

# Naval Audit Service



## Audit Report



### **American Recovery and Reinvestment Act of 2009 – Naval Station, Norfolk, VA**

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N2010-0027  
14 May 2010

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MEMORANDUM FOR DISTRIBUTION

Subj: **AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 - NAVAL STATION, NORFOLK, VA (AUDIT REPORT N2010-0027)**

Ref: (a) NAVAUDSVC memo N009-NIA000-0143.000, dated 23 June 2009  
(b) SECNAV Instruction 7510.7F, "Department of the Navy Internal Audit"

Encl: Descriptions of Projects and Results of Audit

**1. Introduction.**

a. This is one of a series of reports on our audit of selected projects of the American Recovery and Reinvestment Act of 2009 (ARRA). This report addresses selected projects at Naval Station (NS) Norfolk, VA. The overall audit effort was announced by reference (a), and we are providing this final report in accordance with reference (b). We concluded that one project at NS Norfolk appeared sufficiently planned and the contracts for the projects were properly awarded and written. The second project appeared sufficiently planned; however, a protest challenging another potential offeror's exclusion from competition on the basis of an organizational conflict of interest was filed with the Government Accountability Office (GAO) on 4 December 2009. GAO denied the protest on 26 February 2010. However, the contract for the second project has not been awarded. We may issue a subsequent report addressing that contract award at a future date.

b. This report does not include recommendations, and no response is required.

**2. Reason for Audit.** The audit objective is to verify that funds received by the Department of the Navy (DON) under the ARRA are obligated and used in accordance with the Act. This audit was requested by the Office of the Inspector General, Department of Defense (DoDIG) to assist in oversight of the implementation of the ARRA within the DON. Our specific objectives for this phase of the audit were to verify that:

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- The selected ARRA projects at NS Norfolk, VA, were sufficiently planned to ensure the appropriate use of ARRA funds
- Contracts for the selected ARRA projects :
  - Were properly awarded and funds distributed in a prompt, fair, and reasonable manner.
  - Included all required Federal Acquisition Regulation (FAR) clauses required by the ARRA.
- Solicitation and contract award information for the selected ARRA projects was reported by the DON on the Federal Business Opportunities Website to promote transparency to the public.

3. **Communication with Management.** We met with the Commanding Officer, Operations Officer and Assistant Operations Officer, and Public Works Officer and Assistant Public Works Officer from the Naval Facilities Engineering Command Mid-Atlantic (NAVFAC MIDLANT), Norfolk, VA, on 10 July 2009 to discuss the audit results.

4. **Background, Scope and Methodology, and Pertinent Guidance.**

a. **Background.**

(1) On 17 February 2009, the President signed into law the ARRA, with the express purpose of stimulating the economy. The ARRA provided the DON with \$280 million for Military Construction (MILCON) that is available for obligation until 30 September 2013, and \$865.9 million for facilities sustainment, restoration, and modernization (FSRM) projects that is available for obligation until 30 September 2010.

(2) The goal of the ARRA is to provide an infusion of money, within specific guidelines, that will result in a jump start to the U.S. economy. ARRA guidelines include initiating expenditures and activities as quickly as possible in a manner consistent with prudent management. Further, ARRA projects should be fully justified and consistent with ARRA goals and requirements. The President indicated multiple goals for the ARRA, including: (1) awarding projects quickly and putting the money into the economy quickly; (2) fostering competition; and (3) creating and retaining jobs. In addition, organizations should use competitive, firm-fixed-price contracts to reduce risk to the Government and taxpayers. Beginning in October 2009, contractors who receive ARRA funds will be required to submit information quarterly (amount of money expended, percent of project completion, salaries of particular personnel, and the number of jobs created/retained).

