

Audit



Report

GOVERNMENT-FURNISHED EQUIPMENT YEAR 2000 ISSUES
FOR ARMY CHEMICAL DEMILITARIZATION

Report No. 99-136

April 16, 1999

Office of the Inspector General
Department of Defense

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Acronym

Y2K

Year 2000



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

April, 16, 1999

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Government-Furnished Equipment Year 2000 Issues for
Army Chemical Demilitarization (Report No. 99-136)

We are providing this report for information and use. We considered management comments on the draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Raymond A. Spencer at (703) 604-9071 (DSN 664-9071) or Mr. Thomas S. Bartoszek at (703) 604-9014 (DSN 664-9014). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, appearing to read "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-136
(Project No. 8AS-0032.21)

April 16, 1999

Government-Furnished Equipment Year 2000 Issues for Army Chemical Demilitarization

Executive Summary

Introduction. This is one in a series of reports being issued by the Inspector General, DoD, in accordance with an informal partnership with the Chief Information Officer, DoD, to monitor DoD efforts in addressing the year 2000 computing problem. For a listing of audit projects addressing the issue, see the year 2000 webpage on the IGnet at <http://www.ignet.gov>.

Objectives. The overall audit objective was to determine whether the Army Program Manager for Chemical Demilitarization at Aberdeen Proving Grounds, Maryland, was adequately preparing information technology systems to resolve date processing issues regarding the year 2000 computing problem. Specifically, this portion of the audit determined whether contracting actions for the construction of chemical disposal facilities at Anniston, Alabama; Pine Bluff, Arkansas; and Umatilla, Oregon, complied with the Army and DoD Management Plans.

Results. The Program Manager for Chemical Demilitarization did not assess the inventory of Government-furnished equipment to determine its year 2000 compliance. In addition, the Program Manager did not prepare the assessment, contingency, and risk management plans (finding A).

Although the Army Program Manager took positive action to include the year 2000 compliance language in prime contracts for the construction of three stockpile disposal facilities, he did not assess the Government-furnished-equipment contracts to determine whether they needed to be modified to include year 2000 compliance language (finding B).

As a result, the Army's equipment and systems at the Anniston, Umatilla, and Pine Bluff sites may not be year 2000 compliant, increasing the risk of delayed completion of construction or operational problems after installation. The audit results are detailed in the Findings.

Summary of Recommendations. We recommend that the Army Program Manager for Chemical Demilitarization prepare revised milestone dates for completing the equipment assessment and preparing the required DoD year 2000 planning documentation for the Pine Bluff, Umatilla, and Anniston disposal sites; prepare a

schedule, with milestone dates for correcting and testing the Government-furnished equipment that is adversely affected by the year 2000 problem; and review planned purchases of equipment for year 2000 issues and take actions to ensure that Government-furnished equipment will be year 2000 compliant.

Management Comments. The Deputy Assistant Secretary of the Army, Chemical Demilitarization, concurred with the recommendations. He stated that a schedule with milestone dates was established for completing and assessing Government-furnished equipment and preparing the required DoD planning documentation. The contractors completed the Government-furnished equipment assessment March 31, 1999.

The completion of the renovation phase will be July 31, 1999, when the disposal sites convert, replace, or eliminate noncompliant equipment. The Umatilla and Anniston disposal sites will complete the validation phase during the first quarter of FY 2001. The Pine Bluff disposal site will complete it during the second quarter of FY 2002. The disposal sites scheduled the completion of their validation phases for the beginning of their plant systemization when systems will be tested and certified. All three disposal sites' evaluations of future equipment procurements will be completed by June 30, 1999.

The disposal sites are also evaluating future equipment procurements for potential year 2000 impact. The evaluations will be complete June 30, 1999. Any purchases affected by the year 2000 issue will include appropriate Federal Acquisition Regulation requirements for year 2000 compliance.

