or the Contracting Officer to enforce them. The legitimacy of reducing a contractor's invoice based on observations by other than the Contracting Officer or his designated representative(s) could lead to a contractor claim against the Government.

4.d.,
page 10

e. Recommendation: Prepare future bus contract solicitations that will provide for greater flexibility in ordering bus size, kilometers and stops.

Response: Concur. Every effort will be made to achieve maximum flexibility in ordering bus capacity, kilometers and stops. The USAREUR proponent in coordination with the Principal Assistant Responsible for Contracting (PARC) and DODDS is exploring the feasibility of specification or bid schedule changes in these areas. Special care is being taken to ensure changes made in the specifications or bid schedule do not inadvertently cause increased or unrealistic requirements for surveillance and contract administration.

DEPARTMENT OF THE ARMY COMMENTS (cont'd)

Final
Report
Page No.

SFRD-KI

SUBJECT: Quick-Reaction Report on DOD Hotline Allegation of
Overpricing DOD Dependents Schools Student Bus
Transportation (Project No. 2CK-8002)

f. Recommendation: Initiate termination for default
contract number DAJA04-91-D-0075 for contractors nonperformance
of 40 percent of the contracted routes unless performance has
improved above 40 percent.

Response: Nonconcur. RCO Fuerth in unable to substantiate
nonperformance of 40 per cent of the contracted routes.
Findings of such were not discussed with the contracting office
by the auditors at any time during the audit and the report
does not substantiate the recommendation. The contract was
closed at the end of the school year prior to receipt of the
DODIG report. Therefore the recommendation cannot be
considered.

2. Point of contact for this action is Lieutenant Colonel
Johnson, (703) 576-7572.

Attachments


J. Bruce King
Acting Director

4.e.,
page 10
Deleted

DEPARTMENT OF THE NAVY COMMENTS



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(Research Development and Acquisition)
WASHINGTON, D C. 20350-1000

02 JUL 1992

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
(DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE)

Subj: OIG PROJECT NO. 2CK-8002, "DRAFT QUICK-REACTION REPORT ON
THE DOD HOTLINE ALLEGATION OF OVERPRICING OF DOD DEPENDENTS
SCHOOLS STUDENT BUS TRANSPORTATION," JUNE 9, 1992

Ref: (a) DoDIG Memo of 9 June 1992, subject as above

Encl: (1) ASN(RD&A) APIA memo dated 2 July 1992, subject as above

I am responding to the request forwarded by reference (a)
for the Draft Quick Reaction Report concerning an allegation of
overpricing on DoD Dependents Schools student bus transportation
contracts.

The Department of the Navy concurs with the recommendation
to review current student bus transportation contracts and modify
them to reflect current requirements. We will also continue to
monitor the contract requirements in light of current military
downsizing. To implement recommendations 1 (a) and (b), we have
issued the enclosure (1) memorandum to the Naval Facilities
Engineering Command directing them to take necessary actions.

A handwritten signature in cursive script, appearing to read "W.R. Morris".

W.R. Morris
RADM, SC, USN
Deputy for Acquisition Policy,
Integrity and Accountability

Copy to:
NAVINGEN
NAVCOMPT (NCB-53)

DEPARTMENT OF THE NAVY COMMENTS (cont'd)



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(Research, Development and Acquisition)
WASHINGTON, D.C. 20350-1000

02 JUL 1992

MEMORANDUM FOR COMMANDER, NAVAL FACILITIES ENGINEERING COMMAND
(FAC 02)

Subj: OIG PROJECT NO. 2CK-8002, "DRAFT QUICK-REACTION REPORT ON
THE DOD HOTLINE ALLEGATION OF OVERPRICING OF DOD DEPENDENTS
SCHOOLS STUDENT BUS TRANSPORTATION," JUNE 9, 1992

Encl: (1) DoDIG Memo of 9 June 1992, subject as above

The Department of Defense Inspector General (IG) recently issued the enclosure (1) Draft Quick Reaction Report concerning overpricing on Army Dependents Schools student bus transportation contracts in the Nuernberg Military Community. Among other things, the IG found that contract specifications were too rigid to allow for changes in requirements, and contract administration was not adequately performed. The specification issue resulted in overstated contract specifications which decreased the funds available for student education.

The IG's audit also identified material internal control weaknesses in existing controls, and unauthorized contract changes. The report recommended that the Navy review student bus transportation contracts and modify them to reflect current requirements. They also recommended that we continue to monitor the contract requirements in light of current military downsizing.

We concur with the IG's recommendations. Please take the necessary actions to implement them and ensure that future student bus contracts are properly planned, drafted and administered.

A handwritten signature in black ink, appearing to read "W.R. Morris".

W.R. Morris
RADM, SC, USN
Deputy for Acquisition Policy,
Integrity and Accountability

DEPARTMENT OF THE AIR FORCE COMMENTS



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON DC

8 JUL 1992

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: DOD (IG) Draft Quick-Reaction Report on the DOD
Hotline Allegation of Overpricing of DoD Dependents
Schools Student Bus Transportation, dated June 9, 1992
(Project No. 2CK-8002) - INFORMATION MEMORANDUM

This is in reply to your memorandum requesting the Deputy
Chief of Staff, Logistics, provide Air Force comments on the
subject report.

