Audit Report

OFFICE OF THE INSPECTOR GENERAL

DOD PROCUREMENTS THROUGH THE TENNESSEE VALLEY AUTHORITY TECHNOLOGY BROKERING PROGRAM

Report No. 94-008 October 20, 1993

Department of Defense

Acronyms

AFAMC.....Air Force Air Mobility Command
ASD(C^3I).....Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
CASCOM.....Army Combined Arms Support Command
CECOM.....Army Communications and Electronics Command
DCAA.....Defense Contract Audit Agency
DCMC.....Defense Contract Management Command
DFARS.....Defense Federal Acquisition Regulation Supplement
FAR.....Federal Acquisition Regulation
FIP.....Federal Information Processing
HDL.....Harry Diamond Laboratories
ICAIT.....International Center for the Application of Information Technology
MICOM.....Army Missile Command
NAASW.....Non-Acoustic Anti-Submarine Warfare
NAVSSES.....Naval Ships Systems Engineering Station
OIG.....Office of the Inspector General
SOFNET.....Special Operations Forces Network
TCRD.....Tennessee Center for Research and Development
TVA.....Tennessee Valley Authority
USAISC.....U.S. Army Information Systems Command
USASOC.....U.S. Army Special Operations Command

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

October 20, 1993

MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DEPUTY UNDER SECRETARY OF DEFENSE (ENVIRONMENTAL SECURITY)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on DoD Procurements Through the Tennessee Valley Authority Technology Brokering Program (Report No. 94-008)

This final report is for your information and use. The report addresses the use of Economy Act orders placed with the Tennessee Valley Authority by DoD activities.

The Comptroller of the Department of Defense, and the Deputy Under Secretary of Defense (Environmental Security), did not provide comments. The Army comments were received too late to be included in the final report. We will consider these comments as comments to the final report unless additional comments are received. The Navy and Air Force did not adequately address corrective actions on all recommendations. DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, we request comments on the unresolved recommendations by December 20, 1993. See the "Response Requirement Per Recommendation" section at the end of each finding for the specific requirements for your comments.

We appreciate the courtesies and cooperation extended to the audit staff. If you have any questions on this audit, please contact Mr. Garold E. Stephenson, Program Director, at (703) 692-3179 (DSN 222-3179) or Ms. Kimberley A. Caprio, Project Manager, at (703) 692-3321 (DSN 222-3321). Appendix M lists the distribution of this report. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 94-008 **October 20, 1993**
(Project No. 2CH-5003)

DOD PROCUREMENTS THROUGH THE TENNESSEE VALLEY AUTHORITY TECHNOLOGY BROKERING PROGRAM

EXECUTIVE SUMMARY

Introduction. This report is the fourth in a series of reports on our audit of DoD procurements through the Tennessee Valley Authority (TVA) Technology Brokering Program. The prior three reports covered improper placement of Economy Act orders, control over goods received, and oversight and administration of a major program acquired through TVA. This was a cooperative audit with the Inspector General, TVA, of work performed through the TVA Technology Brokering Program. The TVA Technology Brokering Program was established to expand opportunities for technology-based growth in the Tennessee Valley. The TVA Technology Brokering Program received from DoD activities Economy Act orders totaling $139.4 million from May 1990 through February 1992.

Objectives. The overall objective of the audit was to evaluate DoD use of Economy Act orders to obtain contracting support from TVA. For this report, we determined whether procedures and controls were adequate at DoD activities to verify that the services and supplies ordered were actually received and properly billed.

Audit Results. DoD did not establish adequate controls over Economy Act orders issued to TVA for goods and services.

o DoD activities issued Economy Act orders that increased costs by an estimated $16.9 million, violated the Competition in Contracting Act, delegated inherently Governmental functions to contractors, procured $40.1 million in Federal information processing resources without a proper delegation of procurement authority, caused apparent violations of the Walsh-Healey Public Contracts Act of 1936, obtained unauthorized personal services, inappropriately issued $9.6 million in project orders, and required TVA employees and TVA cooperator employees without security clearances to have access to classified information (Finding A).

o DoD activities did not establish adequate controls to verify that detailed progress reports were received from TVA cooperators and subcontractors, that deliverables met requirements, and that vouchers totaling $42.3 million were accurate, reasonable, and allowable. We determined that DoD activities paid an additional $8.8 million by going through TVA instead of DoD contracting offices (Finding B).

o DoD activities were required to pay $112.8 million in advance for work performed through the TVA Technology Brokering Program. As a result, TVA accrued interest on DoD funds paid in advance, while the U.S. Treasury paid approximately $4.6 million in interest to borrow the funds (Finding C).

Internal Controls. We identified material internal control weaknesses in the placement, management, and administration of Economy Act orders. See Part I for the internal controls reviewed and Part II for details on the control weaknesses.

Potential Benefits of Audit. DoD activities can realize reductions in costs by procuring the support services through normal DoD contracting offices rather than through TVA; however, we could not quantify the potential benefits. The return of interest TVA accrued on DoD funds will benefit the U.S. Treasury by about $3.5 million. A summary of the potential monetary and other benefits is in Appendix K.

Summary of Recommendations. We recommended that DoD establish procedures to prevent the use of Economy Act orders to circumvent acquisition laws, to define requirements for Federal information processing resources, and to establish controls over classified information. We recommended that the Air Force Air Mobility Command assign program management responsibility to a Government employee and discontinue the acquisition of personal services. We also recommended that the Military Departments improve contract administration of Economy Act orders. Further, we recommended issuance of guidance on payments on Economy Act orders issued to agencies with commercial bank accounts and that DoD recoup interest accrued by TVA on DoD funds.

Management Comments. The Navy and Air Force agreed to review security requirements, contract administration and audit, and payment procedures with TVA. The Air Force agreed to assign program management of replacement of underground fuel storage tanks to Air Force personnel and to discontinue acquisition of personal services through TVA. The Army comments were received too late to be included in the report. The Army comments generally agreed with the thrust of the recommendations. A discussion of the responsiveness of Navy and Air Force comments is in Part II. The complete text of Navy and Air Force comments is in Part IV.

Audit Response. We will consider the Army comments to be comments to the final report unless revised comments are received after the date of this report. The Navy and Air Force comments did not fully address all recommendations. We request that the Comptroller of the Department of Defense, the Deputy Under Secretary of Defense (Environmental Security), the Army, the Navy, and the Air Force provide comments to the final report by December 20, 1993.

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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 Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

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PART I - INTRODUCTION

Background

Economy Act orders. From May 1990 to February 1992, DoD activities issued more than 221 Economy Act orders valued at $139.4 million to the Tennessee Valley Authority (TVA) Technology Brokering Program to procure support services and various equipment items. DoD activities issued the orders under the authority of the Economy Act of 1932 (Title 31, U.S.C., Section 1535). The Economy Act authorizes the head of a Government agency or major organizational unit within a Government agency to acquire goods and services from another Government agency. The acquisition is authorized if the other agency is in a position to provide or obtain, by contract, the services or goods ordered; if the procurement through interagency agreement is in the best interest of the Government; and if the goods or services cannot be obtained as conveniently or cheaply from a commercial enterprise. Federal Acquisition Regulation (FAR) subpart 17.5, and Defense Federal Acquisition Regulation Supplement (DFARS) 217.502, "Interagency Acquisition Under the Economy Act," implement the Economy Act. The complete text of FAR subpart 17.5 is in Appendix A.

Technology Brokering Program. TVA established the Technology Brokering Program in 1988 to expand opportunities for technology-based growth in the Tennessee Valley. The Technology Brokering Program accepts Economy Act orders from other Government agencies and acquires supplies and services through cooperative agreements and contracts with commercial organizations inside and outside of the Tennessee Valley. To expand opportunities within the Tennessee Valley, the results of research, development, testing, and evaluation performed for other Government agencies can be either transferred to, or commercialized by, the organizations in the Tennessee Valley or organizations in the Tennessee Valley can directly participate in the research programs.

TVA is responsible for approving workplans and budgets submitted by each cooperator (contractor), for processing and paying invoices, and for providing management oversight. TVA relies on the requesting agency to retain technical oversight and acceptance responsibility for work performed. TVA assesses a fee, which ranges from 5 to 10 percent of the amount of the Economy Act order, to process and administer the procurement.

Five people in the Resources Group at TVA managed the Technology Brokering Program. Four of the five staff members in the Technology Brokering Program office were responsible for contract administration and oversight. One person in the Office of General Counsel, TVA, reviewed and approved the interagency

agreements between TVA and the DoD activities using the TVA Technology Brokering Program. The Office of the Inspector General (OIG), TVA, has a staff of 51 and is responsible for auditing TVA programs totaling $6 billion. The OIG, TVA, does not devote audit resources specifically to the Technology Brokering Program, but the OIG, TVA, performed two audits and has performed additional audits of the program in FY 1993. During FY 1991, TVA received $3.6 million in Economy Act orders from other Government agencies in addition to the Economy Act orders received from DoD.

Objectives

The audit was performed cooperatively with the OIG, TVA. The objective of the joint audit was to evaluate the use of Economy Act orders to obtain contractor support from TVA. The OIG, TVA, evaluated TVA compliance with applicable procurement laws and regulations, evaluated achievement of the TVA Technology Brokering Program objectives, and evaluated procedures used by DoD to obtain contracting support from the TVA.

The sub-objectives of the OIG, DoD, audit were to determine whether:

o contract offloading by DoD activities was appropriate, justified, and properly approved;

o procedures were adequate at DoD activities to verify that the services and supplies ordered were actually received and properly billed, and

o internal controls, as they relate to these DoD procurements, were effective.

OIG, DoD, Report No. 92-069, "Quick-Reaction Report on DoD Procurements Through the Tennessee Valley Authority," April 3, 1992, addressed the first objective, while this report addresses the remaining two objectives. OIG, DoD, Report No. 93-068, "Procurement of Services for the Non-Acoustic Anti-Submarine Warfare Program Through the Tennessee Valley Authority," March 18, 1993, addressed the second and third objectives for Economy Act orders from the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) (ASD[C^3I]) to the TVA Technology Brokering Program.

Scope

For this review, we judgmentally selected a sample of 12 interagency agreements, 108 related Economy Act orders, and 35 related amendments to the orders. The total value of the

orders and amendments was $112.8 million (Appendix B). The orders were selected from a universe of 42 interagency agreements, and 221 Economy Act orders and amendments valued at $139.4 million that DoD activities issued to TVA between May 1990 and February 1992. The interagency agreements selected for review were the most significant based on dollar value, had substantial work already performed by TVA cooperators, and included orders issued by each Military Department and ASD(C^3I).

The table shows the number of Economy Act orders for each DoD Component we reviewed.

Summary of Economy Act Orders Reviewed

DoD Component	Number of Interagency Agreements	Number of Orders and Amendments	Value of Orders and Amendments (millions)
Army	9	98	$ 49.5
Navy	1	35	35.1
Air Force	1	3	9.6
ASD(C^3I)	1	7	18.6
Total	12*	143	$112.8

*Twelve interagency agreements (9 Army, 1 Navy, 1 Air Force, and 1 ASD(C^3I)) were issued by eight DoD activities.

We reviewed each interagency agreement and related Economy Act orders and amendments, determinations and findings, and statements of work. We also sent a two-part questionnaire that requested information on the issuance and acceptance of the Economy Act orders to the 8 DoD activities, as well as to 32 other DoD activities that issued to TVA Economy Act orders totaling $127.4 million. We reviewed the cooperative agreements between TVA and its cooperators, the workplans and budgets, the progress reports, and the deliverables for each project. In addition, we examined invoices and supporting documentation totaling $42.3 million the cooperators submitted to TVA for payment between October 1, 1990, and May 31, 1992, and performed a limited review of vouchers and invoices and supporting documentation provided by subcontractors to cooperators.

We interviewed officials in the Technology Brokering Program Office, TVA; the Office of General Counsel, TVA; OIG, TVA; and TVA cooperator personnel. We also interviewed program, contracting, and finance and accounting officials at eight DoD activities; the Washington Headquarters Services; the Office of the Director of Defense Procurement; the Office of the Deputy Under Secretary of Defense (Environmental Security); the Defense

Contract Audit Agency (DCAA); the Office of Financial Management Services, Department of the Treasury; and the General Services Administration.

This economy and efficiency audit was performed from October 1991 through May 1993, 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 computer-based data to accomplish the audit objectives. The activities contacted or visited are listed in Appendix L.

Internal Controls

The audit identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular No. A-123, and DoD Directive 5010.38. DoD activities did not establish effective controls to review and approve work performed, receipt of deliverables, or costs incurred under the Economy Act orders for DoD programs. Also, the Air Force Air Mobility Command (AFAMC), formerly the Air Force Military Airlift Command, did not establish adequate controls to prevent contractor employees from performing inherently Governmental functions. In addition, DoD activities did not require that the interagency agreements with the TVA Technology Brokering Program specify provisions to verify that adequate contract administration would be performed on cooperative agreements and contracts to validate incurred costs.

We attribute the weaknesses to a lack of knowledge regarding the proper use of interagency acquisitions and inadequate acquisition planning before entering into interagency agreements with the TVA. Implementation of Recommendations A.1.b. through A.3.a., B.1., and B.2., in this report will correct the internal control weaknesses. We could not quantify the potential monetary benefits related to implementation of the recommendations because future Economy Act orders may occur in varying amounts. Implementation of the recommendations should preclude the payment of unsupported and unallowable costs related to the funds remaining at TVA. A copy of the report will be provided to the senior officials responsible for internal controls within the Military Departments and the Office of the Secretary of Defense.

Prior Audits and Other Reviews

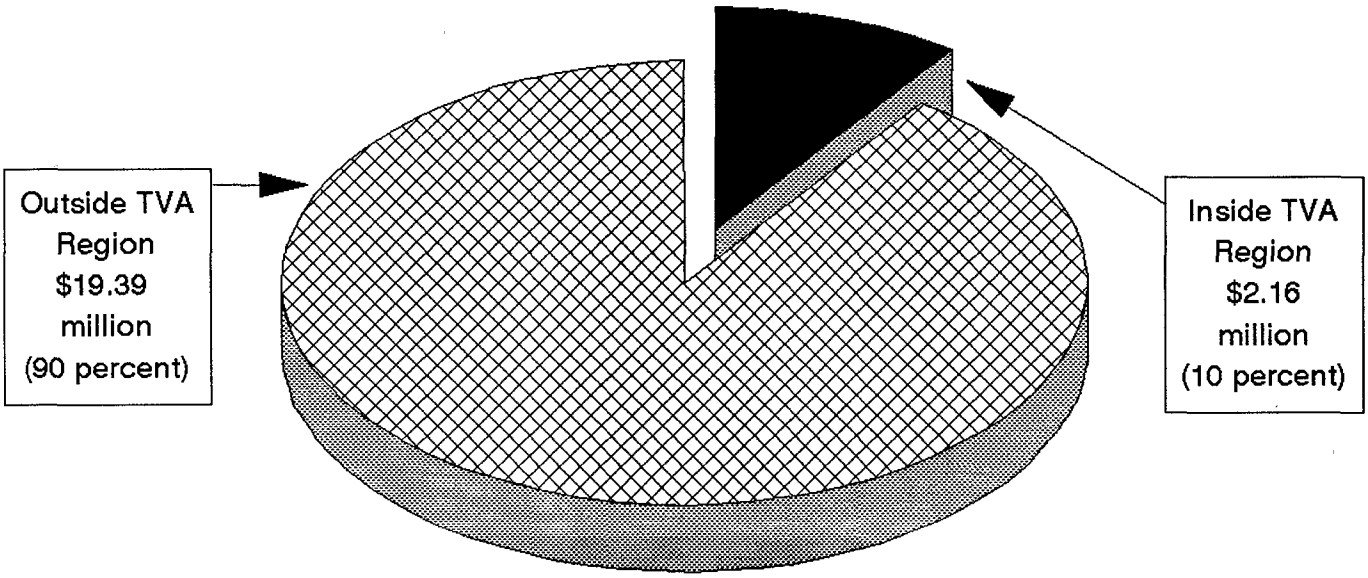
The OIG, DoD, and OIG, TVA, issued five audit reports as a result of the joint audit of interagency acquisitions through the TVA Technology Brokering Program. In addition, the OIG, DoD, and the Army Audit Agency issued six other reports that addressed contract offloading to obtain supplies and services through other Government agencies. The OIG, DoD, also issued a report that

addresses the benefits from competing contracts for services, a subject relevant to issues in this report. Appendix C presents a summary of each of the reports.

Other Matters of Interest

DoD support of Technology Brokering Program goal. The goal of the TVA Technology Brokering Program is to expand opportunities for technology-based growth in the Tennessee Valley by bringing high-technology work into the Tennessee Valley that can be used for future commercial purposes. However, for the 143 Economy Act orders and amendments reviewed, we determined that 90 percent of the $21.6 million retained by TVA cooperators between October 1, 1990, and May 31, 1992, was paid to cooperators outside the Tennessee Valley area.

The following figure depicts the relationship of funds paid to cooperators inside and outside the Tennessee Valley.



Comparison of Funds Paid to Cooperators Inside versus Cooperators Outside the Tennessee Valley

Further, where the requirements of the DoD activity clearly did not meet the research, development, test, and evaluation mission of the TVA Technology Brokering Program, rather than establish a cooperative agreement, TVA placed the work on contract with the firm that DoD designated through the TVA contracting office in Chattanooga, Tennessee.

Revisions to TVA guidance. In August 1992, based upon the results of an OIG, TVA, audit of the TVA Technology Brokering Program, TVA issued revised guidance that states that the Technology Brokering Program will emphasize projects that directly benefit the Tennessee Valley region and its technology organizations. Projects accepted must meet the following criteria.

- The cooperator must have a physical presence in the Tennessee Valley, or commit to utilizing Tennessee Valley organizations as subcontractors for significant portions of the project.

- The project must have identifiable research and development value-added components.

- The project should have identifiable potential for commercialization in the Tennessee Valley region. Preference will be given to projects of agencies that commit to joint technology transfer efforts with TVA and its contractors.

PART II - FINDINGS AND RECOMMENDATIONS

A. ACQUISITIONS OF GOODS AND SERVICES

The Army, Navy, Air Force, and ASD(C^3I) issued Economy Act orders and project orders to the TVA Technology Brokering Program that circumvented the requirements of the Federal procurement process. Transferring Economy Act orders to the TVA Technology Brokering Program permitted DoD program officials to obtain supplies and services noncompetitively, without justifying the use of other than full and open competition, as required by the FAR and DFARS. This condition occurred because DoD Instruction 4000.19, "Interservice, Interdepartmental, and Interagency Support," which defines requirements for interagency acquisitions, does not provide sufficient guidance on whether interagency agreements should comply with the FAR and other procurement regulations. The procurement of goods and services through TVA resulted in an estimated $16.9 million in increased costs, the procurement of more than $40.1 million in Federal information processing (FIP) resources without the proper delegation of procurement authority, potential violation of the The Walsh-Healey Public Contracts Act of 1936, Title 41, U.S.C., Section 35-45 (the Walsh-Healey Act). The procurements also resulted in performance of inherently Governmental functions, the acquisition of unauthorized personal services, the improper issuance of $9.6 million in project orders, and access to classified information by TVA employees and TVA cooperator employees who did not have security clearances.

DISCUSSION OF DETAILS

Reasons for using TVA

The DoD officials responsible for issuing Economy Act orders and project orders to the TVA Technology Brokering Program stated that they used this method because they could:

- designate the performing contractor;
- continue ongoing work without interruption;
- obtain the requirement expeditiously; and
- obtain contract administration, program management, or technical oversight not available in-house.

The DoD program officials further stated that the requirements were often known well in advance and that the requirements could have been acquired through sources other than TVA. However, for expediency, the DoD program officials issued Economy Act and project orders to the TVA Technology Brokering Program instead of requesting DoD contracting offices to award contracts.