Audit Response. The management comments and agreed-upon actions were responsive. The year 2000 conversion status for the Government-furnished equipment warrants continued management attention.

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Background

Information technology systems have typically used two digits to represent the year, such as "98" representing 1998, to conserve electronic data storage and reduce operating cost. With the two-digit format, however, the year 2000 is indistinguishable from 1900. As a result of the ambiguity, computers, associated systems, and application programs that use dates to calculate, compare, and sort could generate incorrect results when working with years after 1999.

The Deputy Secretary of Defense issued the memorandum, "Year 2000 Verification of National Security Capabilities," on August 24, 1998. The memorandum states that the Chief of Staff of the Services and Directors of Defense Agencies must certify that they have tested their information technology and national security systems in accordance with the DoD Year 2000 Management Plan. In addition, the Deputy Secretary directed the Principal Staff Assistants of the Office of the Secretary of Defense to verify that all functions under their purview will continue unaffected by Y2K issues. For chemical disposal, the Under Secretary of Defense for Acquisition and Technology is the Principal Staff Assistant, and the Department of the Army is the Executive Agent.

Army Program Manager for Chemical Demilitarization. The Army Program Manager for Chemical Demilitarization at Aberdeen Proving Grounds, Maryland, is responsible for the safe and effective disposal of all chemical warfare agents, including nerve gas and blister agents, at eight storage locations. Those responsibilities include facilities design and construction, acquisition and installation of equipment, systemization that includes testing the plant to ensure proper operations, chemical weapons disposal, and closure of the chemical disposal facilities. The Program Manager is also responsible for managing the Y2K functions. The Army is building chemical disposal facilities at chemical storage sites in Anniston, Alabama; Pine Bluff, Arkansas; and Umatilla, Oregon. Construction began at Anniston and Umatilla in July 1997 and was to begin at Pine Bluff in 1999. All of the sites under construction should be operational by 2003.

Objectives

The primary audit objective was to determine whether the Army Program Manager for Chemical Demilitarization is adequately preparing its information technology systems to resolve date-processing issues for the Y2K computing problem. Specifically, the audit determined whether the Army Program Manager's contracting actions for the construction of chemical disposal facilities at the Anniston, Pine Bluff, and Umatilla sites complied with the Army and the DoD Y2K Management Plans and the Deputy Secretary's memorandum on Y2K verification capabilities.

A. Year 2000 Assessment of Government-Furnished Equipment

The Army Program Manager for Chemical Demilitarization did not assess the inventory of about \$198 million of Government-furnished equipment at Anniston, Pine Bluff, and Umatilla to determine whether it was Y2K compliant. In addition, the Program Manager did not prepare the assessment, contingency, and risk management plans. This condition occurred because program management officials were not aware of the DoD Y2K Management Plan requirements for timely assessment on systems affected by the Y2K problems. As a result, the Army's equipment and systems at the Anniston, Umatilla, and Pine Bluff sites may not be Y2K compliant, increasing the risk of delayed completion of construction or operational problems after installation.

Assessment Phase Requirements

The purpose of the assessment phase was to gather and analyze information to determine the size and scope of the Y2K problem. DoD Components must develop a Y2K assessment plan that includes the scope of the problem, necessary infrastructures and interfaces, software inventories, and a Y2K cost estimate to repair the existing system. Components must also prepare a contingency plan to consider the consequences of noncompliance and a risk-management plan to identify how the system may fail, its impact on the mission of the DoD Component, and how the failure would affect other functions and missions. The "DoD Year 2000 Management Plan," first issued in April 1997 and most recently updated in December 1998, required the completion of the assessment phase by June 1997. The Army goal for completion of this phase was March 31, 1997.

