

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**CONTRACT AWARDS FOR CONSTRUCTION PROJECTS
AT CAMP PENDLETON, CALIFORNIA**

Report No. 95-246

June 21, 1995

Department of Defense

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Acronyms

NAVFAC
RFP

Naval Facilities Engineering Command
Request for Proposal

interviewed members of the technical evaluation and source selection boards at the Southwest Division. In addition, we reviewed source selection plans, RFPs, and pre- and postbusiness clearance memorandums that established the competitive range, documented the award rationale, and documented the Naval Facilities Engineering Command (NAVFAC) approval. Our review was limited to determining whether NAVFAC judgment was reasonable and consistent with the evaluation and selection criteria stated in the RFPs. We did not use computer-processed data or statistical sampling procedures to perform the audit.

This economy and efficiency audit was made from October 1994 through March 1995 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 management controls as were considered necessary.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. We evaluated the effectiveness of the management controls associated with the source selection process used at the Southwest Division and the NAVFAC award approval process for all divisions of NAVFAC. We did not assess the adequacy of management's self-evaluation of those controls.

Adequacy of Management Controls. NAVFAC management controls were adequate in that we identified no material management control weaknesses over the source selection and award approval processes that we reviewed.

Prior Audits and Other Reviews

In relation to General Accounting Office Decision, Pardee Construction Company, B-256414, June 13, 1994, 94-1 CPD P 372, Pardee Construction Company protested the award of construction contract N68711-93-C-1378 awarded by the Southwest Division to Hunt. Pardee Construction Company contended that its proposal was unreasonably evaluated by the Navy and that the selection of Hunt was the result of bias. The General Accounting Office concluded that the Navy's evaluation of the proposal was reasonable and in accordance with the RFP evaluation criteria. The General Accounting Office also stated that the allegation of bias was without merit because no evidence existed that the Navy evaluated proposals in an unreasonable manner that adversely affected the protester. That contract was within the scope of our review and is addressed in the Camp Pendleton Projects discussion in this report.

Audit Background

Navy Turnkey Family Housing Contracts. The Navy was using one-step turnkey selection procedures for family housing contracts. According to the turnkey process, one contractor is responsible for the housing project design and construction. The objective of using turnkey is to save time and money in the procurement process and to achieve improved quality of life for the Service member.

The Purpose of RFPs. The RFP communicates Government requirements to prospective contractors, including the performance criteria against which a contractor is expected to perform and the evaluation criteria that will be used to evaluate each proposal. The RFP should provide complete and accurate information to ensure that all prospective contractors have an equal opportunity to enter a successful proposal and that the evaluation process is fair and allows adequate competition. At the same time, however, the RFP should not be so specific that it stifles contractor innovation.

Extra Amenities. For reporting purposes, we are classifying "extra amenities" as items and additional features that are above and beyond the requirements stated in the RFP. Such amenities may include microwave ovens, ceiling fans, extra tennis courts, extra parking spaces, and extra tot lots. Hunt offered extra amenities on each proposal submitted. Hunt was not the only contractor that offered extra amenities.

Discussion

The Southwest Division issued nine family housing RFPs during the 3 years before October 1994. Of those nine family housing RFPs, Hunt submitted proposals for six of the RFPs and won the award five times. Of those five awards, two were for projects at Camp Pendleton.

Camp Pendleton Projects. For contract N62474-87-C-7802, one of the two contracts for projects at Camp Pendleton, Hunt received the highest technical rating, but offered the lowest price. On the other project, contract N68711-93-C-1378, Hunt received the highest technical rating, but offered a cost that was \$1.6 million more than the lowest proposal. Because the Government has the flexibility to select the source whose proposal offers the greatest value to the Government, price was not the only factor considered. The extra amenities offered by Hunt for contract N68711-93-C-1378 were one of the deciding factors in the source selection. The source selection board determined that the extra amenities provided by Hunt were of high quality and increased the quality of life for the tenants. One contractor protested the award to Hunt, contending that its own proposal was unreasonably evaluated. The protest was denied. For further details, see Prior Audits and Other Reviews.

Other Projects Awarded by Southwest Division. Hunt bid on four contracts that Southwest Division awarded for family housing construction projects at other locations. On contract N68711-92-C-4831 at Miramar, San Diego, California, Hunt was the only contractor that offered a two-car garage. The

two-car garage was listed in the RFP as a desirable item and was a major deciding factor in the award decision. On contract N68711-93-C-1383 at Naval Submarine Base Bangor and Jackson Park, Washington, Hunt was the only contractor to achieve a highly acceptable technical rating. On contract N68711-93-C-1369 at Eucalyptus Hills, Lakeside, California, and Santee, California, Hunt was the low bidder and the only contractor to submit a proposal that was under the cost limitation. Contract N68711-94-C-1454 at Mira Mesa and Chesterton, San Diego, California, was awarded to Harper Nielsen Construction Company because it offered the lowest price and had the highest technical rating.

Source Selection Process. The Southwest Division used a formal source selection process with a specific evaluation group structure to evaluate proposals and select the source for contract award. That approach is generally used in high-dollar-value acquisitions and was used for the six contracts we reviewed. The source selection organization at the Southwest Division consisted of a technical evaluation board, a source selection board, and a source selection authority. Both the technical evaluation board and the source selection board were composed of registered professional personnel from the Southwest Division, NAVFAC, and the project activity.

Technical Evaluation Board. The technical evaluation board was responsible for reviewing the design and construction specification factors. Each member of the board reviewed the functional portion or portions of proposals for which he or she was the cognizant expert. For example, engineers performed energy evaluations of all family housing units to ensure compliance with energy efficiency standards. Each board member assigned quality ratings to the factors the member reviewed. The technical evaluation board reviews were thorough and consistent for the projects we reviewed. The board looked only at the technical evaluation factors and did not evaluate price factors or have access to the proposers' bids. The technical evaluation ratings were submitted to the source selection board.