One activity, the U.S. Army Information Systems Command (USAISC), performed a cost-benefit study that showed acquiring goods and services through TVA was both cost-effective and more convenient than using in-house contracting capabilities. The USAISC analysis showed that for 113 Economy Act orders and 20 modifications, TVA charged an administration fee of $1.7 million (about 6 percent) of the $28.6 million transferred by the Army. USAISC calculated that the Army would have incurred costs totaling about $2 million if the local contracting office had awarded the contracts. The analysis concluded that, although administrative costs were not significantly different, other reasons favored using TVA. The document stated:

> ...intangible benefits provided by TVA were significant because, for example, incremental funding of USAISC programs causes many procurement actions to occur during the fourth quarter of the fiscal year, and the local contracting office has had problems processing contract requirements during that time. Whereas, TVA allows for smooth processing of contract requirements throughout the fiscal year.

The TVA Technology Brokering Program could enter into a cooperative agreement in less time than a DoD contracting activity could award a procurement contract.

TVA Use of Cooperative Agreements

The TVA Technology Brokering Program issued cooperative agreements to acquire the supplies and services that DoD activities requested. TVA cited the Federal Technology Transfer Act; the Federal Grant and Cooperative Agreement Act (Title 31, U.S.C., Sections 6301-08); and the TVA Act as authority for using cooperative agreements. The Director of the TVA Technology Brokering Program stated that cooperative agreements were not procurement instruments and were not subject to the Competition in Contracting Act, other Federal procurement regulations, and FAR and DFARS requirements related to competition. The General Counsel, TVA, determined that the TVA Technology Brokering Program should use cooperative agreements rather than award procurement contracts in accordance with the FAR.

The Federal Grant and Cooperative Agreement Act specifies characteristics of procurement contracts and cooperative agreements. Section 6303 of that Act states:

> An executive agency shall use a procurement contract as the legal instrument reflecting a relationship between the United States Government and a State, a local government, or other recipient when...the principal purpose of the instrument is to acquire (by purchase, lease, or barter) property or services for the direct benefit or use of the United States Government.

Section 6305 of the Act states:

> An executive agency shall use a cooperative agreement as the legal instrument between the United States Government and a State, a local government, or other recipient when...the principal purpose of the relationship is to transfer a thing of value to the State, local government, or other recipient to carry out a public purpose of support or simulation authorized by a law of the United States instead of acquiring (by purchase, lease, or barter) property or services for the direct benefit of the United States Government, and substantial involvement is expected between the executive agency and the State, local government, or other recipient when carrying out the activity contemplated in the agreement.

The OIG, TVA, in Report No. 91-076G, "Technology Brokering Program," March 31, 1992, determined that TVA inappropriately used cooperative agreements to procure supplies and services for DoD under the TVA Technology Brokering Program. The OIG, TVA, determined that the TVA Technology Brokering Program was not technically involved in the work performed by the recipients of the cooperative agreements. The report recommended that TVA reconsider the use of cooperative agreements and, if used, clearly justify their use. TVA management agreed to issue revised guidelines for the Technology Brokering Program. On August 22, 1992, TVA did issue revised guidelines that stated cooperative agreements will continue to be utilized by the Technology Brokering Program.

The use of cooperative agreements to circumvent the competition requirements of the Federal procurement process was a concern of the Senate Committee on Governmental Affairs in the early 1980s. General Accounting Office Report No. GGD-81-88, "Agencies Need Better Guidance for Choosing Among Contracts, Grants, and Cooperative Agreements," September 1981, states that several assistance agreements examined in 1981 were for goods and services that should have been procured under contract. Both the General Accounting Office and the Senate Committee on Governmental Affairs considered the issue significant enough to recommend that the Office of Management and Budget revise its regulations to more precisely prescribe the conditions under which contracts, grants, and cooperative agreements were used.

Extent of Competition

The cooperative agreements the Technology Brokering Program used did not require procurement advertisements or a competitive selection process. The Technology Brokering Program permitted each of the DoD activities issuing Economy Act orders to designate the cooperator to provide the requested goods or services. The ability to designate cooperators allowed the DoD activities to avoid competition, retain contractors already

performing work at the activities, and expeditiously obtain or resume performance of requirements by prior contractors. Also, the selection of subcontractors was not competitive (Finding B). Examples 1 and 10 of Appendix D describe how the U.S. Army Special Operations Command (USASOC) and AFAMC avoided competition by placing Economy Act orders with TVA.

Neither DoD nor TVA prepared sole-source justification and approval or determination and finding documents to support the noncompetitive procurement or the use of the specified contractors before placing the Economy Act orders. However, as a result of our audit, contracting officers at USASOC and the Army Harry Diamond Laboratories (HDL) prepared after-the-fact determinations and findings to justify the noncompetitive acquisition USASOC and HDL had made through the TVA Technology Brokering Program (examples 1 and 2 in Appendix D).

Use of contractors. Often, the firms providing the supplies or services under the cooperative agreements issued by the TVA Technology Brokering Program had previously provided similar supplies or services to the requiring DoD activities under procurement contracts. For example, USASOC designated the same firm that provided support to its Special Operations Forces Network (SOFNET) as a contractor to be the cooperator under the TVA cooperative agreement. As another example, AFAMC continued with the same firm that previously performed work as a contractor under an interagency acquisition through the Department of Energy. However, the firm acted as a subcontractor under a TVA cooperative agreement with the Tennessee Center for Research and Development (TCRD), a non-profit organization. The Army Information Systems Engineering Command orders were for the continuation of a previous contract effort to upgrade the E-mail software and to make enhancements to computer-based systems at Fort Huachuca, Arizona (examples 1, 4, and 10 in Appendix D).

The TVA Technology Brokering Program frequently issued cooperative agreements to TCRD, for large acquisitions resulting from DoD Economy Act orders. TCRD and the University of Tennessee provided administrative assistance to TVA, including marketing the TVA Technology Brokering Program, as well as acting as a cooperator that subcontracted for performance of the work. TCRD received more than $5 million in FY 1991 as a cooperator for the TVA Technology Brokering Program. For smaller programs, TVA issued the cooperative agreement to the firm designated by the requiring DoD activity.

Benefits of competitive procurement. Price competition in the procurement of goods and services saves money. Various studies have indicated that between 15 and 50 percent of costs can be reduced through increased competition. OIG, DoD, Report No. 93-041, "Computed Tomography Scanner Maintenance Service

Contracts," January 8, 1993, states that the average cost of contracts for computed tomography scanner maintenance services procured noncompetitively was 76 percent greater than the cost of services procured competitively (Appendix C).

We believe that DoD could have achieved significant cost reductions if the supplies and services obtained through TVA on noncompetitive cooperative agreements were competitively procured. Using the 15 percent as a conservative estimate for cost reductions, and applying it to the $112.8 million of Economy Act orders reviewed, we estimate that costs could have been reduced by about $16.9 million.

Acquisition of FIP Resources

DoD activities used the TVA Technology Brokering Program to acquire FIP hardware, software, maintenance, and support services valued at more than $50 million. The FIP hardware, software, maintenance, and support services acquired through TVA fell under the requirements of the Brooks Act (Title 40, U.S.C., Section 759) and the Federal Information Resources Management Regulation. The Brooks Act requires the Administrator, General Services Administration, to coordinate and provide for the purchase, lease, and maintenance of FIP equipment for Federal agencies. In April 1991, the requirement was expanded to include FIP-related services. To implement the Brooks Act, the General Services Administration published the Federal Information Resources Management Regulation. The General Services Administration grants limited authority to Federal agencies to directly acquire FIP resources by establishing dollar thresholds in the Federal Information Resources Management Regulation. Contracting officers must follow both the Federal Information Resources Management Regulation and the FAR when procuring FIP resources.

Delegation of procurement authority to DoD. The General Services Administration delegated blanket FIP procurement authority to DoD activities for competitive contracts when the value of the contract does not exceed $2.5 million and for noncompetitive contracts when the value of the contract does not exceed $250,000. The Warner Amendment (Title 40, U.S.C., Section 759(a)(3)) allows certain procurements for FIP resources to be exempt from the delegation requirement under the Brooks Act. These exemptions include FIP equipment acquired for intelligence activities, cryptologic activities related to national security, command and control of military forces, and equipment integral to a weapon system. The Warner Amendment does not exempt FIP equipment used for routine administrative and business applications.

FIP acquisitions through TVA. DoD FIP procurements through TVA exceeded the $250,000 limitation for noncompetitive procurements and were acquired by TVA on cooperative agreements from cooperators. About $40.1 million of the $50 million for the FIP resources procured through the TVA Technology Brokering Program was for purposes not exempted by the Warner Amendment (Appendix E). The DoD activities neither obtained delegations of procurement authority from the General Services Administration nor prepared determinations that stated the FIP procurements did not conflict with the General Services Administration's delegation requirements. By obtaining the FIP equipment and services through TVA rather than through the General Services Administration or DoD procurement channels, the DoD activities did not comply with the Brooks Act and the Federal Information Resources Management Regulation, and the DoD activities had no assurance that costs paid were reasonable since each of the procurements through TVA was sole-source. The $40.1 million of FIP resources acquired by DoD included TVA fees totaling about $2.5 million.

We could not conclusively determine that DoD program officials were aware of the Brooks Act and the Federal Information Resources Management Regulation requirements. However, DoD officials generally did not seek the assistance of DoD contracting officials, who should be aware of the policies on contracting for FIP resources, before issuing Economy Act orders. Also, DoD Instruction 4000.19 does not specify the applicability of Federal Information Resources Management Regulation requirements to Economy Act acquisitions. To ensure that DoD program officials are aware of the applicability of such requirements, DoD Instruction 4000.19 should be amended to define the responsibilities of activities for the procurement of FIP resources and the requirement to obtain a delegation of procurement authority from the General Services Administration for Economy Act orders.

Examples 1, 3, 6, 7, and 9 in Appendix D describe the acquisition of FIP resources by USASOC, Army Combined Arms Support Command (CASCOM), USAISC, the Army All Sources Analysis Systems, and the Naval Ships Systems Engineering Station (NAVSSES) through the TVA Technology Brokering Program.

GSA review of the Technology Brokering Program. In August 1992, the Assistant Commissioner for Federal Information Resources Management, General Services Administration, wrote to inform TVA of a review the General Services Administration performed of the TVA Technology Brokering Program. The Assistant Commissioner determined that TVA acquired FIP resources through the TVA Technology Brokering Program without meeting Federal Information Resources Management Regulation requirements and that the lack of TVA oversight allowed other Federal

agencies to use the TVA Technology Brokering Program to bypass regulatory requirements. The General Services Administration directed TVA to phase out immediately the acquisition of FIP resources under the TVA Technology Brokering Program regardless of dollar amount without a specific delegation of procurement authority from the General Services Administration (Appendix F). According to an OIG, TVA, official, TVA is no longer accepting Economy Act orders for FIP resources unless the requesting agency provides written documentation of a delegation of procurement authority from the General Services Administration for the requirement.

Walsh-Healey Act. The Walsh-Healey Act requires that the recipient of a Government agency contract for the manufacture or furnishing of FIP materials, supplies, articles, and equipment that exceed $10,000, be either the manufacturer or a regular dealer of the items. The Walsh-Healey Act was intended to prohibit the purchasing of goods by Government agencies from intermediaries acting as "brokers." Brokering results in additional and unnecessary costs to the Government because of additional layers of profit and overhead.

FAR 22.608, "Procedures," places the responsibility for compliance with the Walsh-Healey Act with the contracting officer. The Walsh-Healey Act requires that a contracting officer verify that the contractor providing the FIP resources is either a manufacturer or dealer. The complete text of FAR 22.608 is in Appendix A.

Acquisition of FIP equipment by TVA for three of the eight DoD activities reviewed appear to be potential violations of the Walsh-Healey Act because the FIP equipment was acquired through cooperators that were not manufacturers or dealers. Examples 1, 2, and 6 in Appendix D describe the three FIP equipment acquisitions. Because TVA issued the cooperative agreements, we referred the potential violations of the Walsh-Healey Act to the OIG, TVA, for further investigation. On June 14, 1993, the OIG, TVA, responded to our referral, stating that the President, Resources Group, TVA, and the General Counsel, TVA, have been notified of our concerns regarding compliance with the Walsh-Healey Act. The OIG, TVA, further stated that his office will conduct a future review of the TVA Technology Brokering Program to ensure that problems have been corrected.

Inherently Governmental Functions and Personal Services

Office of Management and Budget Circular A-76, "Performance of Commercial Activities," defines an inherently Governmental function as policy making, policy interpretation and enforcement, financial accountability, decision making, or managerial in

nature. FAR 37.102, "Service Contracting," prohibits awarding contracts for the performance of inherently Governmental functions.

Personal services. FAR 37.104, "Personal Service Contracts," defines a personal service contract as one which, by its terms or administration, causes contractor personnel to appear to be Government employees. The complete text of FAR 37.104 is in Appendix A. The Government is normally required to obtain its employees by direct hire under competitive appointment or other procedures required by the civil service laws. Obtaining personal services by contract, rather than by direct hire under the competitive appointment procedures, circumvents civil service laws.

Air Force use of personal services. AFAMC acquired contractor support through the TVA Technology Brokering Program to design, manage, and perform the tasks related to the test, replacement, and repair of underground fuel storage tanks. Since December 1992, neither AFAMC nor TVA personnel have overseen or managed the $9.6 million project. University of Tennessee personnel performed oversight and management of the work and verified and approved the expenditure of Government funds, duties that are inherently Governmental functions. The performance of inherently Governmental functions by non-Government personnel is a material internal control weakness. Refer to example 10 in Appendix D for additional details.

AFAMC also issued Economy Act orders totaling $60,000 to the TVA Technology Brokering Program to obtain personal services. The Economy Act orders were issued to retain the services of a software engineer to complete work on the data standardization logistical data model that was not completed under an expiring Air Force contract. Examples 8 and 10 in Appendix D provide additional details on the non-acoustic anti-submarine warfare program (NAASW) and AFAMC acquisition of personal services through the TVA Technology Brokering Program and the performance of inherently Governmental functions by contractor personnel.

Use of Project Orders

The Project Order Act (Title 41, U.S.C., Section 23) defines a project order as an order for the manufacture of materials, supplies, and equipment or for other work or services placed with a Government-owned, Government-operated establishment. Under a project order, "substantial" work must be performed by the Government-owned, Government-operated establishment and cannot be contracted for by the recipient of the project orders.

AFAMC inappropriately used project orders totaling $9.6 million to acquire services through TVA that were not performed by TVA

personnel. Example 10 in Appendix D provides additional details on the acquisition. The General Counsel, AFAMC, interpreted that "substantial" work can be as little as 5 percent. Significantly, 5 percent is the amount of the brokerage fee assessed by the TVA Technology Brokering Program for Economy Act orders. The TVA Technology Brokering Program did not perform the work, but instead established cooperative agreements with non-TVA organizations to perform the services for AFAMC. By using the project orders rather than Economy Act orders, the Air Force established improper obligations in its financial records.

In OIG, DoD, Report No. 93-042, "Allegations of Improprieties Involving DoD Acquisition of Services Through the Department of Energy," January 21, 1993, we also reported the inappropriate use of project orders for interagency acquisitions by AFAMC and two other DoD activities. In that report, we recommended that the Service Acquisition Executives issue guidance to inform major commands and field activities that the Economy Act is the correct legal authority for placing interagency acquisitions and that the Project Order Act is not a proper legal authority. Since the Air Force agreed to take corrective action in response to the recommendation, we are making no recommendations in this report on placing interagency acquisitions.

Access to Classified Information

Government personnel and contractors are responsible for protecting all classified information to which they have access or for which they have custody. DoD Manual 5220.22-M, "Industrial Security Manual for Safeguarding Classified Information," defines security requirements that must be met when contractors have access to, or develop, classified information. Contractors performing work under Economy Act orders to TVA required access to classified information. In addition, TVA was responsible for administering the contracts and approving costs incurred by the subcontractors for work performed, including classified work.

Security clearances. The interagency agreements between the DoD activities and TVA did not identify security requirements for TVA for either the access to classified data or the commercialization of information developed as a result of work performed by TVA, cooperators, and subcontractors under Economy Act orders from DoD. Further, the Director of the TVA Technology Brokering Program stated that neither he nor the other personnel in his office had security clearances, and that he had not taken any steps to ensure that cooperators and their subcontractors had security clearances and followed proper procedures if working with classified data. We also confirmed that the Defense Investigative Service had not performed security investigations of TVA Technology Brokering Program personnel.

DoD classified work. The nature of the work to be performed under Economy Act orders issued to TVA by several DoD activities required cooperator and subcontractor personnel and TVA personnel administering the cooperative agreements to have security clearances. Examples 1, 5, and 8 in Appendix D provide details on the security requirements for work performed by the TVA Technology Brokering Program and TVA cooperators for USASOC, the Army Missile Command (MICOM), and the NAASW program.

TVA personnel cannot administer cooperative agreements involving classified projects if the personnel have not been granted security clearances authorizing them access to the programs. The lack of security clearances should preclude TVA personnel from being aware of tasks that TVA cooperators and subcontractor must perform. Further, the lack of awareness of security issues and the lack of security clearances at TVA increase the risk of unauthorized disclosure of classified information. TVA has overall responsibility for administering the cooperative agreements and contracts and for approving cooperator budgets and billed costs. Therefore, either provisions should be made to ensure that TVA personnel involved with the projects have requisite security clearances, or DoD acquisitions through TVA should be discontinued when access to classified information is required. The Service Acquisition Executives, with assistance as needed from the Defense Investigative Service, should review acquisitions through the TVA Technology Brokering Program that involve classified projects to verify that adequate controls are in place to adequately secure classified information provided to TVA, its cooperators, and subcontractors or commercialized by TVA.

Internal Controls

Approval of Economy Act orders. DoD activities issued Economy Act orders to TVA to circumvent requirements of the Competition in Contracting Act, the Brooks Act, and other Federal and DoD procurement regulations. DoD Instruction 4000.19, which provides limited guidance on the use and completion of memorandums of agreement for interagency support, does not distinguish between the proper use of contracts, cooperative agreements, and grants by the Government agency providing the support.

DoD program officials did not obtain approvals of DoD contracting officials for the Economy Act orders issued to the TVA Technology Brokering Program. Where approvals were obtained, the DoD contracting officers did not challenge the propriety of the use of cooperative agreements by TVA to acquire supplies and services noncompetitively.

Prior reports. In response to OIG, DoD, Report No. 92-069 (Appendix C), the Director of Defense Procurement stated that the Defense Acquisition Regulations Council will revise the DFARS to require DoD contracting officers to approve all interagency agreements and subsequent Economy Act orders. Also, in response to a recommendation in OIG, DoD, Report No. 93-042, the Deputy Comptroller of the Department of Defense (Management Systems) directed the Director, Defense Accounting and Finance Service, to amend DoD 7000.14-R, "DoD Financial Management Regulation," which supersedes DoD 7220.9-M, "Accounting Guidance Manual," to require accounting officers to document approval before allocating and committing funds on Economy Act orders. Requiring accounting officers to document approval of Economy Act orders will preclude issuance of Economy Act orders without DoD contracting officer review and approval.

Conclusion

We believe that DoD Instruction 4000.19 should be revised to state specifically which procurement laws apply to interagency acquisitions. DoD Instruction 4000.19 should refer to FAR subpart 17.5 and to DFARS 217.5. DoD Instruction 4000.19 should specify that interagency acquisitions under the Economy Act will not be made for the purpose of circumventing statutory requirements of the Competition in Contracting Act, the Brooks Act, the Federal Grant and Cooperative Agreement Act, and other acquisition laws. Further, DoD Instruction 4000.19 should specify the requirements for a delegation of procurement authority for FIP resources and the requirements for allowing access to classified information by contractor employees.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Deputy Under Secretary of Defense (Environmental Security) revise DoD Instruction 4000.19, "Interservice, Interdepartmental, and Interagency Support," to:

a. State that DoD activities shall not make interagency acquisitions under the Economy Act for the purpose of circumventing statutory requirements of the Competition in Contracting Act, the Brooks Act, the Walsh-Healey Public Contracts Act, the Federal Grant and Cooperative Agreement Act, and other acquisition laws.

b. Require that interagency agreements specify that non-DoD activities that acquire goods and services for DoD will use procurement contracts awarded in accordance with the FAR and other procurement regulations and that any deviation from this policy shall be approved by the Service Acquisition Executives, the Directors of Defense Agencies, or their designees.

c. Define requirements for the procurement of Federal information processing resources through interagency agreements including the applicability of the requirement for a delegation of procurement authority from the General Services Administration for Economy Act orders.

d. Specify the requirements and internal controls needed for the procurement of goods and services through interagency agreements that require the performing agency, its contractors, and subcontractors to have access to, to develop, or to commercialize classified information.

e. Refer to Federal Acquisition Regulation subpart 17.5, "Interagency Acquisition Under the Economy Act," and the Defense Federal Acquisition Regulation Supplement 217.5.

