Audit Report

CONTRACTING FOR DEFENSE FINANCE AND ACCOUNTING SERVICE SUPPORT

Report No. 99-002 October 5, 1998

Office of the Inspector General
Department of Defense

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Acronyms

CSC	Computer Sciences Corporation
DEIS	Defense Enterprise Integration Services
DFAS	Defense Finance and Accounting Service
DFISS	Defense Financial Integrated Systems Services
DISA	Defense Information Systems Agency
EDS	Electronic Data Systems Corporation
FAR	Federal Acquisition Regulation
FISC	Fleet and Industrial Supply Center
FSO	Financial Services Organization
JIEO	Joint Interoperability Engineering Organization
VTI	Venture Technology International

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October 5, 1998

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE
(ACQUISITION REFORM)
DIRECTOR, DEFENSE PROCUREMENT
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Contracting for Defense Finance and Accounting Service Support (Report No. 99-002)

We are providing this audit report for review and comment. This report is one of three reports involving contracting at the Defense Finance and Accounting Service. We conducted the audit in response to complaints to the Defense Hotline. The comments of the Director of Defense Procurement and the Defense Finance and Accounting Service were considered in preparing the final report.

DoD Directive 7650.3 requires that audit recommendations be resolved promptly. The Director of Defense Procurement nonconcurred with Recommendation A.1.a. We have revised Recommendation A.1.a. to include what we believe is a reasonable alternative and we request that the Director, Defense Procurement comment on it. We have redirected Recommendation B.1. to the Director of Acquisition Education, Training and Career Development as suggested by the Director of Defense Procurement. The Director of Defense Finance and Accounting Service comments on Recommendations A.2 and B.2 were responsive. We request that the Director of Acquisition Education, Training and Career Development and the Director of Defense Procurement provide comments by December 7, 1998.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Terry L. McKinney, at (703) 604-9288 (DSN 664-9288) or Mr. Bruce A. Burton, at (703) 604-9282 (DSN 664-9282). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 99-002 **October 5, 1998**
(Project No. 7CK-8009.02)

Contracting for Defense Finance and Accounting Service Support

Executive Summary

Introduction. This report is the third in a series involving contracting at the Defense Finance and Accounting Service (DFAS). This report addresses complaints to the Defense Hotline alleging numerous contracting violations from FYs 1989 through 1997 including lack of competition, failure to perform acquisition planning, inadequate acquisition controls, and unqualified persons accomplishing acquisition tasks; all resulting in additional costs to DFAS. The Office of the Under Secretary of Defense, Director, Defense Procurement established DFAS as a contracting organization on November 21, 1996, but it did not become functional until February 21, 1997. Prior to 1996, DFAS obtained contract support from other organizations. We reviewed 91 contracting actions valued at $330 million for the period covered by the complaints.

Audit Objectives. The primary audit objective was to determine whether the Hotline complaints had merit. We also evaluated the management control program as it applied to the objective.

Audit Results. The complaints to the DoD Hotline had merit. DFAS program officials did not properly perform acquisition functions, and DFAS personnel in acquisition oriented positions did not meet training and experience requirements.

- All 91 contracting actions reviewed had problems. DFAS program officials did not adequately plan and manage procurements. Program officials routinely used unauthorized support sources on existing contracts instead of planning for competition because awards could be made quickly to preferred contractors. In the process, program officials failed to prepare adequate justifications for other than full and open competition. We identified 64 different contracting organizations used by DFAS. The contracting officials that DFAS used circumvented Federal Acquisition Regulation requirements for full and open competition by awarding new contracts and new delivery orders to existing contracts without adequate justification for sole-source procurements. They also skewed the award process on new contracts and delivery orders to obtain the services of desired contractors. In addition, contracting officers at the contract support organizations did not ensure that the DFAS requirements were within the contract scope. As a result, DFAS did not receive the benefits of reduced costs associated with competition (Finding A).

- DFAS did not identify acquisition positions and did not ensure that personnel were qualified to perform acquisition functions. None of the 43 individuals, out of the 176 determined to be performing acquisition and/or program management functions, was qualified. As a result, questionable acquisition practices occurred (Finding B).

The DFAS procurement system represented a material management control weakness. See Appendix A for details of the review of the management control program.

Summary of Recommendations. We initially recommended that the Director, Defense Procurement issue a memorandum to all DoD contracting organizations directing them to ensure that fair and open competition occurs; adequate justification and documentation exist before contracts are awarded; and requirements are within the scope of existing contracts. In addition, we recommend that the Director, Defense Procurement conduct a procurement management review of DFAS in fiscal year 1999 or at the earliest possible time, and in coordination with this review, assist DFAS with the identification of all personnel who are part of the DFAS acquisition work force and ensure that they meet the qualification requirements of DoD 5000.52-M, "Acquisition Career Development Program." We also recommend that the Director, DFAS establish acquisition plans; require that the legal office of DFAS headquarters review and approve all requests to use existing contracts; place responsibility for issuing Defense Financial Integrated Systems Service orders under the DFAS headquarters contracting activity; require that any contracting issues be directed through the Director, Resource Management Deputate; direct that all contractor personnel be provided office space separate and distinct from that of DFAS employees; and request Defense Contract Audit Agency to conduct a review of the reasonableness and allowability of costs charged to contract DASG60-96-0012.

Management Comments. The Director of Defense Procurement did not believe issuing a memorandum would produce much effect. The Director of Defense Procurement did complete a procurement management review of DFAS and planned to issue the results of the review late in fiscal year 1998. The review evaluated the contracting workforce, but the Director suggested that reviews of other members of the acquisition workforce within the larger DFAS organization should be directed to the Director of Acquisition Education, Training, and Career Development. The Director of the Defense Finance and Accounting Service concurred with Recommendations A.2.a, through A.2.e and A.2.g and A.2.h. The Director, DFAS partially concurred with Recommendation A.2.f, to provide separate office space for contractor employees, stating that separate office space would be provided, to the extent possible, to contractor personnel at DFAS Headquarters and field offices. See Part I for a discussion of management comments and Part III for the complete text of management comments.

Audit Response. Since the audit disclosed numerous contracting problems involving DFAS and other DoD organizations, existing policy memorandums are not effective. We believe that the Director of Defense Procurement needs to reinforce the DoD commitment to the various procedures and principles that were violated by a large number of DoD organizations. We have rewritten the Recommendation to include the alternative of the Director of Defense Procurement forwarding this report to offices that were involved in questionable transactions, with an admonition that they should consider the lessons to be learned. We have redirected the recommendation for the acquisition workforce as the Director suggested. We believe the Director of the Defense Finance and Accounting Service comments were responsive. We request that the Director of Acquisition Education, Training and Career Development and Director of Defense Procurement comment on this final report by December 7, 1998.

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Part I - Audit Results

Audit Background

We performed the audit in response to complaints to the Defense Hotline directed at the Defense Finance and Accounting Service (DFAS). Six complaints were received and reviews are reported in three audit reports. This report addresses two complaints about contracting practices and procedures for obtaining contractor support, and the qualifications of DFAS personnel performing acquisition functions. Report No. 98-099, "Continued Use of a Single Contractor For Contract Reconciliation Work," April 2, 1998, addresses a complaint to the Defense Hotline questioning the contracting relationship between the Defense Finance and Accounting Service and the Coopers and Lybrand contractor. The second report, Report No. 98-132, "Procurement Practices and Procedures for Obtaining Contractor Support at Defense Finance and Accounting Service-Denver," May 8, 1998, addresses a complaint to the Defense Hotline concerning contracting practices and procedures for obtaining contractor support and funding of system development at Defense Finance and Accounting Service-Denver.

Defense Finance and Accounting Service. DFAS was established in January 1991 to reduce the cost and improve the quality of DoD financial management by consolidating, standardizing and integrating finance and accounting procedures, operations, and systems. In addition, DFAS identifies and implements finance and accounting requirements, systems, and functions for appropriated and nonappropriated funds, working capital funds, revolving funds, and trust funds. The goals are to streamline financial operations and services within DoD, eliminate redundancies, and initiate standard finance and accounting operations. DFAS assumed responsibility for all finance and accounting operations, including 332 associated installation finance and accounting offices. DFAS consists of a headquarters staff, 5 field centers and 17 operating locations.

The DFAS headquarters is organizationally accountable to the Office of the Under Secretary of Defense (Comptroller). The DFAS headquarters, located in Arlington, Virginia, provides centralized guidance, control and oversight of finance and accounting operations at the centers and operating locations. Operations are decentralized and accomplished by the centers and operating locations. The five centers are located in Cleveland, Ohio; Columbus, Ohio; Denver, Colorado; Indianapolis, Indiana; and Kansas City, Missouri. In addition, the Financial Services Organization (FSO) located at DFAS-Indianapolis, provides information technology support services to DFAS on a fee-for-service basis.

Financial Services Organization. The FSO is a subordinate organization of DFAS and reports to the Director of DFAS through the DFAS Deputy Director for Information Management. The Director of FSO and the DFAS Deputy Director for Information Management are the same person. The FSO develops and maintains automated information systems for finance and accounting missions, integrates new technology into DFAS business processes, and manages the DFAS technology infrastructure.

Obtaining Contract Services. The Office of the Under Secretary of Defense, Director, Defense Procurement established DFAS as a contracting organization on November 21, 1996; but it did not become functional until February 21, 1997. Prior to 1997, DFAS obtained contracting services from other DoD organizations and other Federal agencies. DFAS headquarters issues internal regulations and memorandums to instruct field organizations on procedures for acquiring goods and services. DFAS headquarters, in an effort to tighten contracting controls, obtained contracting services from the Fleet Industrial Supply Center (FISC), San Diego, California in 1994. DFAS headquarters also authorized all DFAS organizations to order goods and services from the Defense Information Systems Agency's (DISA) Defense Enterprise Integration Services (DEIS) contract. If the DFAS field organizations did not use either FISC- San Diego as the contracting office or the DEIS contract, the field organizations were to obtain approval via a waiver from DFAS headquarters.

DFAS Contracting. The DFAS contracting organization became functional February 21, 1997, when a memorandum was issued by the Director of DFAS that provided the new structure and policy for contracting. The Deputy Director for Resource Management, DFAS center Directors, and the Director of the FSO were delegated authority to approve acquisition requests. All acquisitions were to be processed through a respective DFAS contracting support office located at DFAS headquarters, the centers, or the FSO. The DFAS Acquisition Support Organization Director was appointed the competition advocate and principal resident contracting officer. The Director was given sole authority for appointing contracting officers and delegating procurement authority in the support organization, in all DFAS procurements. Contracting officers must submit a justification and approval document to the competition advocate for noncompetitive acquisitions in excess of $500,000. DFAS Regulation 4200.1, "Acquisition Structure and Policy," dated June 2, 1997, codified the procurement policy established in the February 21, 1997 memorandum.

During FY 1997, the DFAS Acquisition Support Organization processed 2,339 contractual actions and awarded contracts valued at $174.2 million. As of January 1, 1998, the DFAS Acquisition Support Organization consisted of 36 contracting personnel located at the headquarters, centers, and the FSO.

Audit Objectives

The primary objective was to determine whether the complaints to the Defense Hotline had merit. We also evaluated the management control program as it applied to the objective. See Appendix A for a discussion of the audit process, a review of the management control program, and a summary of prior coverage related to the audit objective.

Finding A. Acquisition Program

DFAS program officials did not adequately plan procurements. Program officials used unauthorized sources to obtain support on existing contracts instead of seeking competition. When officials did initiate new contracts, the services of the desired contractors were still obtained. We identified problems with all 91 contracting actions reviewed during the audit. These problems occurred because:

- DFAS program officials circumvented Federal and internal procurement policies and procedures and, in some cases, mistakenly believed that delivery order awards met the competition requirements of the Federal Acquisition Regulation (FAR),

- contracting officers at support organizations violated Federal procurement regulations by allowing DFAS to direct work to specific contractors through existing contracts without adequate justification and approval for other than full and open competition, and without assurance that the DFAS requirement was within the contract scope,

- contract surveillance or oversight was not performed, and

- DFAS had no management controls in place to ensure that procurement policies and procedures were followed.

As a result, DFAS did not receive the cost benefits associated with competition.

Acquisition Process

DFAS Authorized Sources of Support. Prior to procurement authorization in November 1996, DFAS contract support was provided by other contracting organizations. Initially, DFAS used the DEIS multiple awards contract issued by DISA. Subsequently, FISC-San Diego was selected as the authorized contracting support source.

In a November 20, 1993 memorandum, DFAS headquarters announced that all DFAS organizations and centers could use the DEIS multiple awards contract. The DEIS contracts included six prime contractors and their teams of subcontractors. The contracts provided for a broad range of services including program and project management, integration engineering and software development, and technical management planning.

In a memorandum dated December 5, 1994, DFAS identified FISC-San Diego as its "authorized contracting activity." As part of its contracting for DFAS, FISC-San Diego awarded the Defense Financial Integrated Systems Services (DFISS)

contract in September 1996 as a multiple award acquisition to four prime contractors and their teams. Each prime contractor had a team of subcontractors. The contracts were designed to provide support for DFAS automated systems development, maintenance, and deployment efforts. The DFISS and DEIS contracts provided competition and met FAR requirements for competition between prime contractors. The multiple awards approach is based on the principle that each contractor is capable of performing any of the tasks.