Government-Furnished Equipment

The Army awarded two contracts for Government-furnished equipment to be used in the construction, operation, and closure of the disposal facilities at Anniston, Pine Bluff, and Umatilla. The Army awarded the contracts to Stearns Catalytic Corporation in 1984 (name changed to Raytheon Engineers and Constructors, Inc., in March 1994) and to Bechtel National, Inc., in November 1988 to procure standardized and process equipment and provide it to the site as Government-furnished equipment. Standardized equipment includes automatic continuous air monitoring systems, switching panels, transformers, transmitters, and receivers, and process equipment includes furnaces, pollution abatement systems, and control systems. Some of the process and standardized equipment does contain information technology that may have a potential Y2K impact.

As of April 1999, the Government-furnished-equipment costs for the three sites totaled an estimated \$198 million. Officials plan to acquire an additional estimated \$82 million of the equipment or 30 percent of the total equipment acquisition cost. The Government-furnished equipment is located at the construction sites, the prime contractor facilities, and other storage locations, and will be delivered when needed.

Equipment Assessment and Documentation

As of April 1999, the Program Manager for Chemical Demilitarization had assessed the Government-furnished equipment for Y2K compliance and had not prepared the assessment, contingency, and risk-management plans. However, officials prepared a Y2K compliance plan, November 20, 1998, for all the chemical disposal facility sites. The compliance plan requires the Government-furnished equipment contractors to develop an inventory plan by December 1998 and complete the actual inventory by January 1999. The inventory plan would serve to organize and establish critical milestones for the inventory effort. Army officials requested each contractor to provide a cost estimate to inventory and assess the equipment. Program management officials planned to review, approve, and fund the contractors' proposals for the equipment assessment. As of January 1999, program management officials received the contractors' proposals and inventory plans. However, the contractors had not yet conducted an inventory. Until the inventory is conducted, Army officials cannot prepare the assessment, contingency, and risk-management plans.

The late start in assessing the equipment caused the Program Manager to miss the Army March 31, 1997, deadline and the June 30, 1997, DoD deadline for the assessment phase. Officials did not begin the assessment process to determine the equipment's Y2K status until November 1998. As of January 1999 the Army had not received the contractors' inventory results. The compliance plan should help to assess equipment, but additional effort is needed. Until the contractors complete their assessments, program management officials cannot gauge the magnitude of the Y2K problem. Thus, the equipment at the construction sites may not be Y2K compliant, increasing the risk of delayed completion or system failures after the facilities become operational. The Program Manager should prepare revised milestone dates for completing and assessing Government-furnished equipment and for preparing the required DoD planning documentation for the Pine Bluff, Umatilla, and Anniston disposal sites.

Y2K Emphasis

During the audit in October 1998, Army officials stated that they planned a 22-month period of systemization testing for Anniston and Umatilla beginning in April 2000, and for Pine Bluff in July 2001, to ensure that the facilities would operate properly. Officials stated that this would allow sufficient time to identify and correct not only Y2K problems but also other problems that might arise with the operation of the facilities. In addition, because the Government-furnished equipment will be similar to equipment found at other stockpile sites already in operation, such as in Tooele, Utah, the improvements could be applied to the equipment at Anniston, Umatilla, and Pine Bluff before they are integrated into the chemical disposal facilities.

The Program Manager must identify, detect, and correct, in a timely manner, known Y2K deficiencies on all systems to prevent perpetuating errors in interfaces and other automated information systems. Because the equipment composition at the chemical disposal facilities may vary depending on states' environmental protection laws, waiting until other sites are fixed and compliant may not solve unique Y2K problems. In addition, the planned testing period should focus on the operation of the plant and not on problems that should be foreseen and corrected before testing begins. The Program Manager should emphasize the importance of the year 2000 and establish a schedule, with milestone dates, for correcting and testing Government-furnished equipment that is adversely affected by the Y2K problem before the end of the century.