2. We recommend that the Service Acquisition Executives direct activities with interagency agreements with the Tennessee Valley Authority to:

a. Secure any classified information in the possession of the Tennessee Valley Authority, its cooperators and contractors, and their subcontractors.

b. Certify that security requirements for work that the TVA, its cooperators, and their subcontractors performed under Economy Act orders issued in support of classified programs comply with DoD Manual 5220.22-M, "Industrial Security Manual for Safeguarding Classified Information."

Navy comments. The Navy concurred and stated that classified programs should not be administered by an activity not in possession of required clearances. The Navy is reviewing orders with TVA and will include the issue of security clearances in the review.

Air Force comments. The Air Force concurred, stating that the security of classified information is of paramount importance. The Air Force information security offices will send information to all units on the importance of complying with security requirements when acquiring goods and services under the Economy Act.

Audit response. We request the Air Force comments on the final report to provide an actual or estimated completion date for the planned action.

3. We recommend that the Commander, Air Force Air Mobility Command:

a. Assign responsibility for program management and oversight of the testing, repair, and replacement of Air Force underground fuel storage tanks to Air Force personnel.

b. Discontinue acquisition of personal services through TVA cooperative agreements and sufficiently define tasks in statements of work to avoid contractor personnel performance of personal services and inherently Governmental functions.

Management comments. The Air Force concurred, stating that the Air Mobility Command now has Air Force personnel performing program management and oversight of the testing and replacement of underground fuel storage tanks. The Air Force also no longer uses the personal services of the software engineer obtained through the TVA Technology Brokering Program. The Air Force will, in the future, sufficiently define tasks in statements of work to avoid contractor personnel performance of personal services and inherently Governmental functions.

RESPONSE REQUIREMENT PER RECOMMENDATION

Responses to the final report are required from the addressees shown for the items indicated with an "X" in the chart below.

		Response Should Cover			
Number	Addressee	Concur/ Nonconcur	Proposed Action	Completion Date	Related Issues*
1.	DUSD(ES)	X	X	X	IC
2.	Army	X	X	X	IC
	Air Force			X	

*IC = material internal control weakness

B. ADMINISTRATION OF ECONOMY ACT ORDERS

TVA and the DoD activities did not provide for adequate contract administration and contract audits for the work performed under TVA Technology Brokering Program cooperative agreements. The inadequate contract administration and audits occurred because DoD guidance on interagency support did not specify the format or content of interagency agreements. TVA prepared the agreements, and program personnel at DoD activities signed the agreements without a DoD contracting officer or DoD legal personnel reviewing the agreements. On the 108 Economy Act orders and 35 related amendments reviewed, DoD activities paid about $7.4 million to TVA to provide procurement support services that included limited contract administration and no provision for incurred cost audits of the cooperators. DoD activities also paid more than $1.4 million to TVA cooperators who then subcontracted more than 90 percent of the work. The absence of an effective contract administration and contract audit program can result in inappropriate payments to the cooperators.

DISCUSSION OF DETAILS

Contract Administration

Background. The contract administration process involves comparing the contractor's actual performance to the performance plan stated in the contract, comparing their differences, and taking corrective management action as authorized under the terms of the contract and the applicable laws and regulations. This process continues until the performance under the contract is completed, until the required audits of incurred costs are performed, and until any disputes are resolved.

Because contract administration functions are often complex and require skills of various specialists, DoD contracting officers usually delegate contract administration functions to the Defense Contract Management Command (DCMC). DoD contracting officers also request DCAA to provide contract audit support. Under a standard DoD contract, DCMC and DCAA provide oversight of contract administration and contractor costs. DCMC performs pre-award evaluations of the competency, capability, and reliability of potential contractors; post-award technical and administrative oversight in support of program managers; and contract termination and completion actions in compliance with FAR part 42, "Contract Administration." DCAA evaluates contractor operations for economy, efficiency, and adequacy of controls and examines contractor and subcontractor costs for reasonableness, allocability, and compliance with FAR restrictions. DCMC and DCAA also work together to evaluate proposals and contractor financial systems.

Contract administration and contract audit responsibilities. The interagency agreements between DoD activities and TVA did not clearly define the responsibilities of the DoD activities and TVA for contract administration and contract audits of cooperative agreements. Appendix G is a sample of the interagency agreement between DoD and TVA. Section I, paragraph 1.2(a), of the agreement states that the DoD activities would provide to TVA all funds required for a program or project including "those funds required for TVA's project administration." Section II, paragraph 2.3, of the agreement stated that TVA would:

> ...contract with private sector firms or other institutions to implement the requirements issued by the DOD ACTIVITY [sic] to TVA pursuant to this agreement.

Section IX of the agreements stated that:

> in all matters relating to the administration of this agreement, the Manager of Technology Utilization or his/her designee shall act for TVA, and DOD ACTIVITY [sic] shall designate a project director for each project submitted.

Section X, paragraph 10.2, of the agreement stated that individual Economy Act orders would include any special inspection, acceptance, or warranty provisions and any special contract provisions. Individual Economy Act orders provided no further definition of responsibilities.

The acceptance of the interagency agreement by the DoD activity was a condition for acceptance of the Economy Act order by TVA. For the orders reviewed, DoD program officials usually did not request DoD contracting officers or legal personnel to review the Economy Act orders and interagency agreements. Also, DoD directives and regulations, such as DoD Instruction 4000.19, did not provide criteria for the DoD program officials to evaluate the proposed interagency agreements. The cooperative agreements between TVA and its cooperators stated that TVA, its agents, or the General Accounting Office have the right to audit, without restrictions, all costs incurred by the cooperators and billed to TVA and cost data supporting the approved workplan and budget. No stipulation was made to allow for an audit by DoD activities or DCAA.

Issuance and Administration of Cooperative Agreements

Upon receipt of Economy Act orders, TVA entered into cooperative agreements with cooperators to accomplish the statements of work specified by DoD activities. The cooperators submitted workplans and budgets to TVA for performance of the statements of work. TVA requested the DoD activities to concur with the workplans and

budgets developed by cooperators for technical accuracy and consistency with the statements of work in the Economy Act orders. TVA did not require cooperators to establish fixed-labor and overhead rates. TVA relied on DoD program officials to monitor cooperator performance and to provide technical direction to the cooperators. The TVA Technology Brokering Program approved payment of cooperator invoices based on the availability of budgeted funds. TVA retained 5 percent of the amounts billed by a cooperator until the DoD activity agreed the cooperator had satisfactorily completed a task or project.

TVA monitored the status of cooperative agreements by requiring in the cooperative agreement that cooperators submit quarterly status reports that identified staff-hours, funds expended, and an appraisal of the current status versus the total project effort and cost. The cooperative agreements provided that, at the conclusion of each project or major phase, cooperators prepare and submit a final report summarizing all project findings to TVA and to parties designated by TVA. The cooperative agreements also required that cooperators include itemized expenses and supporting documentation in their invoices, including, for example, the unit price and model numbers for goods; the names, position, hourly rates, and number of hours provided; and the amount paid for services performed.

Cooperator reporting. We examined final reports received on work performed in response to the Economy Act orders in our sample. The final reports did not provide sufficient detail to verify that deliverables complied with the statements of work, that work complied with established milestones, or that costs incurred were appropriate. Invoices did not provide details of subcontractor costs, and TVA guidance does not require such detail. Furthermore, in accordance with TVA Technology Brokering Program guidelines, TVA approved payment of invoices based on the availability of budgeted funds and did not request additional details from cooperators on subcontractor costs. The documentation reviewed provided insufficient details to adequately support $42.3 million of contractor and subcontractor costs (Appendix H).

DoD review of work performed. The extent of technical and administrative review performed by DoD activities varied. For example, USAISC assigned personnel to oversee work performed under TVA cooperative agreements with AT&T, Intergraph, and Systems Engineering Solutions, Inc. USASOC personnel reviewed customer requirements for conformance with the scope of work, verified the receipt of deliverables and the performance of labor categories, and reviewed billings. By comparison, since February 1993, AFAMC relied entirely on contractor personnel to

plan, implement, and oversee underground fuel storage tank work (example 10 in Appendix D). No Air Force personnel performed oversight.

Administrative Costs

TVA fees. For the 143 Economy Act orders reviewed, DoD paid about $7.4 million in fees to the TVA Technology Brokering Program for contract administration (Appendix H). The fee for TVA ranged from 5 to 10 percent of the amount of each Economy Act order, depending on the total value of the order. TVA had not performed an analysis to relate the actual costs of the TVA Technology Brokering Program to the fees charged, and did not provide the DoD activities with breakdowns showing what costs the fees would cover. The OIG, TVA, in Report No. 91-076G, recommended that the TVA Technology Brokering Program develop a cost analysis to support the fee charged for contract administration. In response to the recommendation, TVA management stated the "cost recovery fee" charged by the TVA Technology Brokering Program was consistent with industry practice and very competitive considering the services provided. TVA management agreed to continue to monitor the basis for and utilization of the fee and make adjustments as appropriate. TVA management did not clarify whether the scope of its program management role would include performing close-out audits to evaluate reasonableness of incurred costs.

Costs for contract support in DoD. If the DoD activities had obtained the goods or services through normal DoD procurement channels, they could have avoided the $7.4 million in brokering fees paid to TVA. Contracting support, contract audit services provided by DCAA, and contract administration provided by DCMC to DoD activities are currently provided on a nonreimbursable basis.

Use of Subcontractors

The TVA Technology Brokering Program provided procurement support and contract administration. For the 143 Economy Act orders reviewed, about $20.7 million of the $42.3 million invoiced by TVA cooperators between October 1990 and May 1992 was subcontractor costs. Three of the cooperators subcontracted 90 percent of the work and charged TVA a fee for contract administration and program management.

Multiple subcontracting. Appendix I provides examples of the flow of funds through TVA to first-, second-, and third-tier subcontractors for three of the programs reviewed. For example, the NAASW program office under ASD(C^3I) issued $18.6 million in Economy Act orders to TVA. As of May 31, 1992, TVA paid more than $11.4 million to ESG, Inc., which subcontracted more than $10.9 million to more than 21 first- and second-tier

subcontractors. (Refer to OIG, DoD, Report No. 93-068 in Appendix C for details.) TVA did not require cooperators to obtain contracting officer approval to subcontract. Under a DoD contract, FAR 44.202 would require that a contracting officer evaluate and consent to or disapprove contractor requests to subcontract. The complete text of FAR 44.202 is in Appendix A.

Costs paid for subcontracted work. Three DoD activities paid an additional $1.3 million for work that was subcontracted more than 90 percent to second- and third-tier subcontractors by the TVA cooperators. The following table identifies the additional costs for the three DoD activities shown in Appendix I.

Additional Costs DoD Incurred Due to Subcontracting

Activity	Amount Invoiced	Cooperator Cost	Amount Subcontracted	Percent Subcontracted	Additional Costs
USASOC	$ 6,852,214	$ 707,900	$ 6,144,314	90	$ 637,110
ASD(C^3I)	11,363,792	452,676	10,911,116	96	434,569
CASCOM	2,181,087	227,147	1,953,940	90	204,433
	$20,397,093	$1,387,723	$19,009,370		$1,276,112

We calculated the additional costs DoD incurred by dividing the subcontractor costs by the total cost to derive the percentage of work that was offloaded to subcontractors. This percentage was then applied to costs incurred by the cooperators (excluding subcontractor costs) to estimate additional costs paid to cooperators for work that was subcontracted further. For example, USASOC paid TVA $15.5 million for the development of the SOFNET project. TVA retained a fee of $858,000, and as of May 31, 1992, paid $6.9 million to TCRD and the University of Tennessee as the cooperators. The cooperators retained $707,900, and subcontracted $6.1 million, or more than 90 percent to more than 40 subcontractors (Appendix I). As a result, USASOC incurred about $637,110 in additional costs for subcontracted work.

If the three DoD activities had properly planned the acquisitions and had used normal DoD procurement channels, they could have awarded contracts directly to the contractors that performed the requirements. We estimate that the three DoD activities would have avoided the additional costs totaling $1.3 million of fees paid to cooperators and subcontractors, plus $2.1 million in fees paid to TVA.

Further, under regular contracts, the cooperators that subcontracted more than 50 percent of the total dollars would violate FAR requirements on subcontracting. FAR 52.219-14, "Limitations on Subcontracting," states that when contracting for services, the contractor must agree to use its own employees to perform at least 50 percent of personnel costs incurred for contract performance. The complete text of FAR 52.219-14 is in Appendix A.

Payments to Cooperators

Without an audit of incurred costs, DoD activities have no assurance that costs invoiced by TVA cooperators and subcontractors are reasonable or allowable. As an outgrowth of its audit of the TVA Technology Brokering Program, the OIG, TVA, audited TCRD, a major cooperator under the TVA Technology Brokering Program. That audit indicated the need for incurred cost and/or close-out audits on all DoD-funded TVA Technology Brokering Program projects.

The OIG, TVA, audit of TCRD determined that TCRD's general and administrative expenses invoiced to TVA were not adequately supported and that the justification for supplemental funding requested by TRCD was not documented. The audit also identified instances where funding was used improperly. Examples of improper use of funding included billing salaries of personnel to multiple cooperative agreements, failing to document a loan to a private contractor, and failing to monitor advance payments. The OIG, TVA, also determined that TCRD's performance could not be measured because TCRD had not provided status reports, and the TVA Technology Brokering Program had not required that status reports be submitted outlining tasks accomplished or performance progress to date. The OIG, TVA, recommended that TVA management implement controls and procedures to improve oversight and administration of the TCRD cooperative agreement. TVA management agreed with the recommendations and stated a more detailed workplan and budget would be required for the cooperative agreement to monitor overall costs and performances more closely.

Withholding of payments. For some Economy Act orders, TVA released to contractors the 5 percent of funds withheld from payment. The release was based on the approval of completion of work by the DoD activities but was not based on an audit of costs. For example, TVA released $87,406 to TCRD that was retained for tasks under Economy Act orders with USASOC. The funds were released due to a request from TCRD and approval of performance--not cost--by a DoD official. TVA also released $281,000 to ESG, Inc., for the NAASW program before the work was completed based upon a request from ESG, Inc., to TVA, and approval by the NAASW project director (Appendix C).

Review of costs by DoD activities. TVA did not request DoD activities receiving support through the TVA Technology Brokering Program to review and approve contractor invoices before payment by TVA. Further, TVA did not provide documentation to the DoD activities to indicate what costs were paid, and the DoD activities did not request or require such reports. The DoD activities relied on TVA to review and approve cooperator costs and pay invoiced costs. We did not identify any DoD activities that requested to audit TVA records.

Recommendations from Prior OIG, DoD, Audit Reports

This finding discusses issues that are similar to those addressed in OIG, DoD, Report No. 93-042, which included recommendations that the Assistant Secretary of Defense (Production and Logistics) revise guidance in DoD Instruction 4000.19 to require that Economy Act orders include provisions for:

- o submitting detailed progress reports and cost data and performing close-out audits by the accepting Federal agency, and

- o reviewing invoice payments by DoD program officials to ensure that amounts billed by other Federal agencies are proper.

DoD Instruction 4000.19 is now managed by the Deputy Under Secretary of Defense (Environmental Security). OIG, DoD, Report No. 93-068 included recommendations on contract administration of the NAASW program. Therefore, recommendations relating to the NAASW program were not included in this report.

Conclusion

The absence of provisions in the interagency agreements and Economy Act orders for adequate contract administration and contract audits by TVA can result in inappropriate payments and problems with performance. Close-out audits should be performed on the cooperative agreements that TVA issued for DoD-funded projects. Either TVA or DCAA should perform the closeout audits. If DCAA is requested by a DoD official to perform the close-out audits and receives approval from TVA for access to the contractors, DCAA would perform the audit on a nonreimbursable basis. However, if TVA requests the audit, a DCAA hourly rate would be charged for its services. A DCAA official cautioned that without the inclusion of the FAR clause 52.216-7, "Allowable Cost and Payment," in the cooperative agreements, the Government may be precluded from recouping unallowable incurred costs because the parameters for establishing what is and what is not allowable were not established.

If the performing Federal department or agency cannot perform the contract administration and contract audit duties, we believe

that DoD Instruction 4000.19 should advise DoD activities to request the performing department or agency to assign these responsibilities to DCMC and DCAA.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Service Acquisition Executives direct Department of Defense activities with interagency agreements with the Tennessee Valley Authority to:

a. Require DoD contracting officers and legal personnel to review all interagency agreements and Economy Act orders to identify amendments needed to clarify contract administration and contract audit responsibilities.

b. Negotiate with the Tennessee Valley Authority and, as appropriate, amend the interagency agreements to require that the Tennessee Valley Authority Technology Brokering Program perform contract administration in accordance with Federal Acquisition Regulation part 42, "Contract Administration," on the cooperative agreements issued pursuant to the agreements. The amendments should specify that:

(1) Federal Acquisition Regulation 52.216-7, "Allowable Costs and Payments," is included in all cooperative agreements funded by DoD.

(2) Reports are received from cooperators.

(3) Subcontractors are approved by the Technology Brokering Program and DoD activities.

(4) Cooperators and subcontractors establish fixed labor and overhead rates.

(5) Classified materials are entrusted to authorized personnel only and are properly disposed of.

(6) Close-out audits are performed when work is physically completed and cooperators have submitted final invoices.

(7) Any unallowable costs to the prime contractors and subcontractors are recovered.

c. Request the Tennessee Valley Authority to delegate contract administration responsibilities to the Defense Contract Management Command and contract audit responsibilities to the Defense Contract Audit Agency or make a direct request to these

Defense activities for support if the Tennessee Valley Authority is unable to provide appropriate contract administration and contract audit services.

d. Negotiate with the Tennessee Valley Authority and, as appropriate, perform close-out audits of all cooperative agreements issued for DoD Economy Act orders.

e. Withhold 5 percent of total payments to cooperators on DoD funded projects pending completion of the close-out audits.

Navy comments. The Navy concurred and stated that interagency agreements should be reviewed by contracting officers to ensure that contract administration and audit responsibilities are adequately addressed. The Navy also stated it would perform such a review after the Office of the Secretary of Defense (OSD) provides appropriate policy on the content of such agreements. The Navy stated that cooperative agreements are not covered by the FAR and the recommendations go beyond DoD requirements for cooperative agreements. Further, cooperative agreements are not appropriate for the types of goods and services ordered from TVA.

Air Force comments. The Air Force concurred and stated that interagency agreements and Economy Act orders need to clarify contract administration and contract audit responsibilities. The Air Force stated that the policy and guidance relating to the issuance and administration of Economy Act orders should be established at the OSD-level rather than by each Service Acquisition Executive. The Air Force also stated that the Military Departments and the Defense Agencies must agree with each other on key definitions, interpretations, and direction if the problem is to be successfully resolved.

Audit response. We agree with the Navy position on cooperative agreements and revised our recommendation for DoD activities to negotiate appropriate contract administration and audit responsibilities into interagency agreements. We made recommendations in OIG, DoD, Report No. 93-042 and in this report that the OSD should issue additional guidance on the use of Economy Act orders by the DoD Components. However, we believe the Navy and Air Force can initiate action to implement this recommendation on the open orders with the Tennessee Valley Authority prior to receipt of OSD-level guidance. We request the Navy and Air Force reconsider their position and provide additional comments in response to the final report.