DFAS used existing and new contracts to satisfy requirements. DFAS program officials used authorized sources to award new contracts. However, DFAS used unauthorized sources to obtain services of preferred contractors on existing contracts. We identified 64 different contracting organizations that DFAS used for contract support. We reviewed 91 contracting actions (47 existing and 44 new), valued at $330 million, issued by 15 organizations. Problems were identified with all 91 actions. DFAS was unable to reconcile the Military Interdepartmental Purchase Requests and other money transfers to quantify a defined universe. The following figure shows the scope of contracts reviewed during the audit. See Appendixes C and D for more detailed information.

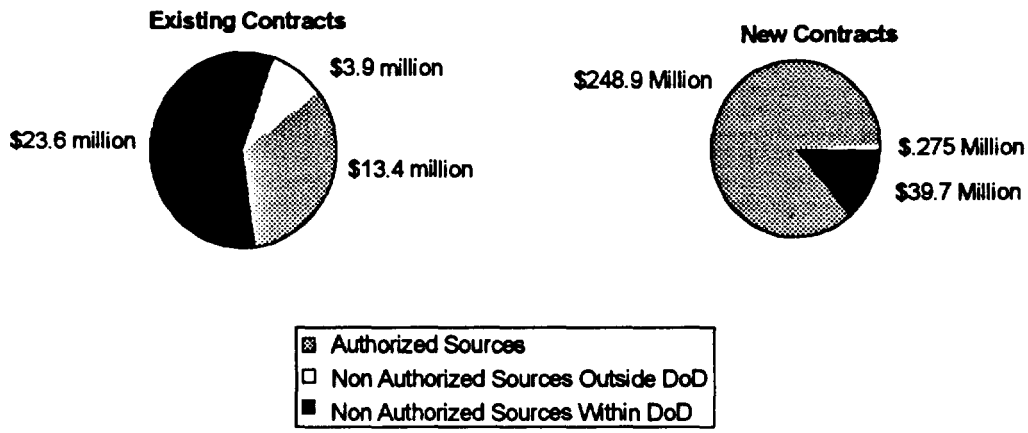

Figure 1. Scope of Contracts Reviewed FYs 1989 through 1997.

Selecting Sources of Contractor Support. DFAS program officials routinely selected contractors that they preferred instead of competing requirements on new contracts. Procurement acquisition files for existing contracts did not contain evidence of advance planning or market research to maximize competition. In addition, there was no evidence of justification and approvals for other than full and open competition. Contracting officers at DFAS contracting support organizations should not have added DFAS requirements to their existing contracts without adequate justification for other than full and open competition. The contracting officers were ultimately responsible for ensuring compliance with the FAR competition requirements.

Existing Contracts

Existing contracts including the DEIS multiaward contract, provided DFAS with a fast and easy way to satisfy its requirements with the contractor of choice. In so doing, however, procurement policies and procedures were circumvented and the competitive process bypassed. The following table summarizes the problems identified related to DFAS use of existing contracts.

Table 1. Summary of Existing Contract Problems

Problem Areas	Number of Occurrences	Percent of Occurrence
No evidence of acquisition planning	47 of 47	100
Work directed to preferred contractors	47 of 47	100
Inherently governmental functions contracted out	5 of 9*	56
No waiver for non-DFAS authorized contracting source (six contracts did not require waivers)	39 of 41	95
No evidence of justification and approvals for other than full and open competition	47 of 47	100
Unjustified use of contracting support organizations outside of DoD (Economy Act)	14 of 14	100
Work directed to subcontractors	13 of 47	28

*Our review of inherently governmental functions was limited to nine contracting actions with the U.S. Army Cost and Economic Analysis Center for work performed by Tecolote Research, Inc.

Acquisition Planning

Agencies must perform acquisition planning and market research to establish full and open competition as directed by FAR Part 7, "Acquisition Planning." To attain the acquisition objectives, plans should identify decisions and milestones and address all technical, business, management and other significant considerations to

control the acquisition including such elements as contract history, cost, extent and results of market research, basis for obtaining competition, and timing for submission and evaluation of proposals. Acquisition planning should begin as soon as a need is identified, preferably well in advance of the fiscal year in which contract award is necessary. The regulation also states that requirements and logistics personnel should avoid issuing requirements on an urgent basis or with unrealistic delivery or performance schedules, since it generally restricts competition and increases prices.

The DFAS acquisition process included hasty procurements with no evidence of long-term acquisition planning. DFAS acquisition planning was not evident in any of the 47 contracting actions reviewed involving existing contracts. Instead, DFAS managers knew the contractors they wanted and made their desires known to the contracting officers who in turn awarded contracts/orders as requested.

Preferred Contractors

All of the 47 contracting actions reviewed totaling $41.1 million, were awarded to preferred contractors through the use of existing contracts, including the DEIS multiaward contract.

Use of DEIS Multiaward Contracts. DFAS program officials misused the DEIS multiple award contracting arrangements by directing work to selected contractors. Rather than compete the orders as required under a multiaward procurement, DFAS preselected the contractor, and in some cases the subcontractor. Five of the 47 contracting actions reviewed, totaling $13.4 million, involved the DEIS contract.

DFAS acquisition personnel directed work on the DEIS contract by forwarding the "DEIS Requirements Package Checklist" to DISA. The checklist included a contractor preference line item, where DFAS indicated its preferred contractor for the acquisition. DFAS selected specific contractors without adequately determining if that contractor presented the best value to the Government.

Each contractor on the DEIS multiple award was only guaranteed a minimum amount of work, but all of the contractors had the necessary experience and capability to perform any of the tasks awarded. However, when DFAS acquisition personnel expressed a preference for a specific contractor, that contractor consistently received the award.

For example, the FSO decided that Electronic Data Systems Corporation (EDS) was the preferred contractor for a requirement for electronic commerce/ electronic data interchange. The FSO indicated that EDS should be selected because:

> . . . EDS has the knowledge, experience and skills required to perform the duties outlined in the statement of work . . .. EDS consultants are experts in the field of EC/EDI [electronic commerce/electronic data interchange], and would provide the technical skills required to meet this requirement in a timely manner . . ..

DFAS acquisition personnel submitted a $3 million contracting action to DISA, stating that the services were to be provided by EDS. As a result, EDS was awarded the delivery order without being competed among the other qualified multiple award contractors. Neither DFAS nor DISA determined whether the award to EDS was cost-effective to the Government.

In another situation, the FSO determined that EDS was the preferred contractor for a training requirement. As a result, DFAS acquisition personnel submitted a contracting action to DISA in the amount of $6.8 million, stating that the services were to be provided by EDS. DFAS again preselected EDS for the requirement under the DEIS contract. Furthermore, contracting officers at DISA did not challenge the requirement for a preferred contractor.

Use of Tecolote Research, Inc., Contracts. Twelve of the 47 contracting actions reviewed totaling $5.3 million, were for work directed to Tecolote Research, Inc. as shown in the table below.

Table 2. Tecolote Research, Inc. Contracting Actions

Buying Office	Number of Contract Actions	Dollar Amount (millions)	Year(s)
ASC/FMPP Wright-Patterson Air Force Base	1	$ .6	1994
U.S. Army Cost and Economic Analysis Center	9	3.6	1995/1996
U.S. Army Space and Strategic Defense Command	2	1.1	1995

Tecolote Research, Inc. did not provide exclusive and unique services in its contracts. Other contractors were available with the capabilities to provide similar services. This is illustrated by the fact that prior to the expiration of the Tecolote Research, Inc. contract with the U.S. Army Space and Strategic Defense Command in February 1996, the Army solicited competitive bids for a follow-on

contract. Three contractors were determined qualified to satisfy the DFAS requirement. Mevatec Corporation won the award over two other competitors, one of whom was Tecolote Research, Inc.

Inherently Governmental Functions

We reviewed nine contracting actions, totaling $3.6 million performed by Tecolote Research, Inc. under the U.S. Army Cost and Economic Analysis Center contract. Five of these contracting actions ($2.6 million) were for inherently governmental functions. DFAS should have performed this work in-house as opposed to contracting out because the work involved the DFAS strategic business plan. The strategic business plan entailed inherently governmental functions, primarily involving collecting, documenting, and analyzing management plans for all DFAS goals and objectives. According to the Government Performance and Results Act of 1993, strategic planning is considered an inherently governmental function and should be performed only by Federal employees. DFAS use of the U.S. Army Space and Strategic Defense Command contract with Tecolote Research, Inc., was also out of the contract scope.

Waiver Requirements

DFAS program officials did not adhere to internal policies on the use of authorized sources for contract support. In an effort to tighten contracting controls DFAS headquarters authorized its organizations to order goods and services from the DEIS contract, or to obtain contracting support from FISC-San Diego. If the DFAS organization did not use FISC-San Diego or the DEIS contract, headquarters had to approve a waiver. However, DFAS files contained no evidence to show that waivers to purchase from unauthorized sources were prepared, requested, or approved for 39 of the 41 contracting actions requiring them.

DFAS used unauthorized sources to obtain support on existing contracts instead of seeking competition because awards could be made quickly to preferred contractors. DFAS used 10 different contracting organizations to obtain support on the 41 contracting actions.

Different contracting organizations were used to obtain support from the same contractor for similar scopes of work. DFAS used six different contracting organizations, including one through Economy Act orders, to obtain contract support from Coopers and Lybrand. DFAS officials used Coopers and Lybrand as a prime contractor through two of the six contracting activities. Simultaneously, DFAS used the other contracting organizations to obtain Coopers and Lybrand services as a subcontractor while needlessly paying prime contract overheads and

profits. Three of the contracts included in the following chart ($73 of the $81 million) are discussed in greater detail in Inspector General, DoD, Report No. 98-099, "Audit of the Continued Use of a Single Contractor For Contract Reconciliation Work," April 2, 1998.

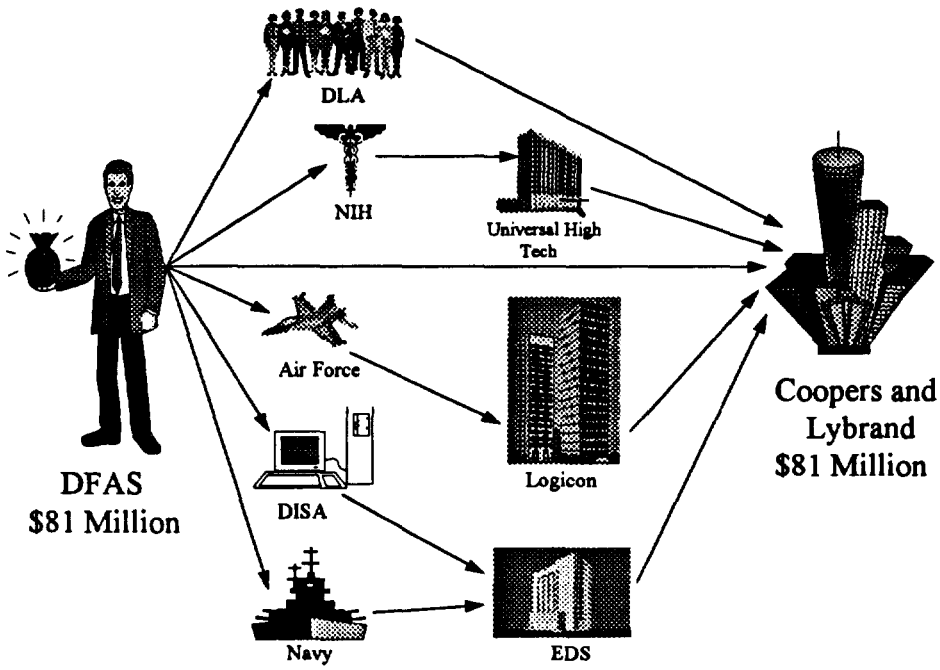

Figure 2. Contracting mechanisms used to obtain Coopers and Lybrand.

Justification and Approval for Other Than Full and Open Competition

FAR Part 6, "Competition Requirements," requires that written justification be approved whenever other than full and open competition is permitted. Although DFAS program officials initiated the sole-source procurements, the contracting officers at support organizations were ultimately responsible for assuring that the procurements had valid justification and approval for other than full and open competition before adding DFAS requirements to their existing contracts. None of the 47 contracting actions reviewed had a valid justification and approval.

Contract Support Organizations Outside of DoD

DFAS use of existing contracts to satisfy requirements included contracting outside of DoD through use of the Economy Act. We reviewed 14 contracting actions, totaling $3.9 million, that were for contract support from contracting organizations outside of DoD. The use of contracting organizations outside of DoD had to meet certain requirements as stated in a February 8, 1994 memorandum issued by the Secretary of Defense. The memorandum requires that the requesting agency or designee determine that: the ordered supplies or services can not be obtained as conveniently and cheaply by contracting directly with a private source; the servicing agency has unique expertise or ability not available within DoD; the supplies or services clearly are within the organizational scope of the servicing agency; and the agency normally contracted for those supplies or services for itself. All 14 contracting actions issued through the Economy Act were not justified and violated the memorandum.

For example, the FSO contracted for the acquisition of computers and related equipment through the National Institute of Health. The computers and related equipment for 11 orders valued at $3.1 million in FYs 1996 and 1997 were not unique and could have been obtained within DoD. The FSO had no supporting documentation for the decision to use non-DoD sources for contract support. Although the FSO officials stated that National Institute of Health contracts were cost-effective for the acquisition of the computers and equipment, there was no supporting documentation.

Work Directed to Subcontractors Through Existing Contracts

DFAS went further than just directing work to the preferred contractor. In 13 out of 47 orders reviewed on existing contracts, DFAS used existing contracts to find the preferred source that was performing work as a subcontractor without attempting to locate an existing contract where the preferred source was the prime contractor. This practice not only circumvented the requirements for competition, but also resulted in the Government spending excessive funds.