Recommendations and Management Comments

A. We recommend that the Army Program Manager for Chemical Demilitarization:

- 1. Prepare revised milestone dates for completing and assessing Government-furnished equipment and for preparing the required DoD planning documentation for the Pine Bluff, Umatilla, and Anniston disposal sites.**
- 2. Prepare a schedule, with milestone dates, for correcting and testing the Government-furnished equipment that is adversely affected by the year 2000 problem.**

Management Comments. The Deputy Assistant Secretary of the Army, Chemical Demilitarization, concurred. He stated that a schedule with milestone dates was established for completing the required DoD Y2K documentation and assessing Government-furnished equipment. The schedule has three major events. The assessment phase will include an inventory and assessment of all the equipment at the Anniston, Umatilla, and Pine Bluff sites. This was

completed on March 31, 1999. The renovation phase will involve the conversion, replacement, or elimination of noncompliant equipment. The Army will complete a material solution and acquisition strategy by July 31, 1999, the planned completion date for the renovation phase. The validation phase will start in August 1999 and continue until plant systemization, when the plant and equipment is tested and certified. For Anniston and Umatilla, the completion date is scheduled the first quarter of 2001 and for Pine Bluff, it is scheduled for the second quarter of 2002.

B. Year 2000 Construction Contracting Initiatives of the Army Program Manager for Chemical Demilitarization

The Program Manager for Chemical Demilitarization took positive action to include Y2K compliance language in the prime contracts for the construction of the Anniston, Pine Bluff, and Umatilla stockpile disposal facilities. However, the Program Manager did not assess the Government-furnished-equipment contracts to determine whether they needed to be modified to include year 2000 compliance language. This condition occurred because program management officials believed the contracts were near completion and that a review would not be beneficial. As a result, the Army's planned procurement of an additional \$82 million of equipment and systems at Anniston, Umatilla, and Pine Bluff may not be Y2K compliant, increasing the risk of delayed construction and increased costs.

Contracting Requirements

The Secretary of Defense issued the memorandum "Year 2000 Compliance" on August 7, 1998, and stated that DoD is making insufficient progress in its efforts to solve its Y2K computer problem and that the Y2K problem is a critical national Defense issue. The Secretary of Defense also stated that Military Departments would be responsible for ensuring that, effective October 1998, funds were not obligated for any information technology system contracts that did not contain the Y2K Federal Acquisition Regulation compliance language.

In addition, the Acting Assistant Secretary of Defense (Command, Control, Communication, and Intelligence) issued a policy memorandum to DoD Components, December 1997, requiring that all information technology acquired be Y2K compliant, and that DoD Components review contracts and other acquisition instruments for information technology equipment to determine whether modifications would be needed to ensure Y2K compliance.

Prime Contracts

The Army awarded three prime contracts for the construction, operation, and closure of the chemical demilitarization facilities at Anniston, Umatilla, and Pine Bluff. The Army awarded the Anniston contract in February 1996 to Westinghouse Electric Corporation, the Umatilla contract in February 1997 to Raytheon Demilitarization Company, and the Pine Bluff contract in July 1997.

The contracts did not include Y2K compliance language. In October 1998, program management officials modified these prime contracts to include Y2K compliance language.

Government-Furnished Equipment Contracts

Although the Army put the Y2K compliance clause requirements in the prime contracts, it did not plan to assess the Government-furnished-equipment contracts to determine whether they needed to be modified to include Y2K compliance language. The Army awarded Government-furnished equipment contracts to Stearns Catalytic Corporation in 1984 (name changed to Raytheon Engineers and Constructors, Inc., in March 1994) and to Bechtel National, Inc., in November 1988. The contracts were to procure standardized and process equipment that were to be furnished as Government-furnished equipment to the prime contractor and used in the construction, operation, and closure of the disposal facilities at Anniston, Pine Bluff, and Umatilla. Process equipment includes furnaces, pollution abatement systems, and control systems, and standardized equipment includes automatic continuous air monitoring systems, switching panels, transformers, transmitters, and receivers. Some of the equipment does contain information technology that may have a potential Y2K problem. Program management officials believed that, because the contracts were almost complete, a review of the contracts would not be beneficial. Most of the Government-furnished equipment had already been delivered, as identified in Finding A. However, additional process and standardized equipment estimated at \$82 million, or 30 percent of the total equipment acquisition cost, is still needed, and the contracts will not be completed until 2001 and 2003, respectively.