2. We recommend that the Deputy Under Secretary of Defense (Environmental Security) revise DoD Instruction 4000.19, "Interservice, Interdepartmental, and Interagency Support," to:

a. Include guidance for interagency agreements on the approval and oversight of subcontractors and review of subcontractor incurred costs.

b. Request the performing department or agency to assign responsibilities of contract administration to the Defense Contract Management Command and contract auditing to the Defense Contract Audit Agency, if the performing Department or agency under an interagency agreement cannot perform the contract administration and contract audit duties.

RESPONSE REQUIREMENT PER RECOMMENDATION

Responses to the final report are required from the addressees shown for the items indicated with an "X" in the chart below.

		Response Should Cover			
Number	Addressee	Concur/ Nonconcur	Proposed Action	Completion Date	Related Issues*
1.	Army	X	X	X	IC
	Navy		X	X	IC
	Air Force		X	X	
2.	DUSD(ES)	X	X	X	IC

*IC = material internal control weakness

C. ADVANCE PAYMENTS

TVA earned interest income on about $139.4 million of advance payments that DoD activities made to the TVA Technology Brokering Program in FY 1991 for Economy Act orders. TVA earned the interest because TVA required that the DoD activities transfer the funds to TVA for each Economy Act order in advance of the receipt of goods or services. TVA then deposited the funds in an interest-bearing commercial bank account. During FY 1992, TVA earned an estimated $3.5 million in interest on the DoD funds, while the U.S. Treasury incurred about $4.6 million in interest expense during the same time period to borrow the funds (Appendix J).

DISCUSSION OF DETAILS

Background

Economy Act. The Economy Act states that payment for Economy Act orders may be made either in advance or upon receipt of goods or services ordered, and shall be for any part of the estimated or actual cost as determined by the performing agency. The Economy Act further states that requests for payment are not subject to audit or certification in advance of payment; however, adjustments of amounts paid in advance shall be made based on the actual cost of goods or services provided. FAR 17.505, "Payment" (of Economy Act orders), allows a servicing agency to request payment in advance for all or part of the estimated costs of furnishing supplies or services under the Economy Act. Appendix A provides the detailed text of FAR 17.505.

Advance payments. FAR subpart 32.4, "Advance Payments," provides policy on use of advance payments in Government contracts. The FAR states that advance payments are the least preferred method of contract financing and should not be used if other types of financing are reasonably available. The complete text of FAR subpart 32.4 is in Appendix A.

Provisions in interagency agreements. Section I, paragraph 1.3, of the interagency agreements between DoD activities and the TVA Technology Brokering Program requires that the DoD activities transfer all funds for the work described in the Economy Act orders within 30 days of receipt of a request for transfer from TVA (Appendix G). Although the agreements specify advance payments, TVA requested the DoD activities to transfer all funds for each Economy Act order upon acceptance of the orders. TVA sent the request (Standard Form 1080) for transfer of the funds to the DoD activities with the acceptance of the Economy Act orders.

Impact of TVA Retention of DoD Funds

TVA commercial bank account. In April 1990, TVA submitted a request to the Secretary of the Treasury to authorize the establishment of an interest-bearing account with a commercial bank for proceeds from "non-power" revenues in accordance with Title 31, U.S.C., Section 9107. Title 31, U.S.C., Section 9107, allows a Government corporation to deposit funds into a Federal Reserve bank or a designated depository of the U.S. Government. TVA described the non-power revenues in its request letter as funds received from the sale of fertilizer and fertilizer by-products, recreation fees, timber sales, agricultural land rentals, land and mineral rights sales, and map and other publication sales. TVA did not identify funds received in advance from other Federal agencies under Economy Act orders to the TVA Technology Brokering Program as part of the non-power revenues. In September 1990, the U.S. Treasury approved the request.

TVA deposited the funds received from DoD activities in the interest-bearing commercial bank account. TVA subsequently withdrew funds from the account to pay invoices submitted by cooperators or contractors under the TVA Technology Brokering Program.

Timeframes for DoD funds retained by TVA. TVA did not provide the DoD issuing activities with cash flow forecasts or any other information that would normally be required if a contractor applied for advance payments. TVA retained the funds received from DoD activities from the time of deposit in the commercial bank account until actual work was performed by a contractor and until an invoice was submitted by the contractor to TVA. This time lapse ranged from 2 to 6 months for the contracts reviewed and resulted in TVA retaining large amounts of DoD funds for extended periods.

Accrual of interest. The total DoD funds maintained in the TVA bank account on a monthly basis in FY 1992 averaged approximately $75.7 million (Appendix J). Since DoD activities issued Economy Act orders to TVA in FY 1992 totaling $9.1 million, the monthly balances for DoD funds in the TVA commercial account include funds retained from FY 1991 orders where funds were not expended.

We estimate that for FY 1992, TVA earned interest totaling about $3.5 million (Appendix J) on the DoD funds deposited in the TVA commercial bank account. The estimate is based on an annual interest rate of 4.5 percent applied to the monthly balance of DoD funds identified as being in the TVA commercial account during FY 1992.

Cost of money. The U.S. Treasury must borrow funds to pay operating costs of Federal agencies, and must pay interest to obtain the funds. We estimate that for the $139.4 million in advance payments that DoD made to TVA during FY 1991, the U.S. Treasury incurred interest costs of $4.6 million, assuming a 6-percent interest rate (Appendix J). Interest costs on funds borrowed by the U.S. Government are paid by the U.S. Treasury. In response to the OIG, TVA, Report No. 91-076G, the General Counsel, TVA, determined that the earned interest from DoD funds was income to TVA.

Conclusion

TVA should not earn interest income on funds that were appropriated by Congress to DoD. The advance payments that DoD activities made to TVA resulted in interest costs of $4.6 million to the U.S. Treasury. DoD activities did not pay Economy Act orders on a reimbursable basis to agencies that deposit the funds in a commercial bank account. If the agency receiving the Economy Act order uses a commercial bank account, DoD activities should negotiate to pay on a reimbursable basis and not by advance payments. This would reduce unneeded interest charges to the U.S. Treasury. We question the retention by TVA of interest earned on DoD funds and believe that DoD should request TVA to return the interest earned to the U.S. Treasury as miscellaneous receipts. We have also referred the TVA use of the commercial bank account to the Inspector General, Department of the Treasury.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Deputy Under Secretary of Defense (Environmental Security), revise DoD Instruction 4000.19, "Interservice, Interdepartmental, and Interagency Support," to establish procedures for requests for payments to performing agencies using a commercial bank account. The procedures should state that DoD activities should negotiate to limit the amount of the advance payment to the funds required to commence the work described in the Economy Act order and remaining payments should be on a reimbursable basis.

Revised recommendation. Based on Managements comments we revised the recommendation to only cover payments on Economy Act orders to agencies using commercial bank accounts.

2. We recommend that the Service Acquisition Executives direct activities to:

a. Identify unliquidated advance payments to the Tennessee Valley Authority and negotiate with the Tennessee Valley Authority to return the funds.

b. Negotiate to amend existing interagency agreements with the Tennessee Valley Authority to state that funds for Economy Act orders will be transferred on the basis of incurred costs or cash flow forecasts.

Navy comments. The Navy agreed with the intent of the recommendation. The Navy stated that the Economy Act and FAR provide for payment in advance. The problem is not the advance payment but the deposit in the commercial bank account. The Navy also stated that since advance payments are authorized by law and regulation, the Navy can only attempt to negotiate alternative methods of payments.

Audit response and revised recommendation. Based on Navy comments, we revised the recommendation to request negotiation of payment terms with the Tennessee Valley Authority on existing agreements. We request the Navy provide additional comments on the revised recommendation when responding to the final report.

Air Force comments. The Air Force concurred and stated that the Air Force will revise its procedures on Economy Act orders to comply with the recommendations on advance payments. The Air Force will review all Economy Act transfers to TVA for unliquidated advance payments and request TVA to return the funds to the Air Force.

Audit response. We request the Air Force comments on the final report to provide actual or estimated completion dates for the proposed actions.

3. We recommend that the Comptroller of the Department of Defense request the Tennessee Valley Authority to refund to the Department of Defense all interest earned on Department of Defense funds for deposit in the Miscellaneous Receipts Account of the U.S. Treasury.

RESPONSE REQUIREMENT PER RECOMMENDATION

Responses to the final report are required from the addressees shown for the items indicated with an "X" in the chart below.

		Response Should Cover		
Number	Addressee	Concur/ Nonconcur	Proposed Action	Completion Date
1.	DUSD(ES)	X	X	X
2.	Army	X	X	X
	Navy		X	X
	Air Force			X
3.	Comptroller DoD	X	X	X

PART III - ADDITIONAL INFORMATION

APPENDIX A - Federal Acquisition Regulations

APPENDIX B - Economy Act Orders Reviewed

APPENDIX C - Summary of Prior Audits and Other Reviews

APPENDIX D - Examples of Problematic Issues Identified in the Report

APPENDIX E - Federal Information Processing Acquisitions Issued Without Authorization

APPENDIX F - General Services Administration Delegation of Procurement Authority

APPENDIX G - Sample Interagency Agreement

APPENDIX H - Summary of Costs Incurred

APPENDIX I - Flow of Funds From Activities Reviewed as of May 31, 1992

APPENDIX J - Interest Costs for DoD Advance Payments

APPENDIX K - Summary of Potential Benefits Resulting From Audit

APPENDIX L - Activities Contacted or Visited

APPENDIX M - Report Distribution

APPENDIX A - FEDERAL ACQUISITION REGULATIONS

The following FAR summaries pertain to contract offloading through Economy Act Orders.

FAR Subpart 6.3, "Other Than Full and Open Competition"

Each contract awarded without providing for full and open competition shall contain a reference to the specific authority under which it was so awarded. Circumstances permitting other than full and open competition are:

- only one responsible source and no other supplies or services will satisfy agency requirement,
- unusual and compelling urgency,
- industrial mobilization or engineering and developmental or research capability,
- international agreement,
- statutory authorization,
- national security, and
- public interest.

Contracting without providing for full and open competition shall not be justified on the basis of a lack of advance planning by the requiring activity or on concerns related to the amount of funds available to the agency or activity for the acquisition of supplies or services. The justification shall comprise:

- a description of the supplies or services (including the estimated value),
- an identification of the statutory authority permitting other than full and open competitions, and
- a demonstration that the proposed contractor's unique qualification or the nature of the acquisition requires use of the authority cited.

FAR Part 7, "Acquisition Planning"

Agencies shall perform acquisition planning and market surveys for all acquisitions in order to promote and provide for full and open competition, or when full and open competition is not required in accordance with part 6, to obtain competition to the maximum extent practicable, with due regard to the nature of the supplies and services to be acquired.

FAR Subpart 17.5, "Interagency Acquisitions Under the Economy Act"

Under the Economy Act, an agency may place orders with any other agency for supplies or services that the servicing agency may be in a position or equipped to supply, render, or obtain by contract if it is determined by the head of the requesting agency, or designee, that it is in the Government's best interest to do so. The determination shall include a finding that legal authority for the acquisition otherwise exists, and the action does not conflict with any other agency's authority or responsibility, for example, that of the Administrator of General Services under the Federal Property and Administrative Services Act.

FAR 17.504, "Ordering Requirements"

When placing orders for supplies or services from another Government agency, the orders may be placed on any form or document that is acceptable to both agencies.

FAR 17.505, "Payment" (of Economy Act Orders)

The servicing agency may request the requesting agency, in writing, for advance payment by check for all or part of the estimated cost of furnishing the supplies or services. If advance payment is made, adjustments on the basis of actual costs shall be made as agreed by the agencies. Bills rendered or requests for advance payment shall not be subject to audit or certification in advance of payment.

FAR 22.608, "Procedures" (Complying with the Walsh-Healey Act)

The contracting officer is responsible for ensuring compliance with the Walsh-Healey Act by investigating and determining the contractor's eligibility as a manufacturer or regular dealer.

FAR Subpart 32.4, "Advance Payments"

Advance payments may be provided on any type of contract; however, the agency shall authorize advance payments sparingly because advance payment is the least preferred method of contract financing and should generally not be authorized if other types of financing are reasonably available.

FAR 37.102, "Service Contracting"

In no event may a contract be awarded for the performance of inherently Governmental functions.

FAR 37.104, "Personal Service Contracts"

A personal services contract is characterized by the employer-employee relationship it creates between the Government and the contractor's personnel. The Government is normally required to obtain its employees by direct hire under competitive appointment or other procedures required by the civil service laws. Obtaining personal services by contract, rather than by direct hire, circumvents those laws. Agencies shall not award personal services contracts unless specifically authorized by statute. An employer-employee relationship occurs when, as a result of the contract's terms or the manner of its administration during performance, contractor personnel are subject to the relatively continuous supervision and control of a Government officer or employee. Guidelines in assessing whether a contract is personal include on-site performance, use of Government-furnished equipment, direct application of services integral to efforts of the agency, performance of comparable services by civilian personnel, performance of services that exceed 1 year, and direct or indirect Government supervision of contractor employees.

FAR 44.202, "Contracting Officer's Evaluation"

The cognizant administrative contracting officer is responsible for consent to subcontracts, except when the contracting officer retains the responsibility. The contracting officer shall promptly evaluate the contractors request for consent to subcontract, obtain assistance in the evaluation as necessary, and notify the contractor in writing of consent or withholding of consent. The contracting officer shall consider whether:

- adequate price competition existed or whether lack of adequate competition was properly justified;

- the subcontractor was on the Consolidated List of Debarred, Suspended, and Ineligible Contractors;

- the proposed subcontract type was appropriate for the risks involved and consistent with current policy;

- the contractor had a sound basis for selecting and determining the responsibilities of the subcontractor; and

- the contractor had adequately translated prime contractor technical requirements into subcontract requirements.

FAR 52.219-14, "Limitations on Subcontracting"

For services contracts, at least 50 percent of the cost of contract performance incurred for personnel, shall be expended for employees of the concern. For contracts for supplies, the concern shall perform work for at least 50 percent of the cost of manufacturing the supplies, not including the cost of materials.

APPENDIX B - ECONOMY ACT ORDERS REVIEWED

Activity	Interagency Agreement No.	Economy Act Order No.	Date of Order	Dollar Value
Army:				
CASCOM	TV82206V	43-90	July, 10, 1990	$ 500,000
CASCOM	TV82206V	7-91	Nov. 7, 1990	501,000
CASCOM	TV82206V	7-91 AMEND 1	Mar. 15, 1991	950,000
CASCOM	TV82206V	16-91	Dec. 14, 1990	330,000
CASCOM	TV82206V	17-91	Dec. 14, 1990	150,000
CASCOM	TV85610V	MIPRAE13009125	Sept. 20, 1991	200,000
Subtotal				$ 2,631,000
HDL	TV83602V	R91-062	Feb. 4, 1991	$ 400,000
HDL	TV83602V	R91-105	Apr. 17, 1991	150,000
HDL	TV83602V	R91-107	Apr. 24, 1991	400,000
HDL	TV83602V	R91-130	Aug. 23, 1991	66,500
HDL	TV83602V	R91-131	Aug. 23, 1991	40,000
Subtotal				$ 1,056,500
ASAS*	TV82211V	4J-1-2037	Aug. 26, 1991	$ 5,126
ASAS	TV82211V	4J-1-2037 AMEND 1	Sept. 10, 1991	26,358
ASAS	TV82211V	4J-1-2037 AMEND 2	Sept. 20, 1991	32,660
ASAS	TV82211V	4J-1-7030	Aug. 26, 1991	31,740
ASAS	TV82211V	4J-1-7030 AMEND 1	Aug. 29, 1991	1,700
ASAS	TV82211V	4J-1-7030 AMEND 2	Sept. 9, 1991	2,500
ASAS	TV82211V	4J-1-7030 AMEND 3	Sept. 20, 1991	3,250
ASAS	TV82211V	4J-1-7031	Aug. 27, 1991	64,628
ASAS	TV82211V	4J-1-7031 AMEND 1	Sept. 9, 1991	805,000
ASAS	TV82211V	4J-1-7031 AMEND 2	Sept. 10, 1991	7,372
ASAS	TV82211V	4JOA801790	Aug. 3, 1990	100,000
ASAS	TV82211V	J33-91	Sept. 3, 1991	37,566
ASAS	TV82211V	J33-91 CH 1	Sept. 10, 1991	6,000
ASAS	TV82211V	J33-91 CH 2	Sept. 16, 1991	16,000
ASAS	TV82211V	JJ-25-91	Sept. 4, 1991	218,000
Subtotal				$ 1,357,900
MICOM	TV82153V	1-M310-005	Mar. 1, 1991	$ 839,754
MICOM	TV82153V	1-M310-008	May 17, 1991	394,358
MICOM	TV82153V	1-M310-009	May 30, 1991	747,890
MICOM	TV82153V	1-M310-010	June 20, 1991	378,080
MICOM	TV82153V	1-M310-011	June 25, 1991	1,083,000

*Army All Sources Analysis Systems Project Office.

APPENDIX B - ECONOMY ACT ORDERS REVIEWED (cont'd)

Activity	Interagency Agreement No.	Economy Act Order No.	Date of Order	Dollar Value
Army (cont'd):				
MICOM	TV82153V	1-M310-011	June 25, 1991	$ 1,011,000
MICOM	TV82153V	1-M310-012	July 15, 1991	1,072,471
MICOM	TV82153V	1-M310-013	July 18, 1991	150,000
MICOM	TV82153V	1-M310-014	Aug. 2, 1991	34,026
MICOM	TV82153V	1-M310-015	Aug. 12, 1991	319,583
MICOM	TV82153V	1-M310-016	Aug. 16, 1991	66,250
MICOM	TV82153V	1-M310-017	Aug. 23, 1991	35,000
MICOM	TV82153V	1-M310-018	Sept. 6, 1991	33,099
MICOM	TV82153V	1-M310-019	Aug. 28, 1991	100,000
MICOM	TV82153V	1-M310-021	Sept. 9, 1991	2,178,341
MICOM	TV82153V	1-M310-023	Sept. 9, 1991	471,000
MICOM	TV82153V	1-M310-024	Sept. 9, 1991	801,300
MICOM	TV82153V	1-M310-025	Sept. 9, 1991	3,694,326
MICOM	TV82153V	1-M310-026	Sept. 9, 1991	309,000
MICOM	TV82153V	1-M310-026 AMEND 1	Sept. 13, 1991	75,000
MICOM	TV82153V	1-M310-027	Sept. 12, 1991	620,230
MICOM	TV82153V	1-M310-028	Sept. 16, 1991	183,747
MICOM	TV82153V	1-M310-029	Sept. 16, 1991	152,000
MICOM	TV82153V	1-M310-030	Sept. 16, 1991	650,000
MICOM	TV82153V	1-M310-031	Sept. 17, 1991	1,756,500
MICOM	TV82153V	1-M310-032	Sept. 17, 1991	2,510,357
MICOM	TV82153V	SDC-91-04	Apr. 4, 1991	62,500
MICOM	TV85614V	SDC-91-05	Aug. 6, 1991	199,280
MICOM	TV82153V	M25090-1	May 25, 1990	140,000
MICOM	TV82153V	M25090-2	June 19, 1990	750,000
MICOM	TV82153V	ISC-M708-90	July 24, 1990	1,999,242
MICOM	TV82153V	W31P40Q-07R-1-238	Sept. 17, 1990	129,000
MICOM	TV82153V	W31P4Q-0-7R-3-247	Sept. 27, 1990	43,258
MICOM	TV82153V	ISC-M707-90	July 24, 1990	507,341
MICOM	TV82153V	ISC-M711-90	Sept. 10, 1990	45,000
MICOM	TV82153V	ISC-M305-90	Aug. 15, 1990	3,528,600
MICOM	TV82242V	W80FH00D6462	Sept. 7. 1990	500,000
MICOM	TV82242V	W80FH00D6462 AMEND 2	Jan. 28, 1991	90,000
MICOM	TV82242V	W80FH00D6462 AMEND 3	Mar. 21, 1991	(90,000)
MICOM	TV82242V	W80FH00D6462 AMEND 4	Jan. 13, 1991	90,000
MICOM	TV82242V	W80FH01D6463	May 30, 1991	750,000
MICOM	TV82242V	W80FH01D6494	Sept. 6, 1991	500,000
MICOM	TV83725V	S91-058	Feb. 8, 1991	225,000
MICOM	TV82153V	1-M310-034	Sept. 24, 1991	525,000
MICOM	TV82153V	1-M310-033	Sept. 24, 1991	300,000
Subtotal				$ 28,960,533