For example, DFAS used the DEIS contract with Computer Sciences Corporation (CSC) to obtain the services of Venture Technology International (VTI). Justification for the selection stated that VTI "has significant experience with the DFAS systems used by senior DFAS managers." DFAS had selected CSC as the prime contractor to obtain VTI's services when it prepared the Military Interdepartmental Purchase Request to fund the acquisition. However, VTI was not part of the CSC DEIS teaming arrangement. Therefore, DFAS set up the teaming arrangement with VTI and CSC as a one-time effort. As a result, CSC indicated in its delivery order proposal that VTI would be part of the CSC team "as a unique one-time subcontractor." However, this rationale was used on more

than one occasion to obtain VTI services. Three orders totaling $2.9 million were issued on the DEIS contract during FYs 1996 and 1997. The taskings were divided between CSC and VTI as follows:

> VTI will provide the Delivery Order Project Leader and functional area expertise . . .. The CSC Program Management Office (PMO) will provide oversight as described in the contract . . .. The unique capabilities and experience provided by VTI are not currently available within the CSC DEIS Team . . .. VTI has an established working relationship with the DFAS staff and knowledge of their processes . . ..

Contract Scope

We also identified two instances where DFAS requirements were outside the contract scope.

DFAS used the U.S. Army Space and Strategic Defense Command contract with Tecolote Research, Inc. to fulfill a requirement for cost analysis related to the DFAS reorganization. The scope of the contract, however, was to provide strategic cost analysis research for strategic and theatre defense components or systems. The DFAS requirement was out of the contract scope. A review of the DFAS delivery order by the U.S. Army Space and Strategic Defense Command legal department concluded that the DFAS requirement did not fall within the contract scope. The legal department stated that the mere mention of cost estimating does not mean that every such activity of the U.S. Government would be encompassed within the scope of work. Legal further stated that the contract award was based on competition for cost estimating related to defense strategic systems. Had the offerors, at the time of the competition, been advised that an entirely different effort was contemplated; the field of competition would have included those in the general cost analysis business. Despite the scope concerns, Army contracting officials allowed the order to proceed.

In another example, DFAS lack of planning led program officials to recommend using an existing contract as a quick way to meet requirements even though internal correspondence indicated that the statements of work needed rewriting to bring them within the scope of the existing Logicon Fourth Generation Technology contract. The internal correspondence stated " . . . like all of them, though, Financial Services Activity - Denver wants extremely quick turn around . . .." The Financial Services Activity - Denver initiated this requirement. On May 13, 1996, the DFAS Director for Acquisition Requirements Management prepared a waiver from using FISC and justified it based on the fact that the existing contract with Logicon Fourth Generation Technology, Inc., was the most advantageous and cost-effective to the Government. However, 2 days later, the legal office at the contracting organization rejected the requirement as out of scope. Internal

correspondence from a program official the same day stated "Ok, as planned we need to fall back to JIEO." The Joint Interoperability Engineering Organization (JIEO) contract was also with the same contractor.

New Contracts

Acquisition planning problems still existed when new contracts were awarded. Even as contracting procedures improved, DFAS officials used faulty justifications for sole-source contracts and skewed the award process for competitive procurements, so that the desired prime contractors or subcontractors would be selected.

We reviewed 44 contracting actions, totaling $288.9 million, involving the use of new contracts awarded during FYs 1994 through 1997. We reviewed 11 new awards valued at $259.3 million made by, or on behalf of, DFAS, and 33 orders totaling $29.6 million under the DFISS contract. The DFAS contracting organization awarded 10 of the reviewed actions, totaling $8.6 million. Two of the contracts were sole source and the other contracts, including the DFISS contracts, were considered by DFAS to be competitive. The following table summarizes the problems relating to DFAS use of new contracts.

Table 3. Summary of Problems on Use of New Contracts

Problem Areas	Number of Occurrences	Percent of Occurrence
Faulty justifications for other than full and open competition	4 of 4	100
Work directed to preferred contractors	28 of 44	64
Work directed to subcontractors	7 of 44	16

Justification of Contractor Selection

The four sole source contracts reviewed, totaling over $40 million, included faulty justifications for other than full and open competition. For example, when two sole-source contracts, valued at over $38 million, were awarded after DFAS was established in 1991, the Defense Logistics Agency and DFAS failed to consider other potential sources capable of performing contract reconciliation work. Instead DLA and DFAS relied on faulty justifications that resulted in the continued

use of the incumbent contractor (see Report 98-099, Appendix B for details). In one case, justifying unique status was not valid since other contractors were capable of performing the work. In one other instance a requirement was deemed "urgent" only after DFAS delayed in contracting for a known requirement. The lack of advance planning in accordance with FAR Part 6 is not justification for a sole source award.

Preferred Contractors

Twenty-eight of the 44 contracting actions reviewed, totaling $63 million, were awarded to preferred contractors through the use of new contracts, including the DFISS multiaward contract.

Use of DFISS Multiaward Contracts. DFAS program officials changed delivery order evaluations to favor preferred contractors when awarding orders through the DFISS contract. Because of these changes and other biases in the evaluation process, DFAS officials were able to select preferred contractors in 22 out of 33 DFISS orders that we reviewed. These 22 orders were valued at $22 million. Delivery order evaluations were changed and evaluation rating factors included restrictive criteria to direct work to the preferred source.

For example, EDS was the desired contractor for delivery order 10, valued at $5.9 million, during FY 1997 because EDS had performed similar work under a prior contract. The initial EDS proposal was rated only "good" technically. Furthermore, EDS proposed a price that was higher than any other offer and almost $2 million higher than the lowest bidder. Based on the rating and the highest cost, it would have been very difficult, if not impossible, to justify an award to EDS. Therefore, DFAS program officials initiated a change to the evaluation factors by adding, for the first time, a factor called transition, and also changed the technical/cost ratio. These changes allowed DFAS program officials to reevaluate the competitors.

Internal correspondence indicated that DFAS program officials realized that adding a transition factor could be a conflict of interest by requiring contractors to make technical/cost trade-off decisions that should be made by management. Therefore, the officials changed the name of the rating factor, but continued to include requirements that favored the incumbent contractor. Each contractor was required to submit its best and final offer for the order. DFAS program officials changed the EDS technical rating to outstanding during the best and final offer evaluations and justified the ratings as follows:

> . . . as the incumbent, EDS already possesses the knowledge for this area . . . EDS already possesses the functional knowledge required for this area, being that they are the incumbent . . ..

Also, EDS reduced its cost in submitting its best and final offer. The evaluation was further biased on the fact that EDS was given credit for being the incumbent, even though this was the first competitive award of this work under the contract. EDS had done similar work under a prior contract. At that point an award to EDS was feasible and the contractor was awarded the order.

In another situation discussions between contracting officials clearly stated that the customer (DFAS) wanted the incumbent contractor from a prior contract, even though it's price was over 50 percent higher than either of the other two offerors. Contracting officials changed one of the other contractor's ratings from good to poor, but questioned their own decision in the following note:

> . . . Don't you think . . . are setting ourselves up for troubles ahead. How can one contractor's tech eval go from good to poor where the sow and the ktr's proposal did not change . . ..

Later in the same discussion the other contracting official acknowledged: "This one is getting messy."

Restrictive Criteria. We determined that 5 of the 22 orders, totaling $2.3 million, included restrictive criteria in the award evaluation process requiring that the contractor have personnel on-site to start work within 1 to 7 days after award. The incumbent was therefore favored and rated higher because personnel were already on-site. This restrictive criteria prevented adequate competition on orders.

Follow-On Orders. The selection of favored contractors was significant because follow-on requirements were awarded to the same contractor on a noncompetitive basis. While we identified four such orders, valued at $6.6 million, the problem almost certainly will be much broader since as many as 50 percent of the orders could be awarded as noncompetitive follow-on orders. The total anticipated value of the multiaward contracts is approximately $500 million.

Award Decision Documentation. Fourteen of the 22 orders were awarded to a contractor that did not submit the lowest bid. Furthermore, the award decisions were not documented in sufficient detail to allow an independent reviewer to reach the same decision. DFAS program officials' rationale for source selection was documented by brief narrative statements. The basis for differences in ratings for each evaluated criteria were not readily discernible to independent reviewers. In addition, documents supporting the evaluation of the technical/cost trade offs between contractors were cursory in nature and did not fully document the award decisions.

Issuance of DFISS Orders. As of June 30, 1997, the DFAS contracting office at the FSO was given contracting authority for the DFISS contract. DFAS program officials who once pressured contracting officers to award to preferred sources are now in a position to control awards. Unless controls are strengthened, DFAS program officials may continue to circumvent competition and perhaps

further defy regulations. Until controls are in place, the responsibility for issuing DFISS orders should be removed from the FSO and placed with DFAS headquarters.

Use of Contracts Other Than the DFISS Multiaward Contracts. The same decision process was also evident in our review of new contracts other than the DFISS multiaward contracts. Six of the 11 new contracts reviewed, totaling $39 million, included skewed contracting actions to obtain the services of their preferred contractors.

Work Directed to Subcontractors Through New Contracts

DFAS program officials went beyond directing work to prime contractors. Officials also directed work to subcontractors. The desired subcontractors were selected through an award to the prime contractor. In these cases, the Government spent additional funds not only for lost competition but also by paying unnecessary prime contractor overhead and profits. Seven of the 44 contracting actions, including 4 DFISS orders and 3 new contracts, totaling $8.3 million, were awarded to preferred subcontractors through a prime contractor.

For example, DFAS used the DFISS contract with EDS to obtain the services of Coopers & Lybrand during December 1996. DFAS directed the work to EDS through the DFISS evaluation award process with the intention of obtaining the services of Coopers and Lybrand. The requirements for this order included development of a Standard Cash Accountability System. This effort was not so complex that only a specific subcontractor could perform the work. Coopers and Lybrand was selected because of work on a related DFAS system. The delivery order award to EDS and Coopers and Lybrand, valued at $668,745, may have resulted in the Government unnecessarily spending $258,907 -- the difference between the EDS bid and that of the lowest bidder.

We also identified three competitive awards made during FY 1997, totaling $529,000, by the newly established DFAS headquarters contracting office from the General Services Administration Federal Supply Schedule. The three awards were made to Anadac, Inc., for work to be performed by its subcontractor, Tecolote Research, Inc. DFAS contracting officials provided an unfair advantage to Anadac, Inc. by stipulating very short time frames in the solicitations, which favored its subcontractor Tecolote Research, Inc. and prevented other contractors from responding. In effect, DFAS contracting officials used the Federal Supply Schedule as a mechanism to continue obtaining the services of Tecolote Research, Inc. This occurred after the DFAS legal office issued an opinion disagreeing with a DFAS competition advocate decision to grant a waiver to allow DFAS to contract with Tecolote Research, Inc. through a U.S. Army Cost and Economic Analysis Center contract.

The Federal Supply Schedule requires that requirements be competed from a minimum of three Federal Supply Schedule contractors. The contracting office determines the competing contractors. DFAS contracting officials chose Anadac, Inc. as one of the contractors in each of the solicitations to obtain the services of its subcontractor, Tecolote Research, Inc. By choosing which contractors would be requested to furnish bids DFAS contracting officials skewed the competition to favor Anadac, Inc. DFAS contracting officials have stated that, in the future, contractor selections would be changed so that all contractors would be afforded an equal opportunity to win the award.

DFAS also directed work outside DoD through the Economy Act to a preferred subcontractor. For example, DFAS-Cleveland used the National Institute of Health contract with Universal High Tech, Inc. to get continued support from Coopers and Lybrand valued at $275,000. Coopers and Lybrand had been providing support to DFAS on the Standard Accounting and Reporting System under the DEIS contract. The lack of hours remaining on the DEIS contract created the need to obtain a new contract for continued support. However, the use of a contracting organization outside of DoD was not justified as outlined in the 1994 Secretary of Defense memorandum on Economy Act Orders. In addition, the urgency created by the expiration of the DEIS contract was not a valid justification for a sole-source procurement because it resulted from a lack of planning by DFAS. The lack of planning was illustrated in the decision to award the contract to Universal High Tech, Inc. Only 14 days elapsed from the preparation of the statement of work on November 25, 1996, until the National Institute of Health notified DFAS-Cleveland on December 9, 1996, of the award to Universal High Tech, Inc. pending receipt of the DFAS funding document (delivery order). FISC-San Diego issued the DFAS delivery order to Universal High Tech, Inc. on December 18, 1996. The Negotiation Memorandum was not completed until December 20, 1996, 11 days after the award decision was made.

Procurement Policies

Federal and Internal Policy. In the course of acquiring goods and services, DFAS program officials circumvented Federal and internal procurement policies and procedures. DFAS program officials failed to perform acquisition planning in compliance with the FAR Part 7. They also ignored the DFAS procurement policy of obtaining all contract support from authorized organizations instead of directing work to desired contractors through existing contracts. As a result, full and open competition as required by FAR Part 6 was not provided, market research as required by FAR Part 10 was not performed, and policies on the use of contract support sources outside of DoD were not followed.

Contract Support Organizations' Compliance with Federal Procurement Regulations. The contract support organizations that DFAS used to place orders on existing contracts were responsible for ensuring that these orders met the

competition requirements of FAR Part 6. Contracting officers, possibly as a result of DFAS pressure to get preferred contractors, failed to adhere to Federal procurement policies by issuing DFAS orders to existing contracts without adequate justification and approval for other than full and open competition; and without assuring that the DFAS requirements were within the contract scope. These contracting officers helped promote an acquisition strategy at DFAS that did not include market research and ultimately avoided competition. FAR Part 1.6, Career Development, Contracting Authority, and Responsibilities," states the following information.