Army Action Planned

After we identified the Secretary's memorandum and its requirement that DoD Components review acquisition instruments for information technology equipment to determine whether modifications would be needed to ensure Y2K compliance, officials stated that they would review vendor contracts for equipment to be delivered to determine whether they should be modified. The vendors are subcontractors to Raytheon and Bechtel National, Inc.

Without an assessment of Government-furnished-equipment contracts with Raytheon and Bechtel National, Inc., the Army cannot be assured that the purchase and delivery of additional information technology equipment will be Y2K compliant. Even if the Army reviews the vendor contracts, the Army cannot modify them because the Army has no contractual agreements. Because noncompliant equipment may delay construction and cause increased costs, the

Army should conduct a review of planned purchases to ensure that all future deliveries of Government-furnished equipment from Raytheon and Bechtel National, Inc., will be Y2K compliant.

Recommendation and Management Comments

B. We recommend that the Army Program Manager for Chemical Demilitarization review planned purchases of equipment for year 2000 issues and take actions to ensure that Government-furnished equipment will be year 2000 compliant.

Management Comments. The Deputy Assistant Secretary of the Army, Chemical Demilitarization, stated that all three sites are reviewing each equipment procurement that is not yet complete for potential year 2000 impacts. The review process should be complete by June 30, 1999. Planned purchases with potential Y2K impacts will contain the appropriate Y2K Federal Acquisition Regulation requirements for compliance.

Appendix A. Audit Process

This report is one in a series being issued by the Inspector General, DoD, in accordance with an informal partnership with the Chief Information Officer, DoD, to monitor DoD efforts to address the Y2K computing challenge. For a listing of audit projects addressing this issue, see the Y2K webpage on IGnet at <<http://www.ignet.gov>> .

Scope

Work Performed. We reviewed and evaluated the progress of the Program Manager for Chemical Demilitarization at Aberdeen Proving Grounds, Maryland, in resolving the Y2K computing issue. We evaluated Y2K efforts in contracting actions compared with the DoD Y2K Management Plan; conducted discussions with technical, business, and contracting officials; and evaluated Y2K documentation where available.

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

- **Objective:** Prepare now for the uncertain future.
- **Goal:** Pursue a focused modernization effort that maintains U.S. qualitative superiority in key war-fighting capabilities. (DoD-3)

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 objective and goal:

Information Technology Management Functional Area.

- **Objective:** Provide services that satisfy customer information needs.
- **Goal:** Upgrade technology base. (ITM-2-3)

General Accounting Office High-Risk Area. In its identification of risk areas, the General Accounting Office has specifically designated risk in resolution of the Y2K problem as high. This report provides coverage of that problem and of the overall Information Management and Technology high-risk area.

Methodology

Audit Type, Dates, and Standards. We performed this economy and efficiency audit in October 1998 through January 1999, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did not rely on computer-processed data or statistical sampling procedures to develop conclusions on this audit.

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

Management Control Program Review

We did not review the management control program related to the overall audit objective because DoD recognized the Y2K issue as a material management control weakness area in the FY 1997 and FY 1998 Annual Statements of Assurance.

Summary of Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to Y2K issues. General Accounting Office reports can be accessed over the Internet at <http://www.gao.gov>. Inspector General, DoD, reports can be accessed over the Internet at <http://www.dodig.osd.mil>.