APPENDIX B - ECONOMY ACT ORDERS REVIEWED (cont'd)

Activity	Interagency Agreement No.	Economy Act Order No.	Date of Order	Dollar Value
Army (cont'd):				
USASOC	TV82045V	8S 0 SF274 8S GO	Aug. 8, 1990	$1,672,000
USASOC	TV82045V	8S 0 SF274 8S GO AMEND 1	Oct. 30, 1990	277,660
USASOC	TV82045V	8S 1 SF093 8S GO	Feb. 26, 1991	1,340,000
USASOC	TV82045V	8S 1 SF093 8S GO AMEND 1	June 6, 1991	(71,000)
USASOC	TV82045V	MIPROQN9101041 AMEND 3	Nov. 30, 1990	158,000
USASOC	TV82045V	MIPRE4180QL91	Sept. 22, 1991	120,000
USASOC	TV82045V	MIPRO1375OQR91	Sept. 18, 1991	200,000
USASOC	TV82045V	MIPROQN9101041	Oct. 4, 1990	115,000
USASOC	TV82045V	MIPROQN9101041 AMEND 4	Jan. 10, 1991	525,000
USASOC	TV82045V	MIPROQN9101041 AMEND 6	June 21, 1991	770,000
USASOC	TV82045V	MIPROQN9101041 AMEND 7	Aug. 12, 1991	490,000
USASOC	TV82045V	MIPROQN9101041 AMEND 8	Sept. 20, 1991	655,000
USASOC	TV82045V	MIPROQN9101138	Feb. 19, 1991	200,000
USASOC	TV82045V	MIPROQN91201041 AMEND 5	Mar. 1, 1991	875,000
USASOC	TV82045V	MIPROQN9202001	Feb. 19, 1991	1,800,000
USASOC	TV82045V	MIPRPKK9102867	June 18, 1991	2,250,000
USASOC	TV82045V	MIPRPKK9103742	Sept. 10, 1991	2,007,108
USASOC	TV82045V	MIPRROQN9000191	July 12, 1990	65,000
USASOC	TV82045V	MIPRROQN9000191 AMEND 1	July 27, 1990	672,800
USASOC	TV82045V	MIPRROQN9000191 AMEND 2	Aug. 27, 1990	500,000
USASOC	TV82045V	MIPRROQN9000191 AMEND 3	Sept. 26, 1990	137,000
USASOC	TV82045V	MIPRROQN9000191 AMEND 4	Sept. 28, 1990	60,000
USASOC	TV82045V	SN91-014	Aug. 18, 1991	515,000
USASOC	TV82045V	SOC 0021 91	Jan. 11, 1991	45,000
USASOC	TV82045V	SOC 0026 91	Jan. 18, 1991	515,000
USASOC	TV82045V	SOC 0026 91 CHG 1	July 24, 1991	(515,000)
USASOC	TV82045V	MIPROQN9101041 AMEND 2	Oct. 29, 1990	155,000
Subtotal				$ 15,533,568
Total Army				$ 49,539,501
Navy:				
NAVSSES	TV83561V	N6554091MP00003	Jan. 16, 1991	$ 200,000
NAVSSES	TV83561V	N6554091MP00003 AMEND 1	Apr. 3, 1991	300,000
NAVSSES	TV83561V	N6554091MP00003 AMEND 2	July 16, 1991	350,000
NAVSSES	TV83561V	N6554091MP00004	Jan. 16, 1991	29,550
NAVSSES	TV83561V	N6554091MP00005	Mar. 13, 1991	22,400
NAVSSES	TV83561V	N6554091MP00008	June 3, 1991	125,000
NAVSSES	TV83561V	N6554091MP00009	June 13, 1991	150,000

APPENDIX B - ECONOMY ACT ORDERS REVIEWED (cont'd)

Activity	Interagency Agreement No.	Economy Act Order No.	Date of Order	Dollar Value
Navy (cont'd):				
NAVSSES	TV83561V	N6554091MP00011	June 27, 1991	$ 41,800
NAVSSES	TV83561V	N6554091MP00013	July 26, 1991	10,816
NAVSSES	TV83561V	N6554091MP00013 AMEND 1	July 31, 1991	810
NAVSSES	TV83561V	N6554091MP00013 AMEND 2	Sept. 17, 1991	9,007
NAVSSES	TV83561V	N6554091MP00014	Aug. 1, 1991	250,000
NAVSSES	TV83561V	N6554091MP00015	Aug. 21, 1991	28,000
NAVSSES	TV83561V	N6554091MP00016	Aug. 21, 1991	165,000
NAVSSES	TV83561V	N6554091MP00017	Aug. 21, 1991	143,000
NAVSSES	TV83561V	N6554091MP00017 AMEND 1	Sept. 11, 1991	130,000
NAVSSES	TV83561V	N6554091MP00018	Aug. 21, 1991	6,067,220
NAVSSES	TV83561V	N6554091MP00018 AMEND 1	Sept. 19, 1991	141,000
NAVSSES	TV83561V	N6554091MP00019	Aug. 21, 1991	5,624,230
NAVSSES	TV83561V	N6554091MP00020	Aug. 21, 1991	959,190
NAVSSES	TV83561V	N6554091MP00021	Aug. 21, 1991	965,750
NAVSSES	TV83561V	N6554091MP00022	Aug. 22, 1991	36,000
NAVSSES	TV83561V	N6554091MP00022	Aug. 22, 1991	2,556,000
NAVSSES	TV83561V	N6554091MP00023	Aug. 22, 1991	1,161,900
NAVSSES	TV83561V	N6554091MP00024	Aug. 22, 1991	3,045,680
NAVSSES	TV83561V	N6554091MP00025	Aug. 22, 1991	2,354,570
NAVSSES	TV83561V	N6554091MP00026	Aug. 22, 1991	1,077,830
NAVSSES	TV83561V	N6554091MP00027	Aug. 22, 1991	2,963,320
NAVSSES	TV83561V	N6554091MP00028	Aug. 23, 1991	1,758,000
NAVSSES	TV83561V	N6554091MP00029	Aug. 23, 1991	318,880
NAVSSES	TV83561V	N6554091MP00030	Aug. 28, 1991	2,595,000
NAVSSES	TV83561V	N6554091MP00031	Aug. 30, 1991	952,000
NAVSSES	TV83561V	N6554091MP00032	Aug. 30, 1991	237,000
NAVSSES	TV83561V	N6554091MP00033	Aug. 30, 1991	234,000
NAVSSES	TV83561V	N6554091MP00035	Sept. 24, 1991	50,000
Subtotal				$ 35,052,953
Total Navy				$ 35,052,953

APPENDIX B - ECONOMY ACT ORDERS REVIEWED (cont'd)

Activity	Interagency Agreement No.	Economy Act Order No.	Date of Order	Dollar Value
Air Force:				
AFAMC	TV83679V	91-023	Apr. 3, 1991	$ 60,000
AFAMC (Project Order)	TV83679V	LEEV 91-10	Sept. 20, 1991	4,076,739
AFAMC (Project Order)	TV83679V	LEEV 91-10 AMEND 1	Sept. 20, 1991	5,500,000
Subtotal				$ 9,636,739
Total Air Force				$ 9,636,739
Other:				
ASD(C^3I)	TV83639V	DHAM10141	Aug. 7, 1991	$ 10,000
ASD(C^3I)	TV83639V	DWAM00148	Apr. 19, 1991	58,000
ASD(C^3I)	TV83639V	DWAM10050	Feb. 25, 1991	500,000
ASD(C^3I)	TV83639V	DWAM10092	Apr. 18, 1991	4,751,000
ASD(C^3I)	TV83639V	DWAM10093	Apr. 19, 1991	290,000
ASD(C^3I)	TV83639V	DWAM10133	May 28, 1991	1,000,000
ASD(C^3I)	TV83639V	DWAM20023	Feb. 6, 1992	12,000,000
Subtotal				$ 18,609,000
Total Other				$ 18,609,000
Total				$112,827,193

APPENDIX C - SUMMARY OF PRIOR AUDITS AND OTHER REVIEWS

Office of the Inspector General, DoD

Report No. 93-068, "Procurement of Services for the Non-Acoustic Anti-Submarine Warfare Program Through the Tennessee Valley Authority," March 18, 1993. This report stated that the NAASW program office lacked adequate controls over work performed and costs incurred for $18.6 million of Economy Act orders issued to the TVA Technology Brokering Program. The lack of controls resulted in approximately $1.5 million in additional program costs and $2.8 million of unsupported contractor billings. In addition, a NAASW program official performed travel not properly authorized and $6,648 in costs were not supported. The report recommended that adequate contract administration be performed, an audit of incurred costs be performed, questioned costs be recouped, controls be established over classified data to ensure separation of duties, and unsupported travel costs be recouped. Management did not agree with all of the issues in the report, but concurred with all recommendations.

Report No. 93-059, "Army Acquisition of Services Through the Jet Propulsion Laboratory," February 25, 1993. The report stated that Army program officials circumvented established policy and exceeded their authority by not obtaining required contracting officer approvals in placing $10.5 million on interagency acquisitions through the Jet Propulsion Laboratory. As a result, the Army paid $1.5 million for add-on costs for services chiefly performed by the Jet Propulsion Laboratory subcontractors. The report recommended that the Army commands prohibit the placement of supplemental work under the interagency agreements unless approved by a DoD contracting officer, initiate disciplinary actions against those officials who knowingly exceeded their authority by placing work with the Jet Propulsion Laboratory, and establish procedures for the use of interagency acquisitions. Management concurred with the recommendations.

Report No. 93-042, "Allegations of Improprieties Involving DoD Acquisitions of Services Through the Department of Energy," January 21, 1993. The report stated that the Military Departments did not adequately strengthen controls over the use of interagency agreements after OIG, DoD, Report No. 90-085 (see next summary). DoD activities did not obtain prior approval from a DoD contracting official before placing Economy Act orders with the Department of Energy, Oak Ridge Field Office. For the sample of 196 Economy Act orders reviewed, DoD paid about $11.6 million in additional costs, and internal controls were not incorporated into interagency agreements and orders to validate that deliverables met requirements and vouchers totaling $78.4 million were accurate, or that the best interests of DoD were protected. The report also stated that DoD management information systems could not identify the number, value, issuing activity, or

recipient of Economy Act orders. The report recommended that DoD establish criteria and specify details to include in interagency agreements, discipline DoD officials who knowingly exceeded their authority by placing Economy Act orders with Department of Energy, establish internal controls to ensure adequate administration of DoD Economy Act orders, and establish a system for tracking DoD procurements that use Economy Act orders. The report also recommended the establishment of a central point within DoD to oversee policy and administration of interagency acquisitions. The Director of Defense Procurement nonconcurred with the need for an information system to track interagency acquisitions but will address the need for a contracting officer's approval of orders through the Defense Acquisition Regulations Council. The Military Departments and the Defense Logistics Agency generally agreed that interagency agreements and related orders should be reviewed, then ratified or terminated, but disagreed as to whether the review was the responsibility of DoD contracting officers. The Comptroller of the Department of Defense agreed to establish a requirement that finance and accounting officers would not authorize funds for interagency orders unless a contracting officer had certified that the orders were proper. The Deputy Under Secretary of Defense (Environmental Security) agreed to revise DoD Instruction 4000.19 to include a model interagency agreement that will cover responsibilities of parties and requirements for contract administration.

Report No. 93-041, "Computed Tomography (CT) Scanner Maintenance Service Contracts," January 8, 1993. This audit confirmed the allegation that DoD awarded computed tomography scanner maintenance service contracts without full and open competition because of bid restrictions in the procurement process. The average cost of contracts awarded without competition was 76 percent greater than those contracts awarded competitively for computed tomography scanner maintenance services. In addition, use of in-house maintenance would have been preferable. The report estimated that DoD could achieve monetary benefits of about $24 million by improving competition in the acquisition of computed tomography scanner maintenance service. The report recommended that DoD eliminate bid restrictions on computed tomography scanner maintenance service contract solicitations to improve competition and to perform cost benefit analysis before deciding on in-house versus contract maintenance. Management concurred that procedures need to be revised to improve competition and to begin in-house maintenance if a cost benefit analysis showed it was economical.

Report No. 92-091, "Quick-Reaction Report on Accountability of Government Automatic Data Processing Equipment at U.S. Army Special Operations Command," May 15, 1992. The report stated that the USASOC at Fort Bragg, North Carolina, had not established adequate property records for $3.4 million of automatic data processing equipment nor did the Command personnel comply with Army regulations or policy and procedures for

property accountability. The report recommended that the Commanding General, USASOC, establish property book controls for automatic data processing equipment, conduct a physical inventory of data equipment to determine what equipment was missing, report any shortages in accordance with Army regulations, and establish procedures for the property book officer and contracting officer's representative to jointly inventory and sign future automatic data processing equipment. Management concurred with recommendations and is initiating corrective actions.

Report No. 92-069, "Quick-Reaction Report on DoD Procurements Through the Tennessee Valley Authority," April 3, 1992. This report states that DoD officials, who lacked authority under the FAR and DFARS to approve interagency acquisitions, improperly authorized interagency orders to transfer $84.8 million of expiring funds during August and September 1991 to the TVA to achieve technical obligation of those funds. The report recommended that the Director, Defense Research and Engineering; the Service Acquisition Executives; and the Director, Defense Logistics Agency, cancel those interagency orders issued to TVA that have not been placed on contract; prohibit placement of supplemental work under existing interagency agreements if not properly approved by a contracting officer; discontinue the use of Military Interdepartmental Purchase Requests and similar ordering forms to acquire goods and services from other Federal agencies; and develop a form that includes sections to be completed by a contracting officer. The Army, Navy, Air Force, and Defense Logistics Agency generally concurred with the finding and recommendations. The Director, Defense Research and Engineering, did not concur with the recommendation to discipline program managers because, the Director stated, the managers had not exceeded their authority.

Report No. 90-085, "DoD Hotline Allegation of Irregularities in DoD Contractual Arrangements With the Department of Energy," June 19, 1990. This audit determined that program officials circumvented established policy and exceeded their authority by not obtaining required approvals from DoD procurement officials or designated senior DoD officials when placing orders for interagency acquisitions. Also, DoD internal controls were not adequate to ensure compliance with the FAR and DFARS when program officials placed orders with Department of Energy. The report recommended that the Under Secretary of Defense for Acquisition improve DoD internal control procedures to minimize the risk of placing orders for interagency acquisitions, that appropriate training be provided to DoD program officials, and that disciplinary actions be considered against those DoD program officials who exceeded their authority. Management concurred with the findings and recommendations, and the Principal Deputy Assistant Secretary of Defense (Production and Logistics) issued a memorandum to the Military Departments and the Defense Logistics Agency on May 10, 1990, that solicited support in

training program officials and in establishing internal control procedures to prevent placement of interagency orders by unauthorized DoD program officials.

Report No. 90-034, "Contracting Through Interagency Agreements With the Library of Congress," February 9, 1990. This audit determined that DoD program officials circumvented established policy and exceeded their authority by not obtaining required approvals from DoD procurement officials or designated senior DoD officials when placing orders for interagency acquisitions. Also, DoD internal controls were not adequate to ensure compliance with the FAR and DFARS when program officials placed orders with the Library of Congress. The report concluded that these weaknesses increased the risks of overpricing and susceptibility of interagency procurements to mismanagement, abuse, and fraud. The report recommended that the Under Secretary of Defense for Acquisition improve DoD internal control procedures to minimize the risk of placing orders for interagency acquisitions by unauthorized DoD program officials, that appropriate training be provided to DoD program officials, and that disciplinary actions be considered against those DoD program officials who exceeded their authority. Management generally concurred with the findings and recommendations.

Office of the Inspector General, TVA

Report No. 92-0250, "Tennessee Center for Research and Development," December 8, 1992. The report identified three findings related to work performed by TCRD for TVA. First, TCRD functioned in a dual role by assisting TVA in managing and administrating the TVA Technology Brokering Program and by participating in the program as a cooperator, thus creating an unfair advantage over other companies in receiving work. This conflict of interest resulted in 35 percent of total TVA Technology Brokering Program dollars being awarded to TCRD in FY 1991. Second, oversight and administration of TCRD was not adequate to preclude the payment of unsupported TCRD bills and improper use of funds. Third, TVA funds were inappropriately used to procure furniture and equipment for the Technology Resources Development division of TCRD. The OIG, TVA, recommended resolving the conflict of interest by eliminating TCRD's dual roles, by improving oversight of cooperative agreements with TCRD, and by inventorying and tagging all TVA equipment in the possession of TCRD. TVA management concurred with the findings and recommendations.

Report No. 91-076G, "Technology Brokering Program," March 31, 1992. This report stated that TVA relied on DoD activities to certify that proper procedures and regulations were followed by DoD activities when placing Economy Act orders with the TVA, that TVA relied on cooperators to market the TVA Technology Brokering Program to funding agencies, and that TVA accepted interagency orders that did not meet the objectives of the TVA Technology Brokering Program. The passive role TVA played in marketing and

explaining the TVA Technology Brokering Program may have resulted in misunderstandings regarding the legal responsibilities of the funding agencies and TVA. The report recommended that the President, Resources Group, TVA, have TVA explain the TVA role as contract administrator to funding agencies, ensure that DoD interagency agreements are signed by a DoD contracting officer, develop criteria for research and development work, develop a database or inventory of TVA capabilities, enter agreements only with firms that are established in the Tennessee Valley area, and monitor contractor billings in cooperation with a DoD contracting officer. Management generally agreed with the report recommendations.

Army Audit Agency

Report No. WE 91-A1, "Advisory Report Contract Offloading," September 11, 1991. This report was based on several audits that determined Army activities and installations did not have policies and procedures in place to control contract offloading. The contract offloading problems resulted from ineffective managerial controls and contracting practices, improper use of service contracts and contractor payments, lack of property accountability, and inappropriate use of Military Interdepartmental Purchase Requests. The report contains checklists developed by the Army Audit Agency to help commanders and managers in evaluating contract offloading at their commands and activities. The report was advisory in nature and summarized common problems in contract offloading. The report contained no recommendations.

Report No. SW 91-200, "Contract Offloading," January 22, 1991. This report stated that contracts were offloaded to expedite the acquisition of goods and services. Offloading contracts frequently violated acquisition and funding regulations and statutes. The violations were not detected because the flow of acquisition and funding documents bypassed knowledgeable installation contracting, resource management, and legal personnel. The report recommended that policy and procedures be reinforced to require contracting, legal, and resource management personnel review purchase requests with other government agencies. The report also recommended the establishment of a reporting system for interagency acquisitions for automatic data processing purchases. Management concurred with the findings and recommendations.

APPENDIX D - EXAMPLES OF PROBLEMATIC ISSUES IDENTIFIED IN THE REPORT

Example 1. U.S. Army Special Operations Command (USASOC)

Competition. From July 1990 through September 1991, USASOC issued Economy Act orders totaling $15.5 million to the TVA Technology Brokering Program for the development, maintenance, operation, and expansion of the SOFNET project, including the procurement of personal computers, printers, and modems. Before issuing the Economy Act orders to TVA, USASOC obtained contracting support from the Army Communications and Electronics Command (CECOM), which had a contract with SRI, International, for the procurement of hardware, software, and services related to the SOFNET program. USASOC procured goods and services without obtaining a delegation of procurement authority from GSA. Total costs to DoD included not only the cost of the laptops, printers, software, and services, but overhead costs and fees for TCRD, the University of Tennessee's International Center for the Application of Information Technology (ICAIT), and TVA's fees (Appendixes H and I).