> No contract shall be entered into unless the contracting officer ensures that all requirements of law, executive orders, regulations, and all other applicable procedures, including clearances and approvals, have been met.

The contracting officer clearly has the ultimate responsibility to ensure that orders added to existing contracts are in total compliance with all Federal procurement regulations. Because contracting offices were involved in the DFAS procurements that did not comply with the acquisition procedures, we believe the Director, Defense Procurement should issue a memorandum to all contracting officers reminding them of their responsibilities to ensure fair and open competition and to determine that proposed work requirements fall within contract scope.

Use of Delivery Orders on Existing Contracts. DFAS program officials used delivery orders on existing contracts as the vehicle to obtain contractor support. According to FAR Part 2, since these were time-and-materials contracts, an order is also a contract that obligates the Government to expend appropriated funds. Thus, a delivery order, just as any type of contract, must meet FAR requirements prior to award. DFAS program officials considered delivery orders to be competed and in accordance with the FAR. Their incorrect conclusion was based on the premise that delivery orders on existing contracts were awarded competitively.

Competition. FAR Part 6 requires competition for all acquisitions with some exceptions. In delivery order awards, even though the basic contract was competitively awarded, the FAR exempts competition only when all responsible sources were realistically permitted to compete for the requirements contained in the order. However, this was not accomplished for the 47 delivery orders placed on existing contracts for the DFAS projects. Each delivery order issued for the projects contained new requirements that were not considered during the award phase, and all responsible sources were not afforded ample opportunities. In addition, final pricing for the orders was not established until the orders were awarded. Therefore, the contracting officers at DFAS contracting support organizations circumvented the FAR by awarding the delivery orders without competition. In the process of using existing contracts to satisfy requirements, other essential elements of the procurements were also not performed.

Market Research. FAR Part 10 requires agencies to perform market research to identify all possible sources before soliciting acquisition offers in excess of the value of the simplified acquisition threshold. Our review of DFAS project files for the 47 delivery orders awarded noncompetitively found no indications that DFAS contracting support organizations performed market research. The absence of market research was the result of the DFAS program officials' decisions to award to selected contractors on existing contracts. When requirements were awarded by other supporting contracting organizations, DFAS had already made the decision on the contractor; thus market research was not performed by the DFAS program officials or by the supporting activity's contracting officer.

Justifications. FAR Part 6.3 requires that technical and requirements personnel provide and certify data as accurate and complete when supporting their recommendation for other than full and open competition. It also requires that contracting officers approve written justifications for other than full and open competition. Although other documents in the project files cited either "continuity of work" or "time constraint" as the reason for selecting a particular contractor, no formal justification documents could be provided to support the decisions.

Use of Delivery Orders on Multiaward Contracts. DFAS use of the DEIS and DFISS multiaward contracts was not in compliance with the FAR because contractors were not realistically permitted to compete for all requirements. DFAS program officials did not comply with FAR Part 16 as each awardee was not always given a fair opportunity to be selected. Faulty justifications were used and the selection process was often skewed so that desired contractors were selected.

DFAS Internal Procurement Policy. DFAS Regulation 005, "Delegation of Statutory Authority," Change 13, November 14, 1994, requires processing of all procurement actions through the DFAS Central Procurement Offices established at each of the DFAS centers and headquarters. Also, all contracts and delivery orders for acquisitions over $10,000, including modifications, must be reviewed for legal sufficiency by the offices of General Counsel in the DFAS centers and headquarters.

DFAS program officials bypassed in-house contracting and legal personnel in the procurement process despite all policies and regulations. We were only able to find two instances where documentation showed a legal review had been performed. These reviews were vital to the process because they served as an integral part of the management control program. Program officials could not explain why these personnel were bypassed in the procurement process.

If the legal offices had been reviewing these acquisitions it is likely that the process would have been questioned. Legal reviews would have made it more difficult for DFAS program officials to direct work to desired contractors without adequate justification.

Contract Surveillance

For the 91 contracting actions we reviewed there was no evidence that DFAS performed contract surveillance or that any surveillance plans even existed. As a result, contract costs escalated and DFAS was not assured that the hours and labor categories billed to the Government were those agreed upon in the delivery orders.

Contract surveillance is especially important in cost-plus-fixed-fee and time-and-materials type contracts. FAR 16.3 and 16.6 further clarifies the information.

> A cost-plus-fixed-fee contract . . . permits contracting for efforts that might otherwise present too great a risk to contractors, and it provides the contractor only a minimum incentive to control costs . . .. A cost - reimbursement contract may only be used when . . . Appropriate Government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used . . ..
>
> A time-and-materials contract provides for acquiring supplies or services on the basis of direct labor hours . . . and materials at cost . . .. Therefore, appropriate Government surveillance of contractor performance is required to give reasonable assurance that efficient methods and effective cost controls are being used.

DFAS lack of surveillance extended to work contracted into existing cost-plus-fixed-fee and time-and-materials contracts, and therefore, did not adhere to FAR 16 requirements.

For example, DFAS used the U.S. Army Space and Strategic Defense Command's cost-plus-fixed-fee contract with Mevatec Corporation, contract DASG60-96-0012 to obtain cost studies related to the A-76 program. The lack of contractor surveillance by both DFAS and the U.S. Army Space and Strategic Defense Command allowed cost growth significantly higher than the rates established in the contract. The Chief, Cost Analysis Division at the U.S. Army Space and Strategic Defense Command acknowledged that there was a major problem with the contract costs from the Mevatec Corporation, the DFAS A-76 program, and other programs as well.

Contractor costs submitted for 8 of the 11 DFAS task orders increased beyond acceptable limits approximately 1 year after contract award. The eight task orders showed actual costs higher than the contract composite rate of $53.22. The total variances in actual and composite rates for the eight task orders was 15 percent. The variances per task order, however, ranged from 4.8 percent to as high as 40.7 percent. The total cost for the eight task orders as of June 29, 1997, was $1,719,881 which included 28,111 labor hours. At the composite rate agreed to of $53.22, the total cost would have been $1,496,067.

In another example, DFAS used four time-and-materials contracts for reconciliation work. The costs for three of the four Defense Logistics Agency and Defense Fuel Supply Center contracts increased from a range of $2.4 million to more than $20 million from the original scope. Review of contract files did not show any evidence that surveillance had been performed.

We discussed cost monitoring on the JIEO contract with DFAS-Denver Accounting and Integration Division personnel. They stated that they assumed that cost monitoring was the responsibility of the contract support organization. We reviewed the entire procurement process with JIEO officials and determined that the responsibility for cost monitoring rested on the user, such as the Accounting and Integration Division. If the Accounting and Integration Division were to monitor contractor performance, it would also be in a better position to monitor costs because it would have knowledge of actual hours spent on project-required labor categories.

Management Controls and Oversight

Insufficient management controls and oversight contributed to the DFAS problems with the acquisition process. There was no centralized oversight and coordination of the DFAS acquisition process at the DFAS centers and within the headquarters' Deputates. This process is improving, however, with the development of a new DFAS acquisition policy. The lack of controls allowed each DFAS center to operate independently with no assurance that their contracting mechanism was the most cost-effective. Acquisition controls were not sufficient to ensure that Federal and internal procurement policies were followed. In addition, internal controls did not exist to ensure that acquisitions were compliant with appropriate guidance.

The weak controls enabled DFAS program managers and other acquisition personnel to bypass the competitive process using faulty justifications, and skew the award process on new contracts so that desired contractors would be selected.

Colocation of Contractor and Government Personnel

DFAS contracting officials perceived a problem related to colocation of contractor and Government personnel. They specifically voiced concern with intermingling personnel from Tecolote Research, Inc., Diverse Technology, Inc., and DFAS headquarters. Contractor personnel working at DFAS headquarters on the DFAS strategic business plan were not segregated from DFAS personnel. Furthermore, personnel working in the area did not always wear identification badges. There

was no noticeable distinction between the contractors and Government personnel. DFAS contracting officials expressed concerns that it was often impossible to distinguish between the different staffs.

Intermingling contractors with Government personnel creates management control problems. The close proximity of the contractors with DFAS personnel promotes an environment where the contractors may be thought of, and treated as, DFAS personnel. This creates an atmosphere where contractors may become privy to proprietary information providing an unfair advantage over competitors in future procurements. Contractors should be separated from Government personnel and controls put in place to ensure that proprietary information is not jeopardized. If similar problems exist at any of the DFAS field offices, steps should be taken to eliminate the problem.

DFAS Initiatives For Improvement

DFAS has taken positive action to improve its acquisition program by developing policy and establishing a contracting organization. However, we also identified instances where DFAS personnel were circumventing the new policy. Therefore, we are concerned that individuals will continue to disregard policy as purchases are completed in-house.

For example, Military Interdepartmental Purchase Request DO7FQQ208696MP, dated May 2, 1997, issued to the Fleet Maintenance Support Office, Mechanicsburg, Pennsylvania, in the amount of $800,000 circumvented the new acquisition policy requiring processing through the DFAS Acquisition Support Office. The Deputy Program Manager of the Defense Accounting Systems Program Management Office instructed that the interdepartmental purchase request bypass the acquisition support office because of the urgency of the requirement and concern that it would be delayed or rejected by the acquisition support office. As a result, the award was made by a nonacquisition certified individual. Also, the Director, Program Control, under the Program Management Office, stated that his office approved funding for the requirement, and that it was his decision not that of the acquisition support office, how to best satisfy the requirement. It was apparent by the comments and actions that the program control director was reluctant to conform to the new policy. It is imperative that senior DFAS management take greater initiative to ensure that all acquisition personnel adhere to the new policy.

In addition, DFAS contracting officials voiced concern that Deputate directors were approaching the support office on contract matters and might be exerting undue influence. Management controls will be strengthened if directors are required to address any contract issues with their contracting equivalent, the Director, Resource Management Deputate. By elevating all contract issues through the Director, Resource Management Deputate, who is also a Director, any appearance of, or actual, undue influence would be eliminated.

Recommendations, Management Comments, and Audit Response

A.1. We recommend that the Director, Defense Procurement:

a. Issue a memorandum to all DoD contracting organizations, directing them to ensure fair and open competition occurs, adequate justification and documentation exists before contracts or delivery orders are awarded, and requirements are within the scope of existing contracts; or forward copies of this report to all contracting offices involved in the questionable transactions identified by the auditors, together with an admonition that they should consider the lessons to be learned from this report.

b. Conduct a procurement management review of the Defense Finance and Accounting Service during fiscal year 1999 or at the earliest possible time.

A.2. We recommend that the Director, Defense Finance and Accounting Service:

a. Issue a memorandum to Defense Finance and Accounting Service Directors stating that past acquisition policy had not always been adhered to and that any further circumvention by personnel of Defense Finance and Accounting Service Regulation 4200.1, "Acquisition Authority and Policy," will not be tolerated and appropriate action will be taken.

b. Incorporate the Federal Acquisition Regulation requirements on developing acquisition plans into Defense Finance and Accounting Service Regulation 4200.1 to ensure maximum competition. The regulation should establish acquisition milestones to achieve maximum competition.

c. Direct Defense Finance and Accounting Service headquarters' legal office to review and approve all requests to use existing contracts.

d. Require that Defense Financial Integrated Systems Services orders be issued by the Defense Finance and Accounting Service headquarters Contracting Organization rather than the Financial Services Organization.

e. Direct Defense Finance and Accounting Service Directors to address any contracting issues directly to the Director, Resource Management Deputate.

f. Provide separate office spaces for all contractor personnel working at the Defense Finance and Accounting Service headquarters and field offices and require that appropriate identification be worn at all times.

g. Enforce the Secretary of Defense guidance on Economy Act orders.

h. Request the Defense Contract Audit Agency to conduct a cost review of contract DASG60-96-0012 awarded by the U.S. Army Space and Strategic Defense Command to Mevatec Corporation.

Director of Defense Procurement Comments. The Director of Defense Procurement disagreed with Recommendation A.1.a. to issue a policy memorandum. The Director believes that sending a reminder would dilute the impact of the specific policy memorandums because the reminder would have to be broadly worded. The Director of Defense Procurement did, however, perform a procurement management review as recommended in Recommendation A.1.b.

Audit Response. While the Director of Defense Procurement believes that issuing a memorandum would be an ineffectual measure, we believe that the nature and extent of contracting problems indicate that the guidance is not achieving its desired results and an expression of concern is in order. We have rewritten the initial recommendation to offer the alternative of using this report as the primary means of explaining what weaknesses were found and what lessons need to be learned. We request management comments on the revised recommendation.

DFAS Comments. The Director of the Defense Finance and Accounting Service concurred with Recommendations A.2.a, through A.2.e and with Recommendations A.2.g and A.2.h. The Director partially concurred with Recommendation A.2.f, to provide separate office space for contractor employees, stating that due to the increasing number of contractor support personnel and the varying nature of the work performed, it may not be practical to have segregated work areas for contractors and government employees. The Director added that separate office space would be provided, to the extent possible, to contractor personnel at the Defense Finance and Accounting Service Headquarters and field offices. The Director also objected to some of the findings of the draft report. Specifically, the Director:

- stated that the draft audit report repeatedly states there was a lack of a Justification and Approval for Other Than Full and Open Competition for orders placed against an Indefinite Delivery/Indefinite Quantity type contract.