Your recommendation to review existing school bus
contracts for potential cost savings in United States Air
Forces, Europe, is appreciated by the Air Force.

We concur with the intent of recommendation 1. DoD (IG)
Report 89-113, DoD Dependents Schools Student Transportation, 21
Sep 89, addressed the same concerns. A Joint DoD Management
Task Force was established as a result of this audit to review
policies, procedures and standard criteria to initiate new
contracts and to better manage existing contracts. The task
force will present its conclusions and recommendations on 7 Aug
92. We will support those conclusions and recommendations,
which will eventually become the standard for DoD to establish
and manage school bus contracts. We support a review of
existing school bus contracts when standardized criteria has
been approved.


JAMES W HOPP, Maj Gen, USAF
ACSA/Logistics

DEPARTMENT OF DEFENSE DEPENDENTS SCHOOLS COMMENTS



DEPARTMENT OF DEFENSE
OFFICE OF DEPENDENTS SCHOOLS
2461 EISENHOWER AVENUE
ALEXANDRIA, VIRGINIA 22331-1100

JUN 30 1992

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
ATTN: DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE

SUBJECT: Inspector General, DoD, Draft Quick Reaction
Report, Project 2CK-8002

The following comments are offered regarding the
recommendations made in the subject report.

RECOMMENDATIONS:

1.A. Concur.

1.B. The Department of Defense Dependents Schools (DoDDS) concurs that requirements must be monitored in the light of force reductions. However, this must be done by the individual community or installation, not by the theater commanders. Recommend that this be revised to state: "Ensure that the respective community/installation commanders monitor contract requirements in the light of force reductions and reassignments."

2.A. Do not concur. Parents are required to arrange for transportation with the transportation office and to clear the transportation office when departing. Transportation does not obtain student busing information from the school. Parents don't always inform the school when they move. As reported to members of the IG field team, the DoDDS is in the process of revising the Student Information Management System (SIMS) program to produce some special reports with student transportation data for our own use. When these revisions are completed, DoDDS will be willing to share our data with the transportation office. However, they may have more accurate data than the school because of parents failures to keep the school informed of their current (local) residential address. These software revisions are being developed by contract and will not be completed before mid-FY 1993.

A report of total current enrollment by student would be unmanageable since many communities have 2,000-3,000 students. It would ease the transportation work load if a report of transportation data for students enrolled to date was provided in August with monthly updates thereafter, listing only those student enrolled, moved, or withdrawn during that period.

2.B. Do not concur. In the initial transfer of resources from the respective Military Services, only direct operations and maintenance funds were provided. The Services retained all manpower authorizations and funds for indirect transportation costs (driver supervisors, dispatchers, and quality assurance personnel). The disposition of funding responsibility was reflected in and confirmed by DoD Manual 4000.19, "DoD Regional Interservice Support (DRIS)," March 1984 (cancelled by DoD Instruction 4000.19, April 15, 1992). In Annex H, footnote 5 stated that "The administrative aspects of transportation services are not reimbursable."

It is specifically this point that has complicated the final resolution of the Joint DoD Management Task Force's work. The Services recognize that DoDDS was not provide the resources for transportation administration because over 90 percent of bus services were provided in-house. As the Services changed from in-house to contract operation, transportation supervisors, dispatchers, clerks, etc. were assigned to contract inspection and management.

The DoDDS has never been funded for school bus contract management or inspection/quality assurance. The DoDDS is willing to accept responsibility for these services once the related resources have been transferred and appropriation adjustments made.

3.A. Revise to read: "Make the necessary changes to service requirements in accordance with procedures set force in the Statement of Work (SOW) and directions of the Contracting Officer." The problem is that the Transportation Officer and the Contracting Officer's Representative (COR) were not taking advantage of the SOW and were not changing school bus services to reflect drops in requirements for services.

3.B. The COR has been, at least as late as December 1991, on the staff of the Nuernberg Community Transportation Officer. The Action described in the draft report is internal to the Nuernberg Transportation Office. Revise to read: "The school bus coordinator provide necessary changes in bus route schedules to the COR who, in turn, shall pass the revised schedules to the contractor, or if the changes require renegotiation of the contract, pass the revisions to the contracting officer for appropriate action."

4.A. It is the responsibility of the Transportation Officer, Nuernberg, not the Regional Contracting Office, Fuerth, to determine the most cost-efficient services to meet student transportation requirements. The failure of the Nuernberg

DEPARTMENT OF DEFENSE DEPENDENTS SCHOOLS COMMENTS (cont'd)

3

Transportation Officer to carry out this responsibility was the cause of the excessive costs that have been encountered. This recommendation should be renumbered 3.C.

4.B. Concur.

4.C. Concur.

4.D. Do not concur. Decreasing contract specificity--increasing contract flexibility leads directly to higher unit costs as the contractor ensures that the prices bid will cover all exigencies. Renumber and revise to read: "The DoDDS, USAREUR and USACCE review the SOW to simplify contract changes to reflect decreasing requirements." Since contractors have limited equipment fleets, downsizing equipment is often an unacceptable option to reduce overall contract capacity requirements and cost. Route adjustments or consolidations are often more feasible means to this end.

4.E. Concur.


John L. Stremple
Director

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