According to USASOC officials, the CECOM contract with SRI, International, was terminated in March 1990 because of overhead and surcharge fees of 30 percent levied by CECOM. In April 1990, after terminating the CECOM contract with SRI, International, USASOC officials began negotiations with the contracting office at the Naval Ordnance Station, Indian Head, Maryland, for contracting support. However, due to its limited contracting authority, the Naval Ordnance Station was unable to accomplish the need entirely. In July 1990, USASOC officials met with a USASOC contracting officer to discuss procurement of hardware and software maintenance of SOFNET equipment. The contracting officer informed the USASOC officials that administrative lead-time to place the requirement on contract would be a minimum of 180 days after the receipt of specifications. During the same time frame as the meeting with the USASOC contracting officer, representatives of ICAIT, a non-profit cooperator of the TVA Technology Brokering Program, contacted USASOC program officials. ICAIT representatives stated that the TVA Technology Brokering Program could guarantee speedy continuation of the SOFNET program by the incumbent contractor, SRI, International.

In March 1991, USASOC program officials prepared a determination and finding that stated that TVA was the most economical and advantageous means of accomplishing the procurement because of the comparatively low overhead fee, and because TVA had vast experience in the field of advanced technology and could provide a high level of expertise to the procurement process. In September 1990, the SOFNET program office established an interagency agreement with TVA and placed the remaining requirement for the procurement of hardware, software, operations, maintenance, and expansion services totaling $15.5 million on Economy Act orders to TVA, designating

SRI, International, as a contractor to perform the work. TVA issued a cooperative agreement to TCRD for the hardware requirements and a cooperative agreement to ICAIT for the operations and maintenance requirements. ICAIT then subcontracted the operations and maintenance requirements to SRI, International.

On November 29, 1991, as a result of our inquiry regarding whether a DoD contracting officer had reviewed and approved the Economy Act orders, a USASOC contracting officer prepared a justification and approval and cited the compelling urgency for the requirement as support for other than full and open competition.

Security clearances. The SOFNET program was designed to provide a secure (secret level) command and control link between USASOC headquarters, major subordinate commands, and their units. The statement of work provided to TVA required that TCRD provide support for the completion of the unclassified SOFNET prototype and assist in its transition to a "secret high" secure system. TCRD personnel did not have security clearances. In addition, the Director of the TVA Technology Brokering Program and his staff did not have security clearances. After the draft report was issued the Army checked on the program and informed us that no classified information was required or supplied to TVA and TCRD personnel during the project.

Example 2. Harry Diamond Laboratories (HDL) In-house Resources

Between February and August 1991, HDL, in Adelphi, Maryland, issued Economy Act orders totaling $1.1 million to TVA for FIP hardware, research and development, and studies to support the Mantech soldering and welding technologies program. The acquisition included off-the-shelf computers, monitors, modems, laser printers, notebook computers, and other computer-related supplies and services. The HDL Mantech program manager stated that the orders were placed with TVA because his office lacked the staff to administer the program and because the HDL contracting office could not place the requirement on contract in a timely manner. TVA could place the requirement on contract within 30 days, whereas the HDL contracting office would take 6 to 8 months. HDL previously obtained support for the Mantech soldering and welding technologies program through a contract with Summit Technologies, a Small Business Administration 8(a) contractor. The contract with Summit Technologies was expiring in 1991. Before the contract expired, the HDL contracting office considered awarding a follow-on, firm-fixed-price contract to Tech International, Inc., another 8(a) contractor. However, because Mantech officials were unable to define their requirements in a statement of work, and because 90 percent of

the requirement was for off-the-shelf computer hardware that should be procured through the General Services Administration, the HDL contracting office did not award a contract.

During a discussion in the HDL cafeteria, an employee of Ogden/ERC suggested the TVA Technology Brokering Program to the HDL Mantech program manager. HDL subsequently issued Economy Act orders totaling $1.1 million to TVA. TVA issued cooperative agreements to TCRD and Ogden/ERC. TCRD procured the computer equipment and software and subcontracted the remaining tasks.

As a result of our inquiries, in November 1991, the HDL contracting office prepared an after-the-fact determination and finding on the Economy Act orders issued to TVA. The contracting officer's determination and finding concluded that the use of TVA was appropriate, and that the requirement could not have been acquired as economically from a private contractor.

Example 3. Army Combined Arms Support Command (CASCOM)

In-house resources. Between July 1990 and September 1991, CASCOM, Fort Lee, Virginia, issued Economy Act orders totaling $2.2 million to TVA to continue the development of FIP software for the automated airload planning system, without delays. The automated airload planning system is a computerized airlift program that identifies the most efficient means to deploy Army materiel, equipment, and personnel. CASCOM program officials stated that a primary reason for using TVA was its ability to perform contract administration, a function that was not available in-house.

The automated airload planning system program began in 1984 as a research and development project funded by the Advanced Research Projects Agency. The Advanced Research Projects Agency contracted with SRI, International, to perform the research and development. In 1986, the Advanced Research Projects Agency transferred the automated airload planning system to CASCOM. CASCOM continued the use of SRI, International, through a contract awarded by CECOM. In September 1990, the contract through CECOM was terminated by CASCOM because CASCOM considered CECOM fees for providing contracting support to be excessive. SRI, International, software engineers working on the automated airload planning system program informed CASCOM officials of the TVA Technology Brokering Program.

Competition. TVA issued a cooperative agreement to the University of Tennessee's ICAIT for the support to the automated airload planning system program. ICAIT retained a fee of $198,000, and subcontracted $2 million of the work to International Business Services and an unknown subcontractor.

Example 4. Army Information Systems Engineering Command In-house Resources

Between April and August 1991, MICOM, Redstone Arsenal, Alabama, issued Economy Act orders totaling $261,780 to TVA at the request of the Army Information Systems Engineering Command, Fort Huachuca, Arizona. The orders were for the continuation of a previous contract effort to upgrade the E-mail software and to make enhancements to computer-based systems at Fort Huachuca. Fort Huachuca program officials stated that although the requirement was known early in the fiscal year, the MICOM contracting office was too busy to handle the requirement, whereas TVA could place the requirement on an existing interagency agreement in a shorter time frame. A representative of the MICOM contracting office stated, that Fort Huachuca could have used its own contracting office or his office, which provides contracting support to 8 Army activities and has 107 contracting officers with warrants of $250,000 or greater, to award the contracts.

Example 5. Army Missile Command (MICOM) Security Clearances

During FY 1991, MICOM also issued Economy Act orders totaling $1.85 million to the TVA Technology Brokering Program to update existing systems to comply with the computer-aided acquisition logistics support standards. The TVA Technology Brokering Program issued a cooperative agreement to AT&T. The work required that AT&T personnel have secret clearances. We could not determine whether AT&T personnel had the required clearances.

MICOM also issued Economy Act orders to TVA totaling $996,000 to develop a counter-drug center for the Army. In this case, TVA issued a cooperative agreement to Systems Technology Associates to perform program management and contracts for the support services. This work required personnel with top secret clearances. After issuance of the draft report, the Army checked on the program and stated Systems Technology Associates personnel did have security clearances. However, TVA Technology Brokering Personnel monitoring the project did not have security clearances. The Army stated that MICOM personnel were still performing an indepth review of the security aspects of the program at the time of this report.

Example 6. U.S. Army Information Systems Command (USAISC) FIP Resources

In FYs 1991 and 1992, USAISC, Redstone Arsenal, Alabama, issued Economy Act orders to TVA to acquire more than $19 million of FIP resources. The orders were for a variety of FIP resources including systems analyses, design, engineering, and computer hardware including MacIntosh color monitors and Hewlett-Packard

Laserjet printers. TVA issued a cooperative agreement to Systems Engineering Solutions, Inc., which subcontracted with Falcon Micro Systems, Inc., for the computer hardware. USAISC did not have a delegation of procurement authority from the General Services Administration before placing the orders with TVA. USAISC paid more than $2.1 million in fees to TVA to obtain the computer equipment and FIP resources.

Example 7. All Sources Analysis Systems Program Office FIP Resources

Between August 1990 and September 1991, the All Sources Analysis Systems program office issued Economy Act orders to TVA totaling $1.4 million for FIP resources. The requirement included research and analysis, design, engineering, technical assessments, and training support for the development of a computer-based system. The All Sources Analysis Systems program office did not obtain a delegation of procurement authority from the General Services Administration before noncompetitively obtaining the resources through TVA.

Example 8. Non-Acoustic Anti-Submarine Warfare (NAASW) Program Office

In-house Resources. The NAASW program office issued Economy Act orders totaling $18.6 million in FYs 1991 and 1992 to TVA for the NAASW Program for research and development and for program management support that was not available in house. The NAASW program office consisted of one person. ESG, Inc., the designated TVA cooperator, provided management support services to the NAASW program office as well as subcontracted research efforts. (See summary for OIG, DoD, Report No. 93-068, Appendix C.)

Inherently Governmental functions. The management support services that ESG, Inc., performed for the NAASW program office included preparing evaluation proposals of subcontractors, program budgets, and documents defining requirements and evaluation criteria of subcontractors. The support services also included attending program reviews on behalf of the DoD project director. ESG, Inc., performed these inherently Governmental functions because the program office was not staffed to perform the tasks.

Security clearances. ESG, Inc., and its subcontractors required access to classified information and created classified information as a result of research and development performed for the NAASW program. In addition, the NAASW program office relied on TVA to perform contract administration functions including reviewing and approving work requirements, deliverables, and invoices. ESG, Inc., personnel had security clearances.

However, no assurance existed that subcontractor personnel had the required clearances. Further, while the NAASW program office issued a DD Form 254, "Contract Security Classification Specification," to TVA placing responsibility for compliance with security requirements with the Director of the TVA Technology Brokering Program, no steps were taken to verify whether any security clearances existed for TVA personnel involved in oversight of the NAASW program. TVA personnel informed us that none of their personnel involved in the program had security clearances.

Example 9. Naval Ships Systems Engineering Station (NAVSSES) FIP Resources

Between January and September 1991, NAVSSES issued Economy Act orders totaling $1.1 million to TVA for various FIP requirements, including developing a methodology to incorporate machine alterations and engineering change proposals, tracking materials acquisition and inventory, and compiling equipment failure statistics into the Fleet Modernization Program Management Information Systems.

A NAVSSES official learned of the TVA Technology Brokering Program in September 1990 during a Government and industry consortium sponsored by the University of Tennessee. NAVSSES officials stated that approvals of NAVSSES requirements were delayed because of Desert Storm and that TVA provided a means to expedite the procurement of the delayed requirements. Beginning in January 1991, NAVSSES placed five Economy Act orders for FIP support to integrate a prototype system for the Fleet Modernization Program Management Information System. TVA issued a cooperative agreement to Resources Consultants, Inc., which NAVSSES had suggested to perform the work. NAVSSES did not obtain a delegation of procurement authority from GSA before placing the Economy Act orders for the FIP requirements with TVA.

Example 10. Air Force Air Mobility Command (AFAMC)

Competition. In September 1991, AFAMC, Scott Air Force Base, Illinois, issued project orders totaling $9.6 million to TVA for the test and repair of 1,200 underground fuel storage tanks at 12 Air Force locations nationwide. An AFAMC program official stated that the use of TVA was justified because the need was urgent to meet state and Federal environmental requirements and to avoid monetary penalties.

Before using TVA, the test and repair requirement was performed by International Technologies, Inc., under an interagency agreement with the Department of Energy. However, in September 1991, the Department of Energy stated that it was phasing out of that type of environmental work and, therefore, would no longer

be able to perform the requirement for AFAMC. AFAMC considered placing Economy Act orders with the TVA Work-for-Others Program at Muscle Shoals, Alabama, which performs environmental work. The AFAMC officials learned, however, that DoD could continue using the services of International Technologies, Inc., and resume work more quickly if the Technology Brokering Program issued a cooperative agreement. AFAMC entered into an interagency agreement with the Technology Brokering Program, which included the work requirement in a cooperative agreement with TCRD. TVA retained $629,000, and subcontracted the work to International Technologies, Inc., a non-profit subsidiary of TCRD and a subcontractor to TCRD.

The AFAMC program manager completed a determination and finding after the fact, justifying the use of the TVA Technology Brokering Program. If AFAMC had documented the urgent nature of the requirement, its procurement office could have issued a sole-source contract directly with International Technologies, Inc., to perform the work and thus avoided the additional costs to TVA. FAR 6.302-2, "Unusual and Compelling Urgency," allows for the exception to competition in situations of unusual and compelling urgency and where delay would result in serious financial injury to the Government.

Use of project orders. AFAMC used project orders to place the $9.6 million with TVA for testing and replacement of underground fuel storage systems, as well as project orders totaling another $4 million to TVA for upgrades and remediation at the service station operated by the Air Force Exchange Service at Andrews Air Force Base, Maryland. TVA retained a fee of $330,755 on the latter orders, and placed the work on a cooperative agreement with TCRD for the remaining $3.7 million.

Personal services and inherently Governmental functions. The $9.6 million in project orders required contractor personnel to perform personal services and inherently Governmental functions. TCRD, the TVA cooperator, provided contract management at the various Air Force locations. In March 1993, due to a promotion and hiring freeze, a University of Tennessee employee on contract with Martin Marietta, through an interagency agreement with the Department of Energy, replaced the Air Force technical manager for the project. As a result, since February 1993, International Technologies, Inc., has been responsible for performing the tests and evaluations, and the University of Tennessee project manager has provided the technical oversight. International Technologies, Inc., subcontracted part of the work to Multiple, Inc. AFAMC has not assigned any personnel to monitor either the University of Tennessee or TCRD-related work. The University of Tennessee project manager also stated that he managed Air Force employees at the Air Force locations where work was performed. This lack of oversight by Air Force personnel has

resulted in the delegation of Air Force oversight responsibilities to TVA, cooperators, and their subcontractors.

In April 1991, AFAMC issued Economy Act orders totaling $60,000 to TVA to retain the services of a specific employee that had been working under an expiring contract at AFAMC as a software engineer to complete a data dictionary for the data standardization logistical data model. AFAMC officials stated that TVA was used to compensate for the lack of in-house resources to perform the work and to obtain personal services from the same contractor employee who had been performing the work under an expiring contract. TVA issued a cooperative agreement with Atlantic Research Corporation, Rockville, Maryland, who contracted with the employee who was physically located at Scott Air Force Base, Illinois. Atlantic Research Corporation billed the software engineer's services to TVA at a cost of $48.75 per hour. We were unable to determine the average hourly cost under the prior arrangement.

Air Force comments on example. The Air Force stated that Air Force personnel were now managing replacement of underground fuel storage tanks and the personal services of the software engineer was no longer used.

APPENDIX E - FEDERAL INFORMATION PROCESSING ACQUISITIONS ISSUED WITHOUT AUTHORIZATION

DoD Activity	Project Name	Description	Dollar Value
Army			
ASAS	ASAS Training system	Research and analysis, design, engineering, technical assessment and training support for the development of a computer-based authoring system.	$ 819,216
	Interactive Courseware	Engineering, testing, training, and procurement services for the development of interactive courseware.	505,351
	Systems Management Technology Improvement	Research, development, analyses, design, engineering, testing, training, and procurement services for the development of the training system and interactive courseware.	33,333
CASCOM	Automated Air Load Planning	Development of FIP software to support planning.	2,200,000
MICOM	Aviation LAN	Provide FIP support services.	801,300
USAISC	Information Engineering	Conduct system analysis, feasibility study, system information system engineering, programming, testing and documentation of candidate systems for operation on the USAISC-MICOM three-tier computer architecture.	19,106,828
USASOC	SOFNET C^4I	Development of communications systems and maintenance support for all hardware and software by USASOC, training and user assistance, and system engineering and integration for special purpose networks and systems.	$15,533,568

See acronym list at end of appendix.

APPENDIX E - FEDERAL INFORMATION PROCESSING ACQUISITIONS ISSUED WITHOUT AUTHORIZATION (cont'd)

DoD Activity	Project Name	Description	Dollar Value
Navy			
NAVSSES	MACHALT/ECP	Utilize information systems and technical expertise to develop a methodology to incorporate MACHALTS ECP tracking requirements, materials acquisition and inventory, and compiled equipment failure statistics into FMPMIS.	1,129,550
Total			$40,129,146

Acronyms

ASAS..... All Sources Analysis Systems Program Office
C^4I..... Command, Control, Communications, Computers, and Intelligence
ECP..... Engineering Change Proposals
FMPMIS..... Fleet Modernization Program Management Information System
LAN..... Local Area Network
MACHALT..... Machinery Alterations

APPENDIX F - GENERAL SERVICES ADMINISTRATION DELEGATION OF PROCUREMENT AUTHORITY

AUG 11 1992

Mr. William F. Malec
Executive Vice President
and Chief Financial Officer
Tennessee Valley Authority
400 West Summit Hill Drive
Knoxville, TN 37902

Dear Mr. Malec:

The General Services Administration (GSA) has recently reviewed the activities of the Technology Brokering Program (TBP), an activity of the Tennessee Valley Authority (TVA). GSA's review included an examination of TBP files and meetings with TBP and other TVA officials.

GSA understands that the TBP was established in 1988 "to expand and enhance that portion of the Tennessee Valley economy that is technology driven" by entering into cooperative agreements with Valley vendors and institutions to carry out research and development projects as requested by Federal agencies.

GSA's review disclosed that Federal Information Processing (FIP) resources have been acquired through the TBP without meeting the requirements of the Federal Information Resources Management Regulation (FIRMR). The lack of TVA oversight is allowing other Federal agencies to use the TBP for FIP resources and to bypass regulatory requirements.

Therefore, effective with the date of this letter, TVA should phase out immediately the acquisition of FIP resources under the TBP regardless of dollar amount without a specific delegation of procurement authority from GSA.

TVA is encouraged to meet with GSA and discuss specific TBP deficiencies. Following the review of deficiencies with GSA, TVA should provide GSA a plan addressing action by TVA to correct TBP deficiencies.

- 2 -

If there are any questions regarding this matter, please have a member of your staff call Richard L. Fidler at (202) 501-1566 and refer to GSA case number KMA-92-0440.

Sincerely,

SIGNED (FRANCIS A. MCDONOUGH)

Francis A. McDonough
Assistant Commissioner for
Federal Information
Resources Management

APPENDIX G - SAMPLE INTERAGENCY AGREEMENT

THIS AGREEMENT, made and entered into this ___ day of ___, 199x, by the (DoD ACTIVITY) and the TENNESSEE VALLEY AUTHORITY, a corporate agency and instrumentality of the United States, organized and existing pursuant to the Tennessee Valley Authority Act of 1933, 16 U.S.C. 831-831dd (1988) (hereinafter called "TVA");

WITNESSETH:

WHEREAS TVA, pursuant to its statutory authority, is authorized to carry out programs and projects which increase its efficiency and which further economic development in the Tennessee Valley region; and

WHEREAS DoD ACTIVITY obtains services from and engages in projects through cooperative agreements with other Federal departments and agencies pursuant to the Economy Act of 1932, as amended; and

WHEREAS DoD ACTIVITY purpose is to have various development and other type work to advance its activities administered and accomplished by qualified firms, institutions, or jointly by TVA and such firms or institutions as subcontractors to TVA; and

WHEREAS TVA assists in the creation of new jobs in the Tennessee Valley region by linking academic, private sector, and governmental research and development capabilities, and to identify and market existing research and technical resources in the Tennessee Valley region and the United States, all of which further economic development of the Tennessee Valley region; and

WHEREAS TVA, pursuant to the Economy Act of 1932, as amended, and applicable TVA policy, is authorized to provide services to other Federal agencies and departments; and

WHEREAS DoD ACTIVITY and TVA wish to cooperate in programs and projects of mutual interest which will further their respective purposes and, by this agreement, to define the respective responsibilities and obligations of each in that regard;

NOW, THEREFORE, in consideration of the foregoing premises and mutual covenants hereinafter contained, the parties agree as follows:

I. OBLIGATIONS OF DoD ACTIVITY

In addition to other obligations contained herein, DoD ACTIVITY shall:

1.1 In cooperation with TVA, submit programs and projects in areas of mutual interest that will further the respective

research and development and technology transfer and life cycle operations purposes of TVA and DoD ACTIVITY and which will further the economic development purposes of TVA within the Tennessee Valley region. The work in support of such programs and projects shall be carried out, whenever possible, in the Tennessee Valley region and surrounding areas.