- disagreed that Tecolote Research, Inc. had performed strategic business planning for the Defense Finance and Accounting Service, an inherently governmental function,

- believed that the report confused the use of a National Institute of Health contract for the purchase of computers with the use of a non-DoD contracting office,

- disagreed that program officials directed work to preferred subcontractors,

- believed that the draft report misstated the requirements regarding award of General Services Administration contracts and,

- questioned the draft report allegation concerning the lack of the Defense Finance and Accounting Service Acquisition Support Organization coordination on a Military Interdepartmental Purchase Request in May 1997.

Audit Response. The Defense Finance and Accounting Service comments on Recommendations A.2.a. through A.2.h. meet the intent of our Recommendation. However, we disagree with the additional comments. Specifically,

- Certain of the Director, Defense Finance and Accounting Service comments were in error. The report does not repeatedly state that there was a lack of a Justification and Authorization for Other Than Full and Open Competition for orders placed against an Indefinite Delivery/Indefinite Quantity type contract. Orders discussed in the report were for the most part orders issued under Time and Materials contracts. Even so, FAR, Part 6 requires competition for all acquisitions with some exceptions. In delivery order awards, even though the basic contract was competitively awarded, the FAR exempts competition only when all responsible sources were realistically permitted to compete for the requirements contained in the order. However, this was not enforced with the delivery orders placed on existing contracts for Defense Finance and Accounting Service projects. Each delivery order issued for the projects contained new requirements that were not considered during the award of the contracts, and all responsible sources were not given the opportunity to compete. In fact, many of these requirements did not even exist at the time of the award of these contracts and were distinctly different from the basic contract.

- Statements of work for strategic business plan orders described work that consisted of more than developing and word processing information into the Strategic Business Plan Executive Information System. For example, Tecolote Research Inc. staff:

  - collected and reviewed the project/program management plans for all identified Defense Finance and Accounting Service goals;

  - reviewed the implementation plans and financial documentation for Pacific and European Operation Consolidations, Military Construction projects for CONUS Operating Locations, and Garnishment Business Process Re-engineering;

  - supported the Plans and Management Directorate and Financial Management Executive Review Board by performing cost and schedule analysis using the strategic business plan, which required that the contractor be located on-site with Defense Finance and Accounting Service Initiative Program Offices; and

  - performed data collection, analysis, modification and/or development of data, and the conducting of interviews for the Defense Finance and Accounting Service Cleveland Center in support of the Defense Finance and Accounting Service Headquarters strategic business plan. During the course of our audit,

Defense Finance and Accounting Service staff knowledgeable with strategic business plan work stated that work had gone beyond the strategic business plan initiative and represented inherently governmental functions.

• Although one National Institute of Health contract was available for Government-wide use to purchase computer support, the Defense Information Systems Agency's and the Army's desktop contracts were available within DOD for the purchase of computer equipment. No attempt was made to use these contracts or stay within DoD channels. Prudent business practice would have dictated that the Defense Finance and Accounting Service first look within DoD to satisfy its requirement instead of going outside DoD and incurring a 1 percent fee charged by the National Institute of Health. This is especially true in light of dwindling budgets. We believe the Defense Finance and Accounting Service should have kept resources within DoD and not augmented the budget of another agency. In addition, the Defense Finance and Accounting Service use of the National Institute of Health was not limited to the purchase of computer equipment. There were instances where the Defense Finance and Accounting Service used the National Institute of Health contract specifically to obtain the services of Coopers and Lybrand, as a subcontractor, again incurring a 1 percent fee. This occurred while DoD contracts were readily available to obtain Coopers and Lybrand services. The overriding need to direct work in this manner was the short time available to continue service caused by poor planning. This is also one example of where the Defense Finance and Accounting Service directed work to a subcontractor.

• The Defense Finance and Accounting Service also used the General Services Administration Federal Supply Schedule contract with Anadac Inc., to obtain the services of Anadac's subcontractor, Tecolote Research, Inc. Although the FAR does not require quotes be solicited from more than one General Services Administration vendor, it would be prudent business practice to solicit quotes from more than one General Services Administration vendor. It was apparent that Anadac was selected so DFAS could continue obtaining services of Tecolote Research Inc., although the Defense Finance and Accounting legal office questioned and rejected a sole source award to Tecolote Research Inc.

• The Defense Finance and Accounting Service staff involved in the processing of the Military Interdepartmental Purchase Request to the Navy's Fleet Maintenance Support Office, had directly informed the auditors that the Deputy Program Manager of the Defense Accounting System Program Management Office had instructed that the Military Interdepartmental Purchase Request bypass the Acquisition Support Office. When questioned about this Military Interdepartmental Purchase Request by the auditors, the Director, Program Control became uncooperative stating that decisions on how to best satisfy his requirements were his to make and not the venue of the Acquisition Support Office. Also, the statements made by the Director, Program Control were discussed with Defense Finance and Accounting Service staff who responded that this attitude was nothing new with the Director and that there were other instances

whereby he had demonstrated his lack of willingness to comply with the Defense Finance and Accounting Service's new acquisition policy that requirements go through the Acquisition Support Office.

Finding B. Qualifications of Personnel to Perform Acquisition Functions

DFAS did not identify all acquisition positions and did not ensure that personnel were qualified to perform acquisition and/or program management functions. A review of qualifications for 43 of the 176 individuals performing acquisition functions showed that none were qualified to perform acquisition and/or program management functions. This occurred because DFAS did not:

- consider positions other than contracting as critical acquisition positions,

- evaluate the training and experience of individuals filling acquisition positions in the program management and acquisition field, and

- implement an effective career development program to ensure that staff were properly trained.

As a result, the DFAS procurement system was at increased risk for mismanagement and questionable practices as shown in finding A.

Background

Workforce Identification. DoD Instruction 5000.55, "Reporting Management Information on DoD Military and Civilian Acquisition Personnel and Positions," establishes a management information system capable of providing standardized information on acquisition positions and persons serving in those positions. The instruction requires management to individually identify each acquisition position and member of the acquisition workforce. Also, management is required to submit an annual report on the number of critical acquisition positions to the Under Secretary of Defense for Acquisition and Technology.

Qualification Requirements. DoD 5000.52-M, "Acquisition Career Development Program," prescribes procedures for a DoD career development program for acquisition personnel. The program establishes experience, education, and training standards for personnel in the acquisition workforce including program managers of major and nonmajor Defense Acquisition Programs. The manual does not specifically mention qualification requirements for program managers of major automated information systems. However, the

"Communications-Computer Systems" position category code includes duties that encompass direct support for the acquisition of automated information systems. This position requires that the program manager of an automated information system must have at least 4 years of communications and/or computer acquisition experience. Ten years of experience is required for all Senior Executive Service level positions. In addition, DoD 5000.52-M requires completion of an advanced information systems acquisition course plus any required prerequisite courses. In general, DoD 5000.52-M requires that acquisition personnel at the GS-13 level and above, and officers in grades O-4 and above, possess at least 4 years of experience in an acquisition position and completion of an advanced acquisition course along with prerequisite courses.

DFAS Acquisition Personnel

Program Managers. DFAS program managers of major automated information systems were not qualified in accordance with DoD 5000.52-M to perform program management functions. DoD 5000.52-M identifies a specific level of experience and training in the acquisition field for qualification as a program manager. DFAS program manager qualifications revealed that they did not possess the required experience and training. Of the eight program managers reviewed, none had completed required training and only two had adequate work experience. However, the experience and training requirements of DoD 5000.52-M pertain to personnel designated as members of the acquisition work force. The Director of DFAS did not identify the program managers as acquisition work force. Program managers of major automated information systems should, however, be designated as acquisition work force and should comply with DoD 5000.52-M. The DoD Component head must identify agency personnel as acquisition work force. The following table lists the major automated information systems at DFAS along with the program managers.

Table 4. Major Automated Information Systems

System	Program Manager
Standard Accounting & Reporting System	Supervisory Financial Systems Analyst[1]
Defense Joint Accounting System	Principal Deputy Director[2] Accounting Officer[1] Accountant[1] Assistant Deputy Director[2]
Defense Joint Military Pay System	Financial Systems Specialist[1]
Electronic Document Management	Accounting Officer[1]
Defense Procurement Payment System	Financial Program Manager[1]

[1]Grade GS-15
[2]Senior Executive Service Level

Besides program managers, other DFAS personnel performing acquisition functions, including DFAS higher level officials involved in making key acquisition decisions, lacked experience and training in the acquisition field. Although these individuals were not identified as members of the acquisition workforce, they should still possess a certain level of experience and training to adequately perform their acquisition functions.

Other Acquisition Personnel. In addition to the 8 program managers listed in Table 4, 165 personnel were identified by DFAS as performing acquisition functions at headquarters in the following categories: cost or price analysis, preparation or review of cost estimates, preparation of statements of work, contract negotiation, and monitoring contractor performance. Of 165 personnel, 114 were grades GS-14 and above, officers O-5 and above, and 10 individuals were Senior Executive Service level. We also identified three personnel (GS-14 and above) at DFAS centers performing acquisition functions.

Review of Personnel Qualifications. We reviewed copies of DFAS official records for 43 of the 176 personnel, including 8 program managers and the 168 personnel performing acquisition functions, to determine their qualifications. The files did not show that personnel had adequate experience in program management and/or adequate acquisition training. Only five of the files showed that personnel had previous work experience (two in program management and three in acquisition). Personnel predominantly had accounting, financial management, or computer-related backgrounds, but little if any acquisition experience or training.

For example, the FSO Director at DFAS-Indianapolis, and the Deputy Director of the Plans and Management Deputate at DFAS headquarters, both Senior Executive Service level individuals, authorized noncompetitive acquisitions amounting to millions of dollars. The FSO use of the JIEO contract amounted to over $8.7 million, while the Plans and Management Deputate's use of Tecolote Research, Inc. contracts exceeded $3 million. The Deputy Director of Plans and Management also negotiated an $85 million 5-year contract with EDS to obtain imaging services for DFAS centers and operating facilities. Neither of these individuals' official personnel files reflected any previous acquisition experience or training. The FSO Director has a computer background, with prior experience as a computer specialist and computer systems programmer prior to employment with DFAS. The Deputy Director of Plans and Management held previous positions as a personnel salary and wage specialist and later as a management analyst, prior to employment with DFAS.

In another example, the Director of Acquisition Requirements Management at the FSO, a grade GS-15, was responsible for overseeing all acquisition program requirements including planning, developing and establishing overall contractual strategies for the FSO. The individual also functioned as a technical representative of the contracting officer and had contract management responsibilities. A review of the official personnel file disclosed that the individual had worked as a computer specialist and computer systems analyst prior to employment with DFAS, but did not have any acquisition experience or training.

Personnel Initiatives

DFAS did not implement a career development/training program to ensure that personnel performing program management and/or acquisition functions were adequately qualified to perform those functions.

DFAS Career Development/Training Program. The lack of a career development/training program allowed individuals inexperienced in performing program management and acquisition functions to be placed in program management positions, or positions requiring the performance of acquisition functions. It further allowed these individuals to continue to perform program management and acquisition functions without receiving the necessary training to adequately perform those functions.

Evaluate Qualifications. DFAS needs to evaluate the qualifications of all personnel performing program management and/or acquisition functions and take appropriate action to ensure that these individuals have the experience and training to adequately perform those functions. The DFAS Director needs to identify all personnel in the acquisition workforce, and ensure that they meet the experience and training requirements of DoD 5000.52-M. In addition, all individuals in

critical acquisition positions must be identified and reported to the Under Secretary of Defense for Acquisition and Technology as required by DoD Instruction 5000.55. DFAS is in the process of correcting these discrepancies.

DFAS Initiates Improvements. DFAS acknowledged that, in general, position-related requirements established in DoD 5000.52-M have not been completely fulfilled. DFAS also pointed out that the regulation gives DFAS until October 1, 1998, to correct program management position deficiencies. Efforts are underway to formally identify positions and functions within the agency that fall under DoD 5000.52-M and to ensure that adequately qualified personnel fill those positions.

DFAS plans to work with the Defense Acquisition University to obtain training in the areas of contracting, program management, business, cost estimating and financial management, and communications-computer systems. Additionally, DFAS will consider the use of the Fulfillment Program, as provided in the DoD Manual, "Career Development Program," as a possible means of meeting certification requirements.

Impact on DFAS Acquisitions

The DFAS procurement system represented a material management control weakness and provided the potential for mismanagement because acquisition personnel in key acquisition positions lacked experience and training. The lack of experience and training contributed to the questionable procurement practices occurring as discussed in Finding A. Also DFAS future acquisitions were affected by its inexperience.

Future Requirements. DFAS persistence in contracting with its preferred contractors went beyond contracting for current identified requirements and encompassed requirements yet to be defined. This was evident in the FISC-San Diego award to Unisys Corporation, contract N00244-95-D-8029. The contract, costing $166 million, provided DFAS information processing services, including hardware and software, to support a fully-automated technical infrastructure which will interconnect DFAS business processing locations. The major portion of the award was for future acquisitions of computer hardware and software. The computer requirements had not been identified by DFAS at the time of the award. Of the $166 million contract price, $121 million was for computer hardware and software. The balance of $45 million was primarily for technical services to be provided by the contractor and/or subcontractor.

Although the award to Unisys was considered competitive, the only true competition was for the technical services portion, as the hardware and software pricing to be incorporated in the contractor proposals was furnished by DFAS in the proposal request. DFAS did not demonstrate good acquisition practice by including future hardware and software acquisition in this award. DFAS should

have planned to competitively award separate contracts for hardware and software at the time the requirements were determined. DFAS had, in effect, relinquished control of future hardware and software contracting to Unisys.