Appendix B. Report Distribution

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Committee on Government Reform
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Deputy Assistant Secretary of the Army, Chemical Demilitarization Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH DEVELOPMENT AND ACQUISITION
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

MAR 17 1999

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

SUBJECT: Draft Audit Report on Government Furnished Equipment (GFE)
Year 2000 Issues for Army Chemical Demilitarization" (Project No. 8AS-0032.21)

Reference memorandum, February 26, 1999, SAB As requested, the
following response to subject draft report is provided:

**Recommendation A1: Prepare revised milestone dates for
completing and assessing GFE and for preparing the required DoD
planning documentation for the Pine Bluff, Umatilla, and Anniston disposal
sites.**

Response: Concur - A schedule with milestone dates for completing and
assessing GFE, in addition to addressing the DOD planning documentation for
the Pine Bluff Chemical Agent Disposal Facility (PBCDF), Umatilla Chemical
Agent Disposal Facility (UMCDF), and Anniston Chemical Agent Disposal Facility
(ANCDF) has been established. The schedule, while not compliant with the
suspense dates established by directed action for verification of Y2K compliance,
should allow for an efficient completion of all necessary Y2K activities consistent
with the ongoing construction schedules. For each phase, any required
documentation necessary to ensure successful implementation of that phase will
be prepared. The following milestones are the major components of this
schedule:

a. The Assessment Phase for ANCDF, UMCDF, and PBCDF will be
complete when the systems contractor-procured equipment and the GFE has
been inventoried and assessed for Y2K compliance. The GFE at all three follow-
on sites is being assessed by the two equipment procurement contractors,
Bechtel (under the Equipment Acquisition Contract) and Raytheon Engineers and
Constructors (under the Equipment Installation Contract). The systems
contractor-procured equipment assessment is the responsibility of the systems
contractor. The assessment of the equipment purchased to date is scheduled to
be completed by March 31, 1999.

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b. The Renovation Phase will encompass the conversion, replacement or elimination of any equipment found to be non-Y2K compliant during the Assessment Phase. Any equipment which requires replacement or modification will be done so with Y2K compliant equipment or with a vendor certified Y2K patch. The responsible party for procurement of any equipment (or patches) requiring renovation will generally be the original purchaser. An exception may be any minor low cost parts that could be more efficiently obtained by the systems contractor. The material solution and acquisition strategy with a schedule for all non-compliant equipment will be completed by July 31, 1999. The acquisition priority of all non-compliant equipment will be based on procurement lead time and risk.

c. The Validation Phase for the follow-on sites will occur from the end of the Renovation Phase (July 31, 1999) into the Plant Systemization (Equipment Demonstration) Activities. To a certain extent this phase is ongoing or complete at the vendor/supplier level as their products are tested and certified. For the demilitarization facilities exiting the Construction Phase, this is the first time the equipment within the plant is operated as a system. Dependent upon the particular piece of equipment, the program could be into 1QFY01 for ANCDF and UMCDF, and 2QFY02 for PBCDF. At this time all plant equipment will have been assessed and certified Y2K compliant, with vendor testing and certification completed prior to installation, minimizing any risk during systemization testing.

d. The Implementation Phase coincides with the Validation Phase since all the testing planned will be accomplished in situ.

Recommendation A2: Prepare a schedule, with milestone dates, for correcting and testing the GFE that is adversely affected by the Y2K problem.

Response: Concur. See the response to recommendation A-1.

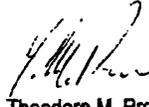
Recommendation B1: Army Program Manager for Chemical Demilitarization review planned purchases of equipment for year 2000 issues and take actions to ensure that GFE will be year 2000 compliant.

Response: Concur - Actions are underway. Each of the equipment procurements that has not been completed is being evaluated for potential Y2K impacts (June 30, 1999 completion). Purchases that contain elements with potential Y2K impacts will be accomplished under the Federal Acquisition

- 3 -

Regulation (FAR) requirements for Y2K compliance. Additionally, all future work to be accomplished by the equipment acquisition contractors will be accomplished under the FAR required Y2K language.

My point of contact for this action is Ms. Margo Robinson, 604-7555.



Theodore M. Prociw
Deputy Assistant Secretary of the Army
Chemical Demilitarization

Audit Team Members

The Acquisition Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

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