1.2 (a) In order to implement a project, prepare and submit to TVA Military Interdepartmental Purchase Requests (MIPRs) and related SCOPE OF WORK (SOW), or similar forms of work requests hereinafter referred to as MIPRs and SOWs, which shall provide detailed information for specific project activities or services proposed under this agreement and identify all funds to be provided to accomplish the work described in the SOW or attached specification to the SOW; provided, however, TVA shall have the right to refuse such MIPR and SOW. DoD ACTIVITY will provide to TVA all funds required for a program or project including those funds required for TVA's project administration. At DoD ACTIVITY sole option, the SOW may designate any recommendation for any subcontractors to be used by TVA for project purposes. The MIPR shall be prepared on a Federal fiscal year basis (October 1 through September 30) and shall designate the specific portion of the SOW that is to be funded. The SOW should provide information and specifications for the entire program that will be executed by TVA subcontractors across the life of the projects. The SOW can be for a single or multi-year programs and include estimated levels of effort and funding.

(b) Additional work to be performed will be submitted with a change to the basic MIPR and SOW submitted to TVA by DOD ACTIVITY and shall be subagreements to this agreement and shall be subagreements to this agreement and shall be approved in accordance with applicable DoD ACTIVITY and TVA policy and procedures.

1.3 Transfer of funds for work described in particular MIPRs and SOWs will be made within 30 days of the receipt of a request for such transfer, which will be identified by project order or MIPR number, SOW number, and the approved task number. DoD ACTIVITY shall have the right to audit TVA's records pertaining to this agreement to verify the accuracy of amounts invoiced by TVA. Remittance will be made payable to TVA and forwarded to the TVA Treasurer at the address appearing upon the invoice.

1.4 If DoD ACTIVITY requests assistance pursuant to section 2.2, DoD ACTIVITY shall reimburse TVA for allowable and allocable direct and indirect costs incurred in providing such support, including the salary, fringe benefits, and travel expenses of any TVA employee providing direct support to the program or project order.

II. OBLIGATION OF TVA

In addition to the other obligations contained in this agreement, TVA shall:

2.1 As provided herein, cooperate with DoD ACTIVITY in development of programs and projects in areas of mutual interest.

2.2 If requested by DoD ACTIVITY and approved by TVA, if appropriate, provide assistance and services of loaned TVA employees to assist in the development and implementation of DoD ACTIVITY'S programs and projects under this agreement.

2.3 In accordance with applicable laws, regulations, and TVA policies and procedures for personal services, nonpersonal services, or cooperative agreements, contract with private sector firms or other institutions to implement the requirements issued by DoD ACTIVITY to TVA pursuant to this agreement.

2.4 In the event that a claim is made against DoD ACTIVITY arising out of or in any way connected with TVA or DoD ACTIVITY'S under this agreement, TVA will provide DoD ACTIVITY with such assistance as may be reasonably necessary to resolve or defend such claim; provided, however, DoD ACTIVITY shall reimburse TVA for all costs incurred in connection with such assistance, including any legal costs, computed in accordance with applicable TVA accounting procedures.

III. PATENTS AND RIGHTS TO DATA

The rights to patents and underlying data shall be determined in accordance with applicable law and as specifically provided in each subagreement.

IV. COMPUTER SOFTWARE AND DOCUMENTATION RIGHTS

Whenever any computer software and computer software documentation is developed or generated by TVA, TVA employees, or any contractor of TVA in the course of this agreement, such computer software and computer software documentation, unless otherwise provided in the particular subagreement, shall be the property of TVA, and TVA shall grant DoD ACTIVITY an irrevocable, royalty-free license to use, copy, and modify the computer software and documentation with the unlimited right to sublicense; provided, however, for computer software and computer software documentation which is generated or developed in pursuit of project orders of MIPRs under this agreement which are wholly funded by DoD ACTIVITY, such software and documentation shall be the property of DoD ACTIVITY, and DoD ACTIVITY shall grant TVA the royalty-free license rights set forth above.

V. OFFICIALS NOT TO BENEFIT

No member of or delegate to Congress or Resident Commissioner, or any officer, employee, special Government employee, or agent of TVA or DoD ACTIVITY shall be admitted to any share or part of this agreement or to any benefit that may arise therefrom, but this provision shall not be construed to extend to a corporation or unit of Government contracting for its or for the public's general benefit; nor shall DoD ACTIVITY offer or give, directly or indirectly, to any officer, employee, special Government employee, or agent of TVA, any gift, gratuity, favor, entertainment, loan, or any other thing of monetary value, except as provided in 18 C.F. R. 1300.735-12 or -34 (1990). Breach of this provision shall constitute a material breach of this agreement.

VI. WARRANTIES OR REPRESENTATIONS

A. Services provided under this agreement shall be performed in accordance with prevailing professional standards for such work. In the event that either TVA or a subcontractor fails to perform such services in accordance with prevailing professional standards, TVA's liability and responsibility shall be limited to reperforming such deficient services at no cost to the other party. The liability of any TVA subcontractor shall be as provided in the particular subagreement.

B. TVA AND DoD ACTIVITY UNDERSTAND AND AGREE THAT NEITHER TVA, THE UNITED STATES, NOR ANY OF THEIR RESPECTIVE AGENTS OR EMPLOYEES: (1) MAKE ANY WARRANTY OR REPRESENTATION OF ANY KIND WHATSOEVER, EXPRESS OR IMPLIED, AS TO THE ACCURACY, COMPLETENESS, USEFULNESS, OR RELIABILITY OF ANY INFORMATION, APPARATUS, PRODUCT, METHOD, OR PROCESS IN ANY WAY RELATED TO THIS AGREEMENT; (2) ASSUME ANY LIABILITY OR RESPONSIBILITY FOR THE USE OF, OR FOR DAMAGES, EITHER DIRECT OR CONSEQUENTIAL, RESULTING FROM THE USE OF, ANY INFORMATION, APPARATUS, PRODUCT, METHOD, OR PROCESS IN ANY WAY RELATED TO THIS AGREEMENT; OR (3) REPRESENT THAT THE USE OF ANY INFORMATION, APPARATUS, PRODUCT, METHOD, OR PROCESS IN ANY WAY RELATED TO THIS AGREEMENT WOULD NOT INFRINGE PRIVATELY OWNED RIGHTS. THE LIABILITY OF ANY TVA SUBCONTRACTOR SHALL BE AS PROVIDED IN THE PARTICULAR SUBAGREEMENT.

VII. THIRD PARTIES

Notwithstanding any provision of this agreement which may be interpreted to the contrary, this agreement shall not be interpreted to confer any rights or benefits on any third party except as specifically set out herein.

VIII. REFUSAL RIGHTS

It is expressly understood and agreed that TVA, in its sole discretion, reserves the right to not accept any requests for the

services under this agreement. Specific projects will be undertaken pursuant to separate MIPRs and SOWs issued to TVA by DoD ACTIVITY or issued to TVA by specific DoD ACTIVITY organizations. Such project orders shall be subject to approval in accordance with applicable DoD ACTIVITY and TVA procedures. All such project orders shall be subject to the provisions of this agreement.

IX. ADMINISTRATION OF AGREEMENT

In all matters relating to the administration of this agreement, the Manager of Technology Utilization or his/her designee shall act for TVA, and DoD ACTIVITY shall designate a project director for each project submitted. Work against the agreement will be authorized by the project director on the basis of detailed MIPRs submitted by DoD ACTIVITY.

Any dispute between DoD ACTIVITY and TVA regarding the nature, scope, or intent of this agreement or otherwise arising under or relating to this agreement shall be resolved informally by the signatories to this agreement or their successors.

X. CONTENTS OF INDIVIDUAL PROCUREMENT REQUESTS AND WORK REQUESTS

10.1 All DoD ACTIVITY requests for interagency acquisitions by TVA under this agreement shall meet applicable statutory and regulatory prescriptions as determined to be applicable by TVA and DoD ACTIVITY.

10.2 The MIPR and SOW or other request shall include:

(a) a description of the supplies or services, including applicable Statement of Work or specifications;
(b) delivery requirements or performance period, including special marking, packing, and transportation instructions;
(c) any special inspection, acceptance, or warranty provisions;
(d) a funds citation;
(e) payment provisions agreed upon by TVA and DOD ACTIVITY;
(f) acquisition authority, including a draft of any proposed justification and approval (J&A) or determination and findings (D&F) required by law or regulation; and
(g) special contract provisions to be included.

10.3 DoD ACTIVITY shall be solely responsible for determining that each subagreement hereunder is in the best interest of the Government and that the services set forth in each subagreement cannot be provided as conveniently or as cheaply by a commercial enterprise and that each subagreement complies with applicable procurement and other regulations.

XI. TERM

This agreement shall be effective as of the day and year first above written and shall terminate on 90 days' written notice by either party.

XII. ENTIRE AGREEMENT

This agreement contains the entire agreement and understanding between the parties, and there are no oral understandings, terms, or conditions not herein recited, and neither party has relied upon any representations, express or implied, not contained in this agreement. All prior understandings, terms, or conditions are deemed to be merged in this agreement and the same may not be changed or supplemented orally by either party.

IN WITNESS WHEREOF, the parties hereto have executed their acceptance on the date first above written.

TENNESSEE VALLEY AUTHORITY

By_____

DoD ACTIVITY

By_____
DoD Official

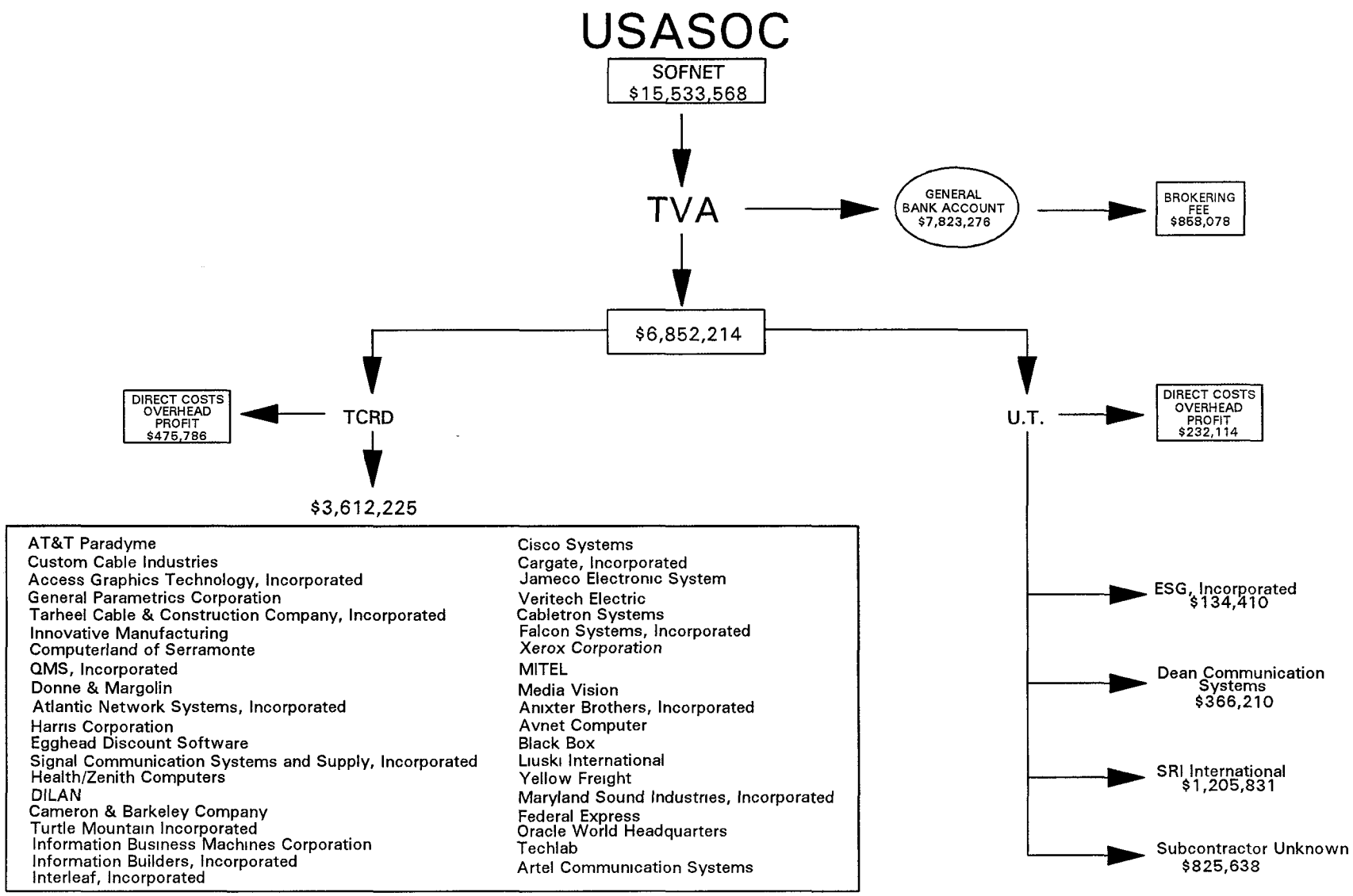
APPENDIX H - SUMMARY OF COSTS INCURRED

ACTIVITY	VALUE OF ECONOMY ACT ORDERS	TVA FEE	AMOUNT AVAILABLE FOR COOPERATORS	AMOUNT INVOICED BY COOPERATORS 1/	COOPERATOR COSTS	SUBCONTRACTOR COSTS	PERCENT SUBCONTRACTED 2/
MICOM	$ 28,949,533	$2,121,195	$ 26,828,338	$10,333,123	$9,863,538	$ 469,585	5
USASOC	15,533,568	858,078	14,675,490	6,852,214	707,900	6,144,314	90
HDL	1,056,500	105,650	950,850	477,423	271,191	206,232	43
ASD(C^3I)*	18,609,000	1,080,450	17,528,550	11,363,792	452,676	10,911,116	96
AFAMC	9,636,739	634,837	9,001,902	53,755	53,755	0	0
CASCOM	2,631,000	193,050	2,437,950	2,181,087	227,147	1,953,939	90
NAVSSES	35,052,953	2,259,327	32,793,626	10,545,756	9,503,509	1,042,247	10
ASAS	1,357,900	135,791	1,222,109	541,742	471,904	69,838	13
TOTAL	$112,827,193	$7,388,378	$105,438,815	$42,348,892	$21,551,620	$20,797,271	

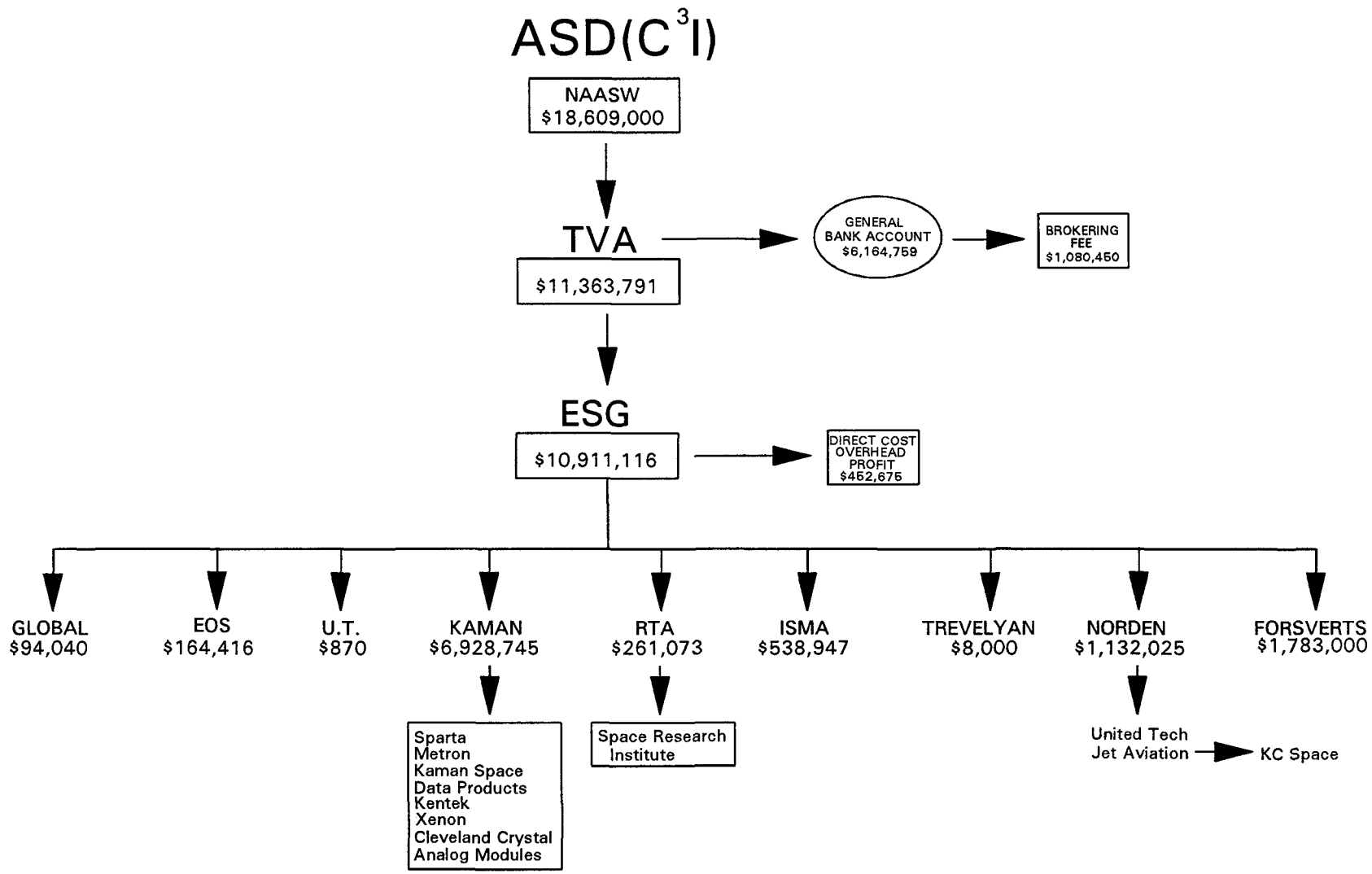
*Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

1/ Totals represent costs invoiced to TVA as of May 31, 1992.
2/ Calculated by dividing the subcontractor costs by the amount invoiced by cooperators.

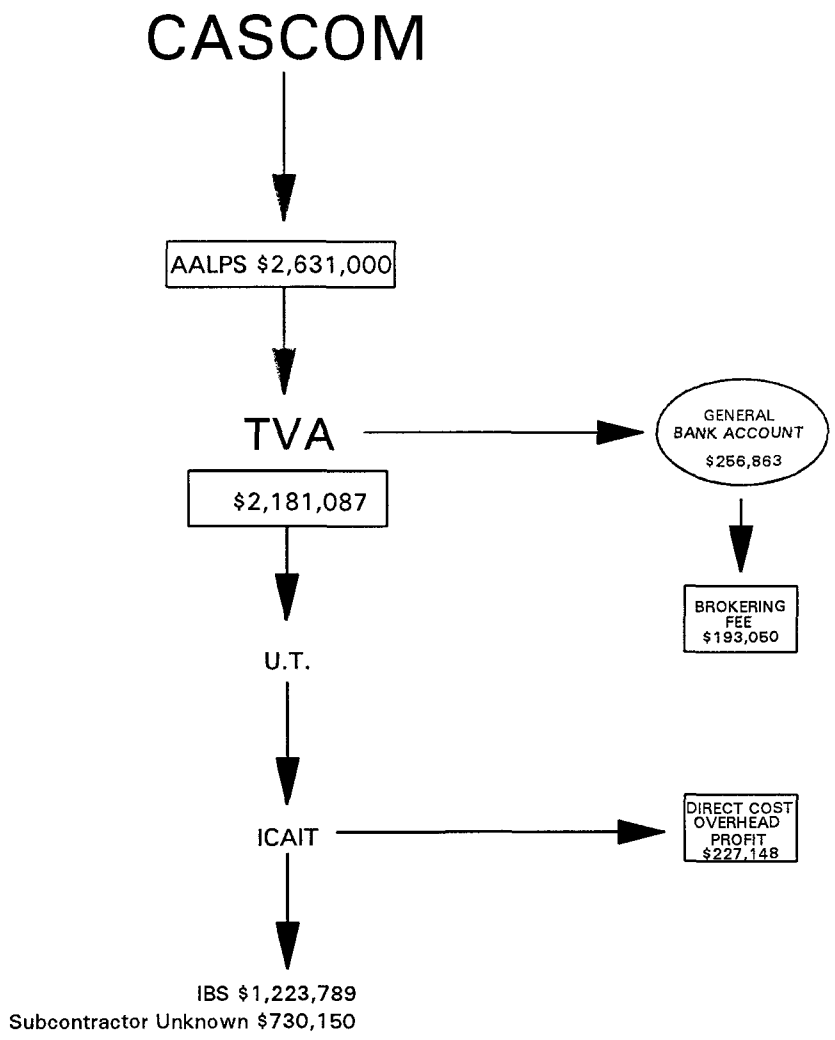
APPENDIX I - FLOW OF FUNDS FROM ACTIVITIES REVIEWED AS OF MAY 31, 1992



See acronym list at end of appendix.