Because the entire procurement was considered competitive, DFAS did little to ensure that it received the best pricing available. For instance, delivery order 0071 under this contract, dated August 16, 1996 was for the acquisition of computer equipment. The contractor proposal of $2.8 million was accepted by the FISC-San Diego contracting officer without exception. The contracting officer relied on the market analysis performed by Unisys and information from the DFAS contracting officer's representative in accepting the proposed costs. The memorandum of negotiation dated August 15, 1996, stated that the contracting officer's representative evaluated the hardware and software prices and products with no exceptions taken, as they were in line with the Government estimate. However, no independent Government cost estimate was performed on this acquisition. The contracting officer's representative at DFAS-Indianapolis stated she determined price reasonableness by comparing Unisys' proposed prices to the prices in a 1995 Army indefinite-delivery indefinite-quantity contract, but did not document the file.

Fairness and Reasonableness. Fairness and reasonableness determinations were extremely important in awarding contracts because many of the awards were attached to contracts that were awarded based on technical evaluations where price was not a significant factor. Because DFAS program officials were not contract oriented and lacked the necessary qualifications, they did not make adequate determinations of price fairness and reasonableness, and did not effectively use pricing techniques available to assist their evaluations.

For example, DFAS-Denver program officials did not perform price analyses for seven of the eight JIEO projects reviewed, to support their contention that using the JIEO contract would be the most cost-effective or in the best interest of the Government. DFAS program officials could have used FISC-San Diego or the DEIS contracts instead of using the JIEO contract, and reduced their costs by $1 million to $2.5 million on the seven projects reviewed.

Independent Government Cost Estimate. DFAS personnel were not qualified to perform independent Government cost estimates, and as a result, estimates varied significantly from contractor's bids and were not reliable. A Government cost estimate can be compared with the contractor's bid or quote to assist in determining price reasonableness. To be reliable, the method in which the Government estimate was prepared and the tools used to make the estimate must be known. DFAS program officials provided no explanation of how the labor categories, hours, and rates were determined in their cost estimates.

The contractor selection process considered technical factors more important than cost. Since price was not a main factor for determination of selection, even for those procurements that were competitive, the Government estimates were important to determine cost reasonableness. However, the Government estimates varied significantly, to the point where the estimates were useless for establishing

cost reasonableness. In one example the estimate which was more than $1 million higher than all contractors' bids, was prepared by a computer specialist with some training in cost analysis. The lack of qualified personnel familiar with the intricacies of price/cost analysis contributed to these poor estimates. In another example, the DFAS program official used the JIEO contract labor rates in developing the independent Government cost estimate to determine cost reasonableness. Since the order was to be placed on the JIEO contract, the program official was using the same labor rates as the contractor proposal, to determine its cost reasonableness.

Recommendations, Management Comments and Audit Response

Redirected Recommendation. As a result of management comments, we redirected Recommendation B.1. to the Director of Acquisition Education, Training and Career Development.

Director of Defense Procurement Comments. The Director of Defense Procurement stated that it was beyond the scope of the procurement management review to identify all members of the acquisition workforce. Their effect was limited to acquisition workforce in the contracting career field. The Director suggested that a larger identification of the acquisition workforce outside by the contracting office should be directed to the Director of Acquisition Education, Training and Career Developments.

B.1. We recommend that the Director, Acquisition Education, Training and Career Development assist the Defense Finance and Accounting Service with the identification of all personnel that are part of the DFAS acquisition work force and ensure that they meet the qualification requirements of DoD 5000.52-M, "Acquisition Career Development Program."

B.2. We recommend that the Director, Defense Finance and Accounting Service:

a. Identify and report to the Under Secretary of Defense for Acquisition and Technology all critical acquisition positions including the persons serving in such positions in compliance with DoD Instruction 5000.55, "Reporting Management Information on DoD Military and Civilian Acquisition Personnel and Positions."

b. Establish a career development program for program management and acquisition personnel to ensure that they meet the training and experience requirements of DoD 5000.52-M. The program should also ensure that personnel not part of the acquisition work force, but performing acquisition functions, receive sufficient acquisition training to adequately perform their acquisition functions.

DFAS Comments. DFAS concurred.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

Audit Scope. Our review focused on the procurement actions of DFAS headquarters, DFAS-Denver, and the FSO-Indianapolis. We also looked at outside contracting support furnished to DFAS by FISC-San Diego, U.S. Army Cost and Economic Analysis Center, U.S. Army Space and Strategic Defense Command, and JIEO. We interviewed programming, contracting, functional, and technical personnel at the audit sites. We reviewed 91 DFAS procurement actions totaling $330 million. The procurement actions reviewed were dated from 1988 through 1997. In addition, we reviewed official DFAS personnel records maintained at the FSO-Indianapolis, and related documentation furnished by DFAS headquarters, to determine the qualifications of DFAS personnel performing acquisition functions. The review consisted of 43 DFAS individuals.

DoD-wide Corporate Level Government Performance and Results Act (GPRA) Goals. In response to the GPRA, the DoD has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objectives and goals.

- **Objective:** Fundamentally reengineer the Department and achieve a 21st Century infrastructure. **Goal:** Reduce cost while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

- **Acquisition Functional Area. Objective:** Delivering Great Service. **Goal:** Create a world-class learning organization by offering 40 or more hours annually of continuing education and training to the DoD acquisition-related workforce. **(ACQ-1.4).**

- **Financial Management Functional Area. Objective:** Strengthen Internal Controls. **Goal:** Improve compliance with the FMFIA. **(FM-5.3).**

General Accounting Office High Risk Area. The General Accounting Office (GAO) has identified several high risk areas in DoD. This report provides coverage of the Defense Contract Management high risk area.

Audit Period, Standards and Locations. We performed this economy and efficiency audit from March 1997 through December 1997 in accordance with audit standards issued by the Comptroller General of the United States as

implemented by the Inspector General, DoD. Accordingly, we included a review of management controls considered necessary. No statistical sampling procedures or computer processed data were used during the audit.

Contacts During the Audit. We visited or contacted contractor personnel and individuals and organizations within DoD. Further details are available upon request.

Management Control Program

DoD Directive 5010.38 "Management Control Program," as revised August 26, 1996 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 the Management Control Program. We reviewed management control procedures related to procurement of contractor support services at DFAS headquarters, DFAS-Denver, and the FSO-Indianapolis.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Directive 5010.38. DFAS management controls were not adequate to prevent program officials from directing sources of procurements and to ensure personnel were qualified to perform acquisition-related functions. DFAS personnel did not adhere to procurement policies and procedures in awarding procurements. Controls were also not adequate to prevent the intermingling of contractor personnel with DFAS personnel. In addition, the DFAS procurement system provided the potential for mismanagement as DFAS personnel performing acquisition and/or program management functions were not adequately trained to perform those functions. Recommendations A.1.a., A.1.b., A.2.a., A.2.b., A.2.c., A.2.d., A.2.e., A.2.f., A.2.g., A.2.h., B.1., B.2.a., and B.2.b. will correct the management control weaknesses. A copy of the report will be provided to the senior official responsible for management controls at DFAS.

Management's Self Evaluation. DFAS headquarters had identified an assessable unit titled "Acquisition Process" and had scheduled a review of this unit to be completed by June 30, 1997. However, the review was not completed until July 30, 1997 by the DFAS Acquisition Support Organization. The self-evaluation showed that DFAS found an uncorrected material weakness in its acquisition process concerning the safeguarding of procurement information. DFAS has planned milestones that will correct and validate the weakness by the end of fiscal year 1999.

Summary of Prior Coverage

Inspector General, DoD, Report 98-132, "Procurement Practices and Procedures for Obtaining Contractor Support at Defense Finance and Accounting Service, Denver, Colorado," May 8, 1998.

Inspector General, DoD, Report 98-099, "Audit of the Continued Use of a Single Contractor for Contract Reconciliation Work," April 2, 1998.

Inspector General, DoD, Report No. 94-054, "Fund Control Over Contract Payments at the Defense Finance and Accounting Service-Columbus Center," March 15, 1994.

Appendix B. Existing Contracts

Buying Office	Contract Action	Contractor	Amount	No Waiver[1]	Directed to Contractor	No J&A[2]	Directed to Subcontractor	No Acquisition Plan	Inherent Government Function	Outside[3] DoD
ASC/FMPP	F3367-90-D-0051	Tecolote	$ 573,000	x	X	x		x		
CEAC	MDA903-92-D-0051	Tecolote	545,855	x	X	x		x	x	
CEAC	MDA903-92-D-0051	Tecolote	333,508	x	X	x		x	x	
CEAC	MDA903-92-D-0051	Tecolote	394,800	x	X	x		x	x	
USASSDC	DASG60-91-C-0051	Tecolote	150,000	x	X	x		x		
USASSDC	DASG60-91-C-0051	Tecolote	911,021	x	X	x		x		
CEAC		MAI	200,000	x	X	x		x		
CEAC	MDA903-92-D-0051	Tecolote	81,659	x	X	x		x		
CEAC	MDA903-92-D-0051	Tecolote	775,000	x	X	x		x		
CEAC	MDA903-92-D-0051	Tecolote	100,000	x	X	x		x		
CEAC	MDA903-92-D-0051	Tecolote	694,268	x	X	x		x	x	
CEAC	MDA903-92-D-0051	Tecolote	170,500		X	x		x	x	
CEAC	MDA903-92-D-0051	Tecolote	143,600	x	X	x		x		
Dept Justice	6C-K-JMD0051	KPMG	230,000	x	X	x		x		x
Dept Justice	6C-K-JMD0051	KPMG	317,000	x	X	x		x		x
Dept Justice	6C-K-JMD0051	KPMG	300,000	x	X	x		x		x
SAF/IAXO	F49642-91-D-6005	Logicon 4GT	1,499,188	x	X	x		x		
Maxwell AFB	F19630-88-D-0005	AT&T	2,000,000	x	X	x	x	x		
11 CONS/LGC	F49642-91-D-6005	Logicon 4GT	599,995	x	X	x	x	x		
JIEO	DAAB07-91-DB519	Logicon 4GT	2,500,000		X	x	x	x		
JIEO	DAAB07-91-DB519	Logicon 4GT	586,750	x	X	x	x	x		
JIEO	DAAB07-91-DB519	Logicon 4GT	849,997	x	X	x	x	x		
JIEO	DAAB07-91-DB519	Logicon 4GT	527,410	x	X	x	x	x		
JIEO	DAAB07-91-DB519	Logicon 4GT	375,000	x	X	x	x	x		
JIEO	DAAB07-91-DB519	Logicon 4GT	1,904,926	x	X	x	x	x		
JIEO	DAAB07-91-DB519	Logicon 4GT	1,781,861	x	X	x	x	x		
JIEO	DAAB07-91-DB519	Logicon 4GT	3,686,514	x	X	x	x	x		
USAISC	DAEA32-93-D-0002	CSC	127,399	x	X	x		x		
USAISC	DAHC94-95-D-0008	EDS	714,356	x	X	x		x		
USAISS	DAHC94-95-D-0008	EDS	1,216,426	x	X	x		x		
DISA	DCA100-94-D-0014	CSCS	265,993		X	x	x	x		

Buying Office	Contract Action	Contractor	Amount	No Waiver[1]	Directed to Contractor	No J&A[2]	Directed to Subcontractor	No Acquisition Plan	Inherent Government Function	Outside[3] DoD
DISA	DCA100-94-D-0014	CSC	$ 406,654		X	x	x	x		
DISA	DCA100-94-D-0014	CSC	2,476,048		X	x	x	x		
DISA	DCA100-94-D-0017	EDS	3,039,108		X	x		x		
DISA	DCA100-94-D-0017	EDS	6,785,075		X	x		x		
DISA	DCA100-94-D-0017	EDS	684,681		X	x		x		
NIH	NIH 263-95-D-0322	BTG	120,763	x	X	x		x		x
NIH	NIH 263-95-D-0327	GTSI	100,530	x	X	x		x		x
NIH	NIH 263-95-D-0327	GTSI	146,499	x	X	x		x		x
NIH	NIH 263-95-D-0327	GTSI	151,360	x	X	x		x		x
NIH	NIH 263-95-D-0327	GTSI	1,616,800	x	X	x		x		x
NIH	NIH 263-95-D-0327	GTSI	140,625	x	X	x		x		x
NIH	NIH 263-95-D-0327	GTSI	175,683	x	X	x		x		x
NIH	NIH 263-95-D-0327	GTSI	164,992	x	X	x		x		x
NIH	NIH 263-95-D-0327	GTSI	204,716	x	X	x		x		x
NIH	NIH 263-95-D-0327	GTSI	145,441	x	X	x		x		x
NIH	NIH 263-95-D-0327	GTSI	123,639	x	X	x		x		x
Total Occurrences				**39**	**47**	**47**	**13**	**47**	**5**	**14**
Total Dollars			**$41,038,640**							

No Waivers	$24,560,581
Directed to Contractor	$41,038,640
No J & A	$41,038,640
Directed to Subcontractor	$17,961,148
Lacked Acquisition Plan	$41,038,640
Inherent Government Function	$ 2,138,931
Outside DoD	$ 3,938,048

[1] No waiver obtained even though required for contracting through non-DFAS authorized source
[2] No justification and approval for contracting through other than full and open competition
[3] Unjustified use of Department of Justice and NIH contracting activities