Source Selection Board. The source selection board was responsible for evaluating price factors in conjunction with the technical ratings done by the technical evaluation board. The technical evaluation findings and the conclusions of the source selection board were summarized in postbusiness clearance memorandums. The postbusiness clearance memorandums discussed the relative differences among proposals, including strengths, weaknesses, and risks of each proposal. The source selection board recommended to the source selection authority the selection of the most advantageous proposal to the Government from a technical and cost standpoint. On the contracts we reviewed, many of the proposers offered extra amenities that the proposers believed would be advantageous to the Government.

Evaluation of Extra Amenities Proposed by Contractors. Nothing prohibited the Government from accepting the additional items that were not part of the RFPs. The fact that an offerer submitted extra amenities and the source selection board considered them was not improper, but was part of the evaluation process. Therefore, we do not take exception to the consideration of extra amenities given by the source selection board. When

contractors offered extra amenities, the source selection board evaluated the ways in which the amenities affected the functional capability and the overall quality of life for the tenants. The amenities were evaluated fairly and treated consistently among contractors.

RFP Evaluation Factors. The six RFPs that we reviewed stated the evaluation factors and subfactors to be used to evaluate the proposals. The RFPs that we reviewed indicated that the evaluation subfactors listed may not be the only items of consideration in evaluating each factor. However, the RFPs did not specifically address extra amenities.

Source Selection Authority. The source selection authority was the official responsible for the source selection decision. The source selection authority used the factors established in the RFP, considered any ranking and ratings, and considered any recommendations prepared by the technical evaluation and source selection boards. The source selection authority then forwarded the documentation supporting the award decision to NAVFAC for review and approval.

NAVFAC Review and Approval. NAVFAC reviewed each source selection to ensure that the decision complied with the Federal Acquisition Regulation, the Defense Federal Acquisition Regulation Supplement, the Navy Acquisition Procedures Supplement, the NAVFAC P-68 procurement directives, and Comptroller General case law. If the procurement was found to be in compliance with the regulations and case law, it was approved. If not, NAVFAC requested more information from the field activity. The NAVFAC review process was consistently applied for all NAVFAC divisions.

Action by the Navy to Improve RFPs. We believe that future RFPs could be improved by adding wording to clarify to contractors that extra amenities within the scope of the project can be considered. We discussed the idea with NAVFAC officials, and they agreed that the additional wording would improve the RFPs and encourage contractors to submit innovative proposals. Because NAVFAC officials were in the process of drafting additional language for future RFPs at the conclusion of the audit, this report is not making a recommendation related to considering amenities.

Conclusion. No evidence existed that competitive bids for construction projects at Camp Pendleton were dismissed in favor of less competitive alternatives. The technical evaluations and source selection board evaluations were thorough and consistent. We did not identify anything in the Southwest Division's evaluation processes that indicated bias toward Hunt. We commend the Navy for its proposed action to clarify language in the RFPs to facilitate future competition.

Management Comments

We provided a draft of this report to you on May 17, 1995. Because the report contains no findings or recommendations, no comments were required, and none were received. Therefore, we are publishing this memorandum report in final form.

We appreciate the cooperation and courtesies extended to the audit staff. If you have any questions about this audit, please contact Mr. Joseph P. Doyle, Audit Program Director, at (703) 604-9348 (DSN 664-9348) or Ms. Linda A. Pierce, Audit Project Manager, at (703) 604-9341 (DSN 664-9341). The distribution of this report is listed in Enclosure 2. A list of audit team members is on the inside of the back cover of this report.



David K. Steensma
Deputy Assistant Inspector General
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Enclosures

Organizations Visited or Contacted

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller),
Washington, DC

Naval Facilities Engineering Command, Alexandria, VA

Southwest Division, San Diego, CA

Marine Corps Base, Camp Pendleton, CA

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House Committee on National Security

Honorable John Linder, U.S. House of Representatives

Audit Team Members

This report was produced by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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Report No. 95-246

June 21, 1995

**MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)**

**SUBJECT: Audit of Contract Awards for Construction Projects at Camp Pendleton,
California (Project No. 5CK-5005)**

Introduction

We are providing this report for your information and use. The audit was made in response to a request by Congressman John Linder regarding allegations involving the awarding of contracts for construction projects at Camp Pendleton, California.

The complainant alleged that construction and design contracts at Camp Pendleton are consistently awarded to the Hunt Building Corporation (Hunt) in Texas, regardless of product quality or price. The complainant was concerned that competitive bids for construction projects at Camp Pendleton are dismissed in favor of less competitive alternatives.

Audit Results

We did not substantiate the allegation regarding improper awarding of construction and design contracts at Camp Pendleton. No evidence existed that the Southwest Division, Naval Facilities Engineering Command (Southwest Division) consistently awarded contracts to Hunt regardless of product quality or price. We determined that competitive bids for construction projects at Camp Pendleton were not dismissed in favor of less competitive alternatives.

Audit Objectives

The overall audit objective was to determine whether competitive bids for construction projects at Camp Pendleton were dismissed in favor of less competitive alternatives. We also evaluated management controls applicable to the audit objective.

Scope and Methodology

The Southwest Division (formerly a part of the Western Division) issued nine solicitations for construction and design of family housing during the 3 years before October 1994. Hunt bid on six of the nine requests for proposal (RFPs), and our review focused on the source selection process used for those six contracts. The organizations visited or contacted are listed in Enclosure 1. We