See acronym list at end of appendix



See acronym list at end of appendix.

Acronyms and Abbreviations

AALPS ..... Automated Airload Planning Support
FORSVARETS ..... Forsvarets Forskningstitutt Instituttstaben
IBS ..... International Business Services
ISMA ..... International Space Monitoring Association
RTA ..... Rekenthaler Technology Associates Corporation
U.T. ..... University of Tennessee

APPENDIX J - INTEREST COSTS FOR DOD ADVANCE PAYMENTS

FY 1992 Month	Monthly Balance 1/	Interest Earned by TVA 2/	Interest Costs to DoD for Borrowing Funds 3/
October	$37,123,158	$ 143,852	$ 191,803
November	77,441,618	290,405	387,209
December	83,359,920	323,021	430,692
January	96,157,315	372,610	496,812
February	86,624,456	314,013	418,685
March	86,611,549	335,620	447,493
April	77,769,280	291,635	388,846
May	67,851,556	262,924	350,566
June	82,261,624	308,481	411,308
July	82,737,800	320,608	427,479
August	79,173,852	306,798	409,066
September	51,252,280	192,196	256,261
Total		$3,462,163	$4,616,220

1/ DoD funds maintained in the TVA bank account in FY 1992 averaged approximately $75.5 million.
2/ The annual commercial rate on funds in FY 1992 was 4.5 percent. Calculations were based on (4.5 percent/360 days per year x days in month) x bank balance.
3/ The average U.S. Treasury interest charged for borrowed funds during FY 1992 was 6 percent. Calculations were based on (6 percent/360 days per year x days in month) x bank balance.

APPENDIX K - SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.a.	Compliance. Establishes policy guidance that states DoD activities shall not make interagency acquisitions to circumvent statutory requirements.	Nonmonetary.
A.1.b.	Internal Controls. Requires that interagency agreements specify that non-DoD activities that acquire goods and services for DoD will award contracts in compliance with procurement regulations unless a deviation is approved.	Nonmonetary.
A.1.c.	Internal Controls. Defines requirements for procuring FIP resources through interagency agreements.	Nonmonetary.
A.1.d.	Compliance and Internal Controls. Defines requirements and internal controls needed when contractors under interagency agreements have access to classified information.	Nonmonetary.
A.1.e.	Compliance. Includes reference to FAR subpart 17.5 and DFARS 217.5 in DoD Instruction 4000.19.	Nonmonetary.
A.2.a.	Internal Controls. Improves controls over access to classified information by employees of TVA and its cooperators and their subcontractors.	Nonmonetary.
A.2.b.	Internal Controls. Requires DoD activities to verify that security requirements of work performed by TVA, its cooperators, and subcontractors on classified programs are adequate.	Nonmonetary.

APPENDIX K - SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT
(cont'd)

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.3.a.	Internal Controls. Requires AFAMC to assign program management responsibility to a Government official.	Nonmonetary.
A.3.b.	Compliance. Prevents acquisition of personal services through TVA and performance of inherently Governmental functions by a TVA cooperator.	Nonmonetary.
B.1.a.	Internal Controls. Requires interagency agreements between DoD and TVA to clearly identify contract administration and audit responsibilities.	Nonmonetary.
B.1.b.	Internal Controls. Amends interagency agreements between DoD and TVA to require that contract administration be performed in accordance with FAR part 42.	Nonmonetary.
B.1.c.	Internal Controls. Requires contract administration and audit functions to be performed on DoD-funded cooperative agreements and contracts if TVA is unable to provide these tasks.	Nonmonetary.
B.1.d.	Internal Controls. Requires closeout audits be performed for all DoD-funded cooperative agreements issued by TVA.	Nonmonetary.
B.1.e.	Internal Controls. Withholds 5 percent from payments to contractors pending completion of close-out audits.	Nonmonetary.
B.2.a.	Internal Controls. Revises guidance on the approval and oversight of subcontractors and review of subcontractor incurred costs.	Undeterminable The amount of benefits cannot be estimated.

APPENDIX K - SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT
(cont'd)

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
B.2.b.	Internal Controls. Requires that the responsibilities be assigned to DCMC and DCAA if the performing agency cannot perform contract administration and contract audit responsibilities.	Nonmonetary.
C.1.	Program Results. Establishes guidelines for payments on Economy Act orders to agencies using a commercial bank account.	Underterminable.
C.2.a.	Program Results. Requires that unliquidated advance payments to TVA be returned to DoD.	Nonmonetary.
C.2.b.	Program Results. Amends interagency agreements between DoD and TVA to provide that Economy Act orders will be financed on a reimbursable basis.	Nonmonetary.
C.3.	Program Results. Recoups interest accrued by TVA on DoD advance payments.	Funds put to better use of about $3.5 million. The exact amount to be returned to miscellaneous receipts of the U.S. Treasury will be determined after TVA agrees to return the funds.

APPENDIX L - ACTIVITIES CONTACTED OR VISITED

Office of the Secretary of Defense

Director of Defense Procurement, Washington, DC
Director, Defense Research and Engineering, Washington, DC
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), Washington, DC
Comptroller of the Department of Defense, Washington, DC
Director, Defense Administration and Management, Washington, DC
Deputy Under Secretary of Defense (Environmental Security), Washington, DC

Department of the Army

Office of the Assistant Secretary of the Army (Research, Development, and Acquisition), Washington, DC
All Sources Analysis Systems Program Office, McLean, VA
Combined Arms Support Command, Fort Lee, VA
Harry Diamond Laboratories, Adelphi, MD
Missile Command, Redstone Arsenal, AL
Special Operations Command, Fort Bragg, NC

Department of the Navy

Office of the Assistant Secretary of the Navy (Research, Development and Acquisition), Arlington, VA
Naval Ship Systems Engineering Station, Philadelphia, PA

Department of the Air Force

Office of the Deputy Assistant Secretary of the Air Force (Acquisition), Washington, DC
Air Mobility Command, Scott Air Force Base, IL

Defense Activities

Defense Contract Audit Agency, Alexandria, VA
- Branch Office, Defense Contract Audit Agency, Bloomfield, CT
- Branch Office, Defense Contract Audit Agency, Los Angeles, CA

Defense Investigative Service, Alexandria, VA
Washington Headquarters Services, Washington, DC
- Defense Supply Service-Washington, Washington, DC

APPENDIX L - ACTIVITIES CONTACTED OR VISITED (cont'd)

Non-Defense Federal Activities

Technology Brokering Program, Tennessee Valley Authority, Knoxville, TN
Office of the Inspector General, Tennessee Valley Authority, Knoxville, TN

Non-Government Activities

ESG, Incorporated, Laurel, MD and Knoxville, TN
United Information Systems, Incorporated, Beltsville, MD
Tennessee Center for Research and Development, Knoxville, TN

APPENDIX M - REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Director of Defense Procurement
Director, Defense Research and Engineering
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
Comptroller of the Department of Defense
Director, Defense Administration and Management
Deputy Under Secretary of Defense (Environmental Security)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Assistant Secretary of the Army (Research, Development, and Acquisition)
Commander, All Sources Analysis Systems
Commander, Combined Arms Support Command
Director, Harry Diamond Laboratories
Commander, Missile Command
Commander, Special Operations Command
Auditor General, Department of the Army

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Navy (Research, Development, and Acquisition)
Comptroller of the Navy
Commander, Naval Ship Systems Engineering Station
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)
Assistant Secretary of the Air Force (Acquisition)
Commander, Air Mobility Command
Auditor General, Air Force Audit Agency

APPENDIX M - REPORT DISTRIBUTION (cont'd)

Defense Activities

Director, Defense Contract Audit Agency
Director, Defense Investigative Service
Director, Washington Headquarters Services

Non-Defense Federal Activities and Individuals

Office of Management and Budget
Office of Federal Procurement Policy
National Security and International Affairs Division, Technical Information Center, General Accounting Office
Inspector General, General Services Administration
Inspector General, Tennessee Valley Authority
Inspector General, Department of the Treasury

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

- Senate Committee on Appropriations
- 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 Committee on Government Operations
- House Subcommittee on Legislation and National Security, Committee on Government Operations

Senator Howard M. Metzenbaum, U.S. Senate
Senator David Pryor, U.S. Senate
Senator Jim Sasser, U.S. Senate

PART IV - MANAGEMENT COMMENTS

Department of the Navy

Department of the Air Force

DEPARTMENT OF THE NAVY COMMENTS

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

08 OCT 1993

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DODIG DRAFT AUDIT REPORT ON DOD PROCUREMENTS THROUGH THE TENNESSEE VALLEY AUTHORITY TECHNOLOGY BROKERING PROGRAM (PROJECT NO. 2CH-5003)

Ref: (a) DODIG memo of 28 Jul 1993

Encl: (1) DON Response to Draft Audit Report

I am responding to the draft audit report forwarded by reference (a) concerning procurement through the TVA technology brokering program. The Department of the Navy response is provided at enclosure (1).

In general, we concur with the DoDIG findings and recommendations with two exceptions. First, the report recommends various contract administration improvements where cooperative agreements are issued pursuant to interagency agreements. These recommendations, however, go beyond DOD's requirements for its own cooperative agreements. We suggest that the DoDIG consider recommending that interagency agreements restrict the use of cooperative agreements where they are inappropriate under DOD rules. Secondly, we do not think that compliance with recommendation C-2 concerning limitations on advance payments under the Economy Act is the most appropriate means of resolving the problem identified.

Edward C. Whitman

Edward C. Whitman

Department of the Navy Response

to

DODIG Draft Report of 28 Jul 93

Finding A:

Finding A addresses several topics. The following is a summary of the finding as it relates to Recommendation A-2:

The nature of the work to be performed under Economy Act orders issued to TVA by several DoD activities required cooperator and subcontractor personnel and TVA personnel administering the cooperative agreements to have security clearances. TVA stated that its cognizant personnel did not have such clearances.

DON Position:

Concur. However, none of the examples cited were Department of the Navy requirements.

Recommendation A-2:

We recommend that the Service Acquisition Executives direct activities with interagency agreements with the Tennessee Valley Authority to:

a. Secure any classified information in the possession of the Tennessee Valley Authority, its cooperators and contractors, and their subcontractors.

b. Certify that security requirements for work that the TVA, its cooperators, and their subcontractors performed under Economy Act orders issued in support of classified programs, comply with DoD 5220.22-M, "Industrial Security Manual for Safeguarding Classified Information."

DON Position:

Concur that contracts for classified programs should not be administered by an activity which is not in possession of required clearances. It is assumed that among the contracts reviewed no instances of Navy classified programs were identified, and therefore that these specific recommendations are not directed to the Navy. The Navy is currently reviewing other recent orders with TVA, and will add this issue to its review.

Finding B:

TVA and the DoD activities did not provide for adequate contract administration and contract audits for the work performed under Technology Brokering Program cooperative agreements. These

inadequate provisions occurred because DoD guidance on interagency support did not specify the format or content of interagency agreements.

DON Position:

Concur.

Recommendation B-1:

1. We recommend that the Service Acquisition Executives direct activities with interagency agreements with the TVA to:

a. Require DoD contracting officers and legal personnel to review all interagency agreements and Economy Act orders to identify amendments needed to clarify contract administration and contract audit responsibilities.

b. Amend the interagency agreements to require that the Technology Brokering Program perform contract administration in accordance with FAR part 42, "Contract Administration", on the cooperative agreements issued pursuant to the agreements. The amendments should provide a requirement that:

(1) Federal Acquisition Regulation clause 52.216-7, "Allowable Costs and Payments", is to be included in all cooperative agreements funded by DoD.

(2) Reports are received by cooperators.

(3) Subcontractors are approved by the Technology Brokering Program and DoD activities.

(4) Cooperators and subcontractors establish fixed labor and overhead rates.

(6) Close-out audits are performed when work is physically completed and cooperators have submitted final invoices.

(7) Any unallowable costs to the prime contractors and subcontractors are recovered.

c. Request the Tennessee Valley Authority to delegate contract administration responsibilities to the DCMC and contract audit responsibilities to the DCAA or make a direct request to these Defense activities for support if the Tennessee Valley Authority is unable to provide appropriate contract administration and contract audit services.

d. Perform close-out audits of all cooperative agreements issued for DoD Economy Act orders.

e. Withhold 5 percent of total payments to cooperators on DoD funded projects pending completion of the close-out audits.

DON Position:

Concur that interagency agreements should be reviewed by contracting officers to ensure that contract administration and audit responsibilities are adequately addressed. In response to DoDIG report No. 93-042 of 21 Jan 93, the Navy agreed to conduct such a review, as soon as DoD issued policy on the form and content of interagency agreements. DoD is currently preparing such policy. Accordingly, while we concur that a review is required, and agree to conduct one, we do not plan to initiate it until DoD provides appropriate policy.

We concur with the intent of the requirements recommended to be included in the amended interagency agreements. However, cooperative agreements are not covered by the FAR. The recommendations go beyond DoD's requirements for its own cooperative agreements.

DoD would generally not consider cooperative agreements appropriate for the types of goods and services being ordered from TVA. DoD uses cooperative agreements to carry out a public purpose of support or stimulation authorized by a law of the United States, not to acquire property or services for DoD's direct benefit or use. The alternative to a cooperative agreement is an outright grant of funds. Cooperative agreements are used instead of grants when substantial involvement is expected between DoD and the recipient.

Because cooperative agreements do not lend themselves to the kind of administrative control which is desired, a recommendation that DoD's interagency agreements restrict their inappropriate use might be a more practicable means of achieving the desired improvements. The Navy would concur with such a recommendation.

Finding C:

TVA has earned interest income on funds appropriated by Congress to DoD. Advance payments that DoD activities made to TVA resulted in interest costs of $4.6 million to the U.S. Treasury. DoD activities did not pay Economy Act orders on a reimbursable basis.

DON Position:

Concur.

Recommendation C-2:

We recommend that the Service Acquisition Executives direct activities to:

a. Identify unliquidated advance payments to the TVA and request the TVA to return the funds.

b. Amend interagency agreements with the TVA to state that funds for future Economy Act orders will be transferred on the basis of incurred costs or cash flow forecasts.

c. Require that future agreements include the same provisions as defined in recommendation 2.b.

d. Refer requests for advance payments on Economy Act orders to the Service Acquisition Executive or designee for approval.

DON Position:

Nonconcur with the recommendation as written, but concur with the intent. The Economy Act provides for payment to be made "promptly by check on the written request of the agency or unit filling the order. Payment may be in advance..." FAR 17.505 implements this. FAR subpart 32.4, "Advance Payments", applies to Government contracts, not to orders between Government agencies. In the usual Economy Act order between Government entities, transactions occur as expenditures are made. It is not the advance payment itself that adversely affects the Treasury; it is the immediate transfer of cash from the U.S. Treasury to a commercial account. The Comptroller General, in similar circumstances, has considered interest received to be overpayment, and required its return to the Treasury as miscellaneous receipts.

Advance payments are authorized by law and regulation, and requested at the discretion of the servicing agency. Short of declining to enter into the Economy Act transaction itself, no authority exists to withhold them when requested by the servicing agency. At most, the Navy could attempt to negotiate alternative methods of payment.

DEPARTMENT OF THE AIR FORCE COMMENTS

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

05 OCT 1993

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

SUBJECT: DoDIG Draft Audit Report on DoD Procurements Through the Tennessee Valley Authority (TVA) Technology Brokering Program, July 28, 1993 (Project 2CH-5003) - INFORMATION MEMORANDUM

You requested Air Force Acquisition Executive (AFAE) comments on the findings and recommendations within the responsibility of the Air Force made in the subject report.

We believe that the security of classified information is of paramount importance and concur with the findings in Part II.A.2. While the Air Force was not cited in this report for having sent classified information to uncleared personnel, we feel it is important to "get the word out" to field activities regarding TVA's security status. Our Chief of Security Police's Information Security Division will send information to its field offices to advise them of this issue. Information security offices will spread the word to all units on the importance of complying with security requirements when acquiring goods and services through the Economy Act.

We concur with your findings and recommendations in Part II.A.3. Air Mobility Command now has Air Force personnel responsible for program management and oversight of the testing and replacement of USAF underground fuel storage tanks. AMC has discontinued the acquisition of personal services through TVA cooperative agreements. It will, in the future, sufficiently define tasks in statements of work to avoid contractor personnel performance of personal services and inherently Governmental functions. Specifically, it no longer uses the personal services of the software engineer previously obtained through TVA's Technology Brokering Program.

We agree with your findings and recommendations in Part II.B.1. Interagency agreements and Economy Act orders need to clarify contract administration and contract audit responsibilities. However, policy and guidance relating to the issuance and administration of Economy Act orders should be established at the DoD-level rather than by each Service Acquisition Executive. This was recognized in DoDIG Report 93-042, January 21, 1993, "Allegations of Improprieties Involving DoD Acquisition of Services Through the Department of Energy." If we are to be successful in resolving this problem within DoD, all the military departments and other Defense Agencies, such as Defense

Contract Management Command and Defense Contract Audit Agency, must agree with each other on key definitions, interpretations, and direction. This can best be accomplished at the DoD-level.

We will revise our procedures on advance payments to comply with your recommendations in Part II.C.2. The provisions in FAR 32.4, "Advance Payments," will be applied to interdepartmental and interagency advance payments. We will request all Economy Act transfers to TVA be reviewed for unliquidated advance payments and the funds returned to the Air Force.

The Air Force is aggressively pursuing a resolution to the problems with Economy Act transfers to outside agencies. The Vice Chief of Staff of the Air Force advised all Wing Commanders to "get the word out" to all activities on the importance of complying with the law. Other Air Force offices in the Pentagon such as contracting, logistics, civil engineering, financial management, and legal have likewise notified field activities of past abuses. They have also emphasized the importance of resolving issues regarding the Economy Act orders prior to sending funds to other agencies. The Air Force Inspector General is establishing a Special Interest Item on the Economy Act to give it a close analysis during the next 12 months. We will continue to work this issue and monitor our progress until we feel confident it has been resolved.

Darleen A. Druyun

DARLEEN A. DRUYUN
Deputy Assistant Secretary
(Acquisition)

List of Audit Team Members

David K. Steensma, Director, Contract Management Directorate
Garold E. Stephenson, Audit Program Director
Kimberley A. Caprio, Audit Project Manager
Ernest R. Taylor, Senior Auditor
Thomas W. Smith, Senior Auditor
LeRon A. Mims, Auditor
Ira C. Gebler, Auditor
Suellen R. Geekie, Auditor
Lisa M. Waller, Auditor
Jasper J. Sciuto, Auditor
Lorin T. Pfeil, Auditor
Edward J. Lustberg, Auditor