Appendix C. New Contracts

Buying Office	Contract Actions	Task Order	Contractor	Amount	Skewed Process and Directed Award	Faulty Justification for Sole Source	Directed to Subcontractor
DFAS	MDA220-97-F-0014		Anadac Inc.	$ 130,684	X		X
DFAS	MDA220-97-F-0005		Anadac Inc.	324,976	X		X
DFAS	MDA220-97-F-0004		Anadac Inc.	73,376	X		X
FISC	N00600-94-D-0245		Anteon Corp.	180,000			
DFAS/HQ	MDA220-97-D-0032		Coopers & Lybrand	5,372,580	X	X	
DLA/DFSC	SPO600-95-D-5523		Coopers & Lybrand	32,800,000	X	X	
USSASSDC	DASG60-96-C-0012		MEVATEC	6,902,837			
FISC/PA	N00140-94-D-BE54		EDS	45,632,782			
FISC/SD	N00244-95-D-8029		UNISYS	166,000,000			
FISC/NIH	N00244-97-F-8017		Universal Hi-Tech	274,768	X	X	X
FISC/SD	N00244-95-D-0252		Com. Prod. Inc.	1,636,878		X	
			Subtotal	$259,328,881	6	4	4
FISC	N00244-96-D-8057	2	Boeing	$1,201,447	X		
FISC	N00244-96-D-8055	3	EDS	669,399	X		
FISC	N00244-96-D-8018	6	CSC	1,230,929	X		
FISC	N00244-96-D-8056	7	Lockheed	597,267	X		
FISC	N00244-96-D-8055	9	EDS	2,953,119	X		X
FISC	N00244-96-D-8055	10	EDS	5,869,336	X		
FISC	N00244-96-D-8018	11	CSC	163,587	X		
FISC	N00244-96-D-8018	12	CSC	163,587	X		
FISC	N00244-96-D-8018	13	CSC	446,982	X		
FISC	N00244-96-D-8057	14	Boeing	86,391			
FISC	N00244-96-D-8055	15	EDS	180,568			
FISC	N00244-96-D-8055	16	EDS	1,727,369	X		
FISC	N00244-96-D-8056	17	Lockheed	2,987,549	X		X
FISC	N00244-96-D-8055	18	EDS	25,626			

Buying Office	Contract Actions	Task Order	Contractor	Amount	Skewed Process and Directed Award	Faulty Justification for Sole Source	Directed to Subcontractor
FISC	N00244-96-D-8057	19	Boeing	$ 578,196	X		
FISC	N00244-96-D-8018	20	CSC	3,930,780			
FISC	N00244-96-D-8018	21	CSC	67,579	X		
FISC	N00244-96-D-8055	22	EDS	1,120,029	X		
FISC	N00244-96-D-8056	23	Lockheed	548,552			
FISC	N00244-96-D-8056	24	Lockheed	64,791			
DFAS	N00244-96-D-8055	26	EDS	115,755	X		
FISC	N00244-96-D-8055	27	EDS	229,006			
FISC	N00244-96-D-8055	28	EDS	49,642			
FISC	N00244-96-D-8055	29	EDS	27,303	X		
FISC	N00244-96-D-8056	30	Lockheed	199,997			
FISC	N00244-96-D-8055	31	EDS	92,042	X		
FISC	N00244-96-D-8055	32	EDS	117,034	X		
FISC	N00244-96-D-8056	34	Lockheed	1,596,455	X		X
DFAS	N00244-96-D-8057	35	Boeing	408,008	X		
DFAS	N00244-96-D-8056	36	Lockheed	299,832	X		
DFAS	N00244-96-D-8055	37	EDS	1,584,614	X		
DFAS	N00244-96-D-8056	39	EDS	48,992			
DFAS	N00244-96-D-8056	40	Lockheed	255,394			
			Subtotal	$ 29,637,155	22		3
			Total	$288,966,036	28	4	7

Skewed Process and Directed Award	$62,993,802
Faulty Justification for Sole Source	$40,084,226
Directed to Subcontractor	$ 8,340,927

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Deputy Under Secretary of Defense for Acquisition Reform
  Director, Defense Procurement
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, Defense Finance and Accounting Service
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, General Accounting Office

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 National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III – Management Comments

Office of the Under Secretary of Defense Comments

Final Report Reference

ACQUISITION AND TECHNOLOGY
DP/CPA

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

AUG 18, 1998

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft of a Proposed Audit Report on Contracting for Defense Finance and Accounting Service Support, dated June 18, 1998 (Project No. 7CK-8009.02)

The subject draft report made three recommendations to my office. My comments regarding those recommendations are as follows:

Recommendation A.1.a. - Issue a memorandum to all DoD contracting organizations, directing them to ensure fair and open competition occurs, adequate justification and documentation exists before contracts or delivery orders are awarded, and requirements are within the scope of existing contracts.

The general nature of such a memorandum would limit its effect. The procurement workforce is already aware of the need for competition, documentation and working within scope. Sending out such a reminder dilutes the impact of more specific policy memoranda. Though such a memorandum would be easy to produce, I request you reconsider this recommendation.

Recommendation A.1.b. - Conduct a procurement management review of the Defense Finance and Accounting Service during fiscal year 1999 or at the earliest possible time.

A Procurement Management Review was conducted at DFAS from July 20 through August 7, 1998. A final report is expected to be issued by the end of September.

Recommendation B.1. - We recommend that the Director, Defense Procurement, in coordination with the procurement management review under Recommendation A.1.b., assist the Defense Finance and Accounting Service with the identification of all personnel that are part of the DFAS acquisition work force and ensure that they meet the qualification requirements of DoD 5000.52-M, "Acquisition Career Development Program."

Recommendation Redirected

It is beyond the scope of a Procurement Management Review to identify all members of the acquisition workforce of a particular organization. The primary focus of a PMR is the contracting office. In accordance with the Defense Acquisition Workforce Improvement Act (DAWIA), all members of the contracting career field (1102 series) are members of the acquisition workforce. Thus no further identification is necessary. The PMR team generally reviews the DAWIA qualifications of the contracting workforce. If the proper identification of the members of the acquisition workforce in the

larger DFAS organization outside the contracting office is required, this recommendation should be directed to the Director of Acquisition Education, Training and Career Development.

My point of contact in this matter is Steven Cohen. He can be reached at 695-8571.

Eleanor R. Spector
Director of Defense Procurement

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE
1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

SEP - 4 1998

MEMORANDUM FOR DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Contracting for Defense Finance and Accounting Service Support (Project No. 7CK-8009.02)

This is in response to your June 18, 1998, memorandum requesting Defense Finance and Accounting Service (DFAS) comments on the subject report. DFAS concurs with the recommendations and findings of the subject report. Specific comments are provided in Attachment 1.

DFAS is committed to improving its acquisition program. In 1996, we identified the problems related to the lack of a DFAS acquisition infrastructure. We requested and received procurement authority from the Director, Defense Procurement. Although we have endeavored to implement and improve our acquisition program, we recognize that change of this magnitude takes time. We will use your report to assist us in the continued refinement of our acquisition program and in the strengthening of our management controls.

Should you need additional information, please contact Mr. Gary W. Maxam, Director, Acquisition Support Organization, at (703) 607-5709. We appreciate the opportunity to comment on the draft report.

Gary W. Amlin
Director

Attachment

COMMENTS AND RESPONSE TO RECOMMENDATIONS IN DRAFT IG REPORT ON CONTRACTING FOR DEFENSE FINANCE AND ACCOUNTING SERVICE SUPPORT (PROJECT NO. 7CK-8009.02)

RECOMMENDATION A.1.a.

We recommend that the Director, Defense Procurement issue a memorandum to all DoD contracting organizations, directing them to ensure fair and open competition occurs, adequate justification and documentation exists before contracts or delivery orders are awarded, and requirements are within the scope of existing contracts.

RESPONSE:

DFAS will comply with all memorandums issued by the Director, Defense Procurement.

RECOMMENDATION A.1.b.

We recommend that the Director, Defense Procurement conduct a procurement management review of the Defense Finance and Accounting Service during fiscal year 1999 or at the earliest possible time.

RESPONSE:

A procurement management review was conducted July 20 - August 7, 1998.

RECOMMENDATION A.2.a.

We recommend that the Director, Defense Finance and Accounting Service, issue a memorandum to Defense Finance and Accounting Service Directors stating that past acquisition policy had not always been adhered to and that any further circumvention by personnel of Defense Finance and Accounting Service Regulation 4200.1, "Acquisition Authority and Policy," will not be tolerated and appropriate action will be taken.

RESPONSE:

Concur. The estimated completion date: September 30, 1998.

RECOMMENDATION A.2.b.

We recommend that the Director, Defense Finance and Accounting Service, incorporate the Federal Acquisition Regulation requirements on developing acquisition plans into Defense Finance and Accounting Service Regulation 4200.1-R to ensure maximum competition. The regulation should establish acquisition milestones to achieve maximum competition.

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COMMENTS AND RESPONSE TO RECOMMENDATIONS IN DRAFT IG REPORT ON CONTRACTING FOR DEFENSE FINANCE AND ACCOUNTING SERVICE SUPPORT (PROJECT NO. 7CK-8009.02)

RESPONSE:

Concur. Defense Finance and Accounting Service (DFAS) Regulation 4200.1-R, "Acquisition Authority and Policy," will be amended to incorporate the development of acquisition plans and reiterate the requirement to compete procurements. Estimated completion date: December 31, 1998.

RECOMMENDATION A.2.c.

We recommend that the Director, Defense Finance and Accounting Service, direct Defense Finance and Accounting Service headquarters' legal office to review and approve all requests to use existing contracts.

RESPONSE:

Concur. DFAS contracting officers will comply with FAR Part 1.6 and seek legal advice prior to the approval of requests for use of existing contracts administered external of DFAS. Estimated completion date: September 30, 1998.

COMMENT:

With respect to the audit recommendation, we note that the draft audit does not establish what is meant by "existing contracts," and seems to indicate the term extends to contracts established in part to meet DFAS requirements, such as DISA's Defense Enterprise Integration Services (DEIS) contract. See draft report, pages 3 and 7. We speculate that the recommendation is meant to concern proposed orders, modifications, and other contract actions involving the exercise of contracting authority external to the DFAS-Acquisition Support Organization (ASO), and that the recommendation is similar in scope to section C.1.3.5 of DFAS 4200.1-R, "Acquisition Structure and Authority", which states that "approval must be obtained through DFAS-ASO/C for any requirement for external support that could result in a contracting action." However, this intent is not certain, and the audit should define what types of "existing contracts" are subject to the proposed requirement, and should define what is meant by "requests." Does "request" mean Military Interdepartmental Purchase Requests (MIPRs), or all types of purchase requests, or something else?

RECOMMENDATION A.2.d.

We recommend that the Director, Defense Finance and Accounting Service, require that Defense Financial Integrated Systems Services orders be issued by the Defense Finance and Accounting Service Headquarters Contracting Organization rather than the Financial Services Organization.

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COMMENTS AND RESPONSE TO RECOMMENDATIONS IN DRAFT IG REPORT ON CONTRACTING FOR DEFENSE FINANCE AND ACCOUNTING SERVICE SUPPORT (PROJECT NO. 7CK-8009.02)

RESPONSE:

Concur. As of July 1998, the Defense Financial Integrated Systems Services (DFISS) and the Unisys FIP contracts are now administered by the headquarters element of the DFAS Acquisition Support Organization.

RECOMMENDATION A.2.e.

We recommend that the Director, Defense Finance and Accounting Service, direct Defense Finance and Accounting Service Directors to address any contracting issues directly to the Director, Resource Management Deputate.

RESPONSE:

Concur. The Head of the Contracting Activity (HCA) position will be placed within the Headquarters structure on an equal level with all other Headquarters Directors. Estimated completion date: December 31, 1998.

COMMENT:

Recommendation is that Directors within DFAS should address contracting-related issues directly to the Director, Resource Management Deputate (DFAS-HQ/C). This recommendation is based on concerns expressed by DFAS-ASO personnel that "Deputate directors were approaching the support office on contracting matters and might be exerting undue influence." Draft report, page 25. If implemented, the recommendation will result in establishment of a practice whereby contracting-related issues are elevated to an individual who is senior to the HCA within DFAS. Currently, the HCA is the Deputy Director for Customer Service and Administration (DFAS-HQ/CE). Conceptually, such a practice would seem not to prevent external influence on the HCA or his subordinates. As reflected in FAR 2.101, the "contracting activity" is the element of an agency designated by the agency head and delegated broad authority regarding acquisition functions, and the HCA is the official who has overall responsibility for managing the contracting activity. If, given the organizational structure of DFAS, it is appropriate to make DFAS-HQ/C responsible for addressing contract-related issues, it may be appropriate to elevate the position of HCA to the Deputate level; most regulatory HCA functions then could be redelegated back to DFAS-HQ/CE.

RECOMMENDATION A.2.f.

We recommend that the Director, Defense Finance and Accounting Service, provide separate office spaces for all contractor personnel working at the Defense Finance and Accounting Service headquarters and field offices and require that appropriate identification be worn at all times.

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COMMENTS AND RESPONSE TO RECOMMENDATIONS IN DRAFT IG REPORT ON CONTRACTING FOR DEFENSE FINANCE AND ACCOUNTING SERVICE SUPPORT (PROJECT NO. 7CK-8009.02)

RESPONSE:

Partially concur. Separate office space will be provided, to the extent possible, to contractor personnel at DFAS headquarters and field offices. Policy will be established to direct that contractor personnel wear appropriate identification at all times. Estimated completion date: December 30, 1998.

COMMENT:

The requirement to provide "separate office spaces" is problematic. With the increasing number of contractor support personnel and the varying nature of the work performed, it may simply not be practical to have segregated work areas for contractors and Government employees. We will strive to maintain the segregation, and will publish guidelines that work areas generally be kept separate. These guidelines will stipulate that the level of segregation depends upon the nature of the work to be performed.

RECOMMENDATION A.2.g.

We recommend that the Director, Defense Finance and Accounting Service, enforce the Secretary of Defense guidance on Economy Act orders.

RESPONSE:

Concur. Policy has been incorporated in DFAS Regulation 4200.1-R dated December 12, 1997. The memorandum to be published in Recommendation A.2.a will address this issue. Estimated completion date: September 30, 1998.

RECOMMENDATION A.2.h.

We recommend that the Director, Defense Finance and Accounting Service, request the Defense Contract Audit Agency to conduct a cost review of contract DAS60-96-0012 awarded by the U.S. Army Space and Strategic Defense Command to Mevatec Corporation.

RESPONSE:

Concur. DFAS will request that the U.S. Army Space and Strategic Defense Command task the Defense Contract Audit Agency (DCAA) to conduct a review of the subject contract to Mevatec. DFAS does not have direct authority to task DCAA to audit a contractor under another Agency's contract. Estimated completion date: September 30, 1998.

RECOMMENDATION B.1.

We recommend that the Director, Defense Procurement, in coordination with the procurement management review under Recommendation A.1.b., assist the Defense

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COMMENTS AND RESPONSE TO RECOMMENDATIONS IN DRAFT IG REPORT ON CONTRACTING FOR DEFENSE FINANCE AND ACCOUNTING SERVICE SUPPORT (PROJECT NO. 7CK-8009.02)

Finance and Accounting Service with the identification of all personnel that are part of the DFAS acquisition work force and ensure that they meet the qualification requirements of DoD 5000.52-M, "Acquisition Career Development Program."

RESPONSE:

DFAS will work with the Director, Defense Procurement, or designee, to evaluate and identify the personnel to be included in the DFAS acquisition workforce.

RECOMMENDATION B.2.a.

We recommend that the Director, Defense Finance and Accounting Service, identify and report to the Under Secretary of Defense for Acquisition and Technology all critical acquisition positions including the persons serving in such positions in compliance with DoD Instruction 5000.55, "Reporting Management Information on DoD Military and Civilian Acquisition Personnel and Positions."

RESPONSE:

Concur. Upon the completion of the process in Recommendation B.1, DFAS will identify and report to USD (A&T) all critical acquisition positions and personnel serving in such positions in accordance with DoD Instruction 5000.55. Estimated completion date will be determined after completion of the action for Recommendation B.1.

RECOMMENDATION B.2.b.

We recommend that the Director, Defense Finance and Accounting Service, establish a career development program for program management and acquisition personnel to ensure that they meet the training and experience requirements of DoD 5000.52-M. The program should also ensure that personnel not part of the acquisition work force, but performing acquisition functions, receive sufficient acquisition training to adequately perform their acquisition functions.

RESPONSE:

Concur. DFAS has established a Career Development Program that addresses every occupation within the organization. The Contracting Career Development Plan was developed specifically for acquisition personnel and a Program Management Career Development Plan is currently under development. Both plans include education, experience, and training required to meet the standards for various levels of certification in the contracting specialty and the program management specialty of the acquisition field. These standards have been approved under the authority of DoD 5000.52M, "Acquisition Career Development Program" and are obtained through the Defense Acquisition University program. Estimated completion date: December 30, 1998.

COMMENTS AND RESPONSE TO RECOMMENDATIONS IN DRAFT IG REPORT ON CONTRACTING FOR DEFENSE FINANCE AND ACCOUNTING SERVICE SUPPORT (PROJECT NO. 7CK-8009.02)

COMMENT:

The Director of DFAS did not identify program managers as part of the acquisition work force. However, DoD 5200.52M states that critical acquisition positions are those "designated by the Secretary of Defense, based on the recommendations of the DoD Component Acquisition Executive (CAE)." The Director of DFAS briefed DoD officials and got concurrence on his plan to satisfy the intent of DoD 5000.52M by ensuring that selected program officials attend acquisition training courses within the 18 months allowed under the manual. DFAS disagrees that acquisition personnel were not identified and that efforts were not taken to ensure that they were qualified to perform acquisition and/or program management functions. In September 1996, the Program Manager, Defense Accounting System Program Management Office (now Director for Systems Integration) designated that selected center project officers, headquarters action offices, and support staff would receive acquisition training to satisfy the intent of the qualification requirements in DoD 5000.52M. Subsequently, more than 40 individuals have attended the basic and/or intermediate acquisition management and contracting officer representative courses. Furthermore, quotas for the 20 project and action officers have been requested for Fiscal Year 1999.

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GENERAL COMMENTS ON FINDINGS IN DRAFT IG REPORT ON CONTRACTING FOR DEFENSE FINANCE AND ACCOUNTING SERVICE SUPPORT (PROJECT NO. 7CK-8009.02)

GENERAL COMMENTS

The following provides comments on specific findings within the draft report.

Page 3 – Audit Background

Insert systems so that the top line reads "...maintain automated information systems for ..."

Page 3 – Audit Background

The draft audit report makes the statement "The Deputy Director Resource Management, DFAS Center Directors, and the Director of the FSO were delegated unlimited authority to approve acquisition requests." This statement alone does not recognize that there is not unlimited authority to approve Information Technology acquisition requests. The Office of the Secretary of Defense limits their delegation of authority to DFAS to approve Information Technology acquisitions to $30 Million. Within DFAS, Information Technology approval authority is further limited to $500,000 for DFAS Center Directors and the Director of the FSO. This is clearly documented in DFAS Regulation 8000.0-R, Part F, Chapter 1 Information Technology Acquisition and is referenced in the DFAS Regulation 4200.1, "Acquisition Structure and Policy," dated June 2, 1997.

Page 7 - Finding A "Selecting Sources of Contractor Support"

The draft audit report repeatedly states there was a lack of a Justification and Authorization for Other Than Full and Open Competition (J&A) for orders placed against an Indefinite Delivery/Indefinite Quantity (IDIQ) type contract. According to FAR 6.001(d) or (e)(1), a J&A is not required for orders under IDIQ contracts. Additionally, FAR 5.202(a)(11) states that a synopsis is not required for contract actions when the existing contract was previously synopsized in sufficient detail to comply with the requirements of FAR 5.207, "preparation and transmittal of synopses," with respect to the current contract action. If the existing contracts referred to were synopsized in sufficient detail to comply with FAR and the scope included other agencies, e.g. DFAS, and if the orders otherwise were in scope, then neither a J&A, nor a synopsis would be required.

Page 11 - Finding A "Inherently Government Functions."

DFAS takes exception to the report comments on page 11, which state that Tecolote Research is performing strategic planning for DFAS, an inherently Government function. The DFAS Strategic Business Plan is an automated tool that Tecolote developed per the DFAS contract for project/program managers to use in managing a major DFAS initiative. Tecolote manages and enhances the tool per our instructions for DFAS staff to use in tracking the cost, schedule, and performance of each project. This tool was developed in response to a GAO review finding, and Congressional hearing with

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GENERAL COMMENTS ON FINDINGS IN DRAFT IG REPORT ON CONTRACTING FOR DEFENSE FINANCE AND ACCOUNTING SERVICE SUPPORT (PROJECT NO. 7CK-8009.02)

Dr. Hamre, that stated we were not adequately managing our projects at the HQ or executive level. The capabilities of the tool are based on recommendations of the GAO on tracking and managing the status of programs. Tecolote does not develop or manage specific strategic plans or separate projects, nor do they analyze information or data in the automated strategic business plan. They provide only the mechanism and instructions on using the tool for the DFAS staff to receive and evaluate the data/information.

Page 13 - Finding A "Contract Support Organizations Outside of DoD"

The draft audit report confuses the use of the NIH contract for the purchase of Personal Computers (PCs) with the use of a non-DoD contracting office. While the NIH contract is a non-DoD contract, it was put in place for government-wide use. Additionally, DoD contracting offices are able to use the NIH contract without using the NIH contracting office. In essence, DFAS awards and administers the orders it awards for DFAS requirements under this contract. Therefore, the draft audit report inappropriately applied the Economy Act requirement to the use of the NIH contract. The Economy Act determination refers to the use of a non-DoD contracting office as the audit report implies. In the case of the NIH orders for PCs referred to in the report, DFAS contracting offices executed the orders themselves and did not use NIH's contracting office to place the orders for them. It should also be noted that DFAS contracting offices place orders, not the FSO. The FSO is not a contracting office.

Page 18-19 - Finding A "Work Directed to Subcontractors through New Contracts"

DFAS disagrees that program officials directed work to preferred subcontractors. Two task orders (009 and 0013) cited as examples of work directed to subcontractors were, in fact, competitively awarded orders through the DFISS contract. In both cases, prime contractors and their subcontractor made verbal presentations of their technical proposals to program officials and the contracting officer awarded the orders using appropriate procedures and documentation. Both awards were justified based on best value to the Government and program officials made no efforts directly or indirectly to direct work to a preferred contractor. The example cited in the report (page 18) also does not take into consideration that the low offeror, although $258,907 lower than the successful offeror, only received an adjectival rating of "fair" on the technical proposal; had a risky technical approach; and did not submit his price proposal in accordance with the requirements of the solicitation. Consequently, these examples are both misleading and inaccurate.

Page 19 - Finding A "Work Directed to Subcontractors Through New Contracts"

The draft audit report misstates the requirements regarding award of General Administration Services (GSA) orders. The language in FAR 8.404(b)(2) does not require that quotes be solicited from more than one GSA vendor. It states "should" not "shall." Whether more than one quote is solicited is a matter of discretion of the contracting officer.

GENERAL COMMENTS ON FINDINGS IN DRAFT IG REPORT ON CONTRACTING FOR DEFENSE FINANCE AND ACCOUNTING SERVICE SUPPORT (PROJECT NO. 7CK-8009.02)

Page 21 - Finding A "Competition"

The draft audit report characterizes the tasks under DFISS delivery orders as new requirements that were not considered during the competitive process. This is not true. All the tasks required were set out in detail. Examples of past orders were provided. All offerors were well aware of the nature and scope of this contract. As is typical of an IDIQ type contract, exact specifics of each order were unknown at the time of placement of the base contract. That does not invalidate the competition on the base contract. There is no support in the FAR for this type of allegation. Indeed, these types of uncertainties as to exact specifics of the orders are the very reason IDIQ contracts are solicited.

Page 24 - Finding A "DFAS Initiatives for Improvement"

DFAS disagrees with the allegation concerning the lack of DFAS Acquisition Support Organization (ASO) coordination on a Military Interdepartmental Purchase Request (MIPR) in May 1997. The Deputy Program Manager of the Defense Accounting System Program Management Office did not instruct that the MIPR bypass the ASO because of the urgency of the requirement or concern that it would be delayed or rejected. Action to issue the MIPR had been in progress for several months and occurred during the time the new policy requiring ASO coordination was promulgated. The Program Manager determined that Navy's Fleet Maintenance Support Office plan of action, milestones and costs met project requirements and were in the best interest of the Government. The fact that the Deputy Program Manager was nonacquisition certified was/is not relevant. Systems Integration also disagrees that the Director, Program Control ever made the statement "...it was his decision not that of the Acquisition Support Organization, how to best satisfy the requirement."

Page 32 - Finding B "Future Requirements"

The Unisys contract allows for hardware, software and FIP supply support. The contract was established with the intent that the contractor winning the competitive award would be an integrator and the contract services would identify solutions and standards for DFAS equipment and software. In addition, acquisition services for hardware/software and FIP supplies provided by Unisys were approved up through Assistant Secretary of Defense (C3I) as part of the formally documented acquisition plan. The fact that specific hardware/software and supplies were not identified with the contract award does not allow, nor was it intended to allow, circumvention of the DoD acquisition policies and procedures.

Page 32 – Finding B "Future Requirements"

The draft audit report alleges that the Government has given up control of hardware buys under the Unisys contract. The contract is not a requirements type contract, but an IDIQ. As such, the Government may order as much or as little as it

GENERAL COMMENTS ON FINDINGS IN DRAFT IG REPORT ON CONTRACTING FOR DEFENSE FINANCE AND ACCOUNTING SERVICE SUPPORT (PROJECT NO. 7CK-8009.02)

wishes, within scope. The only *minimums* were on the first year and they have long since been fulfilled. In fact, the contracting personnel have often gone to other vendors for hardware that was originally suggested for procurement on the Unisys contract.

Page 32 – Finding B "Future Requirements"

Reference Delivery Order 0071. DFAS-FSO/A received the requirement for 725 personal computers with a recommended IDIQ contract as the source. This IDIQ was available for DFAS to place orders against with no further competition required. FSO/A requested Unisys to provide a quote. Unisys competed the requirement (competition documentation is available) and offered a price that allowed DFAS to purchase an additional 296 machines (a savings of approximately $500,000). The unit price also included a 3-year on-site warranty.

Page 32 - Finding B "Future Requirements"

The report states no government cost estimate was performed. This is incorrect. The estimate was the price from the recommended IDIQ (which was a competed price.) The estimated amount was included on the funding documents as the total amount funded, which is typical when hardware is being purchased.

Audit Team Members

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

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