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b. **Scope.** We selected for audit the following two projects estimated to cost about \$24.7 million, out of a universe of four ARRA projects valued at about \$69.4 million at NS Norfolk, VA:<sup>1</sup>

- Repair Steam Lines, approximately \$1.1 million, MILCON (Project P-115)
- Steam Plant Area Decentralization, approximately \$23.6 million, MILCON (Project P-116)

Conditions noted in this report existed during the time period of our review, which we performed at NS Norfolk from July 2009 through March 2010. We also met with personnel from the NAVFAC MIDLANT who were responsible for planning the projects, writing the solicitations, and awarding the contracts.

c. **Methodology:**

(1) DoDIG identified and provided the sample of projects to be reviewed from the ARRA DoD Expenditure Plans, 20 March 2009.

(2) We verified the selected projects were included on the Federal Business Operations Website and obtained posted information from the website.

(3) We obtained copies of the latest Military Construction Project Data Forms (DD Forms 1391) and other applicable documentation, to determine the justification and scope of the projects.

(4) We visited NS Norfolk, VA, and analyzed documentation to evaluate the need for the projects.

(5) While on site, we interviewed responsible NAVFAC MIDLANT personnel to verify that documentation was developed in compliance with appropriate guidelines and evaluated documentation to verify that projects were properly scoped.

(6) We obtained contract solicitation, award, and funding documentation from NAVFAC MIDLANT personnel and reviewed it for compliance with ARRA guidance.

(7) We obtained data from the Recovery.Gov website to verify that the recipients of the funds were providing required information.

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<sup>1</sup> DoDIG audited an ARRA project for Repair Aircraft Parking Aprons, Landing Plane and Landing Field Areas worth \$43.6 million at NS Norfolk, and reported their results in their report "Repair Aircraft Parking Apron at Naval Station Norfolk (Recovery Act Project No. RM 173-05)," (Project No. D2009-D000LH-0321.000), 10 March 2010. The fourth project, an Energy Conservation Investment Program project valued at about \$1 million, will be audited separately.

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(8) We did not review internal controls because that was not within the limited scope of our objectives.

(9) We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

(10) We did not identify any Naval Audit Service; DoDIG; or GAO reports issued that related to our specific objectives, although both DoDIG and GAO are currently conducting audits related to ARRA.

**d. Pertinent Guidance.**

- Office of Management and Budget Memorandum M-09-15, “Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009,” 3 April 2009, outlines necessary enhancements to standard processes for awarding and overseeing funds to meet accelerated timeframes and other unique challenges posed by the Recovery Act’s transparency and accountability framework. Specifically, section 2 provides guidance regarding agency plans and public reporting, section 4 provides guidance regarding budget execution, and section 6 provides guidance regarding contracts.
- Federal Acquisition Regulation (FAR), reissue of March 2005, provides guidance regarding competition and acquisition planning, contracting methods and contract types, general contracting requirements, special categories of contracts, contract management, and contract clauses and forms.
- Unified Facilities Criteria provides planning, design, construction, sustainment, restoration, and modernization criteria for military departments.
- NAVFAC P-80, “Facility Planning Factor Criteria for Navy and Marine Corps Installations,” Rev. January 2005, is internal to the Navy and is published by NAVFAC to provide specific guidance for each facility category code to further assist facilities planners in preparing MILCON project data forms.
- Chief of Naval Operation Instruction 11010.20G, “Facilities Project Instruction,” 14 October 2005, provides detailed guidance for the administration of facilities projects at Navy shore installations.

**5. Federal Manager’s Financial Integrity Act** The Federal Managers’ Financial Integrity Act (FMFIA) of 1982, as codified in Title 31, U.S. Code, requires each Federal agency head to annually certify the effectiveness of the agency’s internal and accounting

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system controls. In our professional judgment, we did not find weaknesses systemic enough to be considered for inclusion in the Auditor General's annual FMFIA memorandum identifying material management control weaknesses to the Secretary of the Navy.

**6. Audit Results and Conclusions.**

a. In our judgment, the selected projects were sufficiently planned to ensure the appropriate use of ARRA funds. In addition, in our opinion, the contract to replace steam lines (Project P-115) was properly awarded and funds were distributed in a prompt, fair, and reasonable manner. The contract solicitation and award information was disclosed on the Federal Business Opportunities website (FedBizOpps.gov). The contract included all required ARRA FAR clauses, and the contractor posted information to the FederalReporting.gov website as required.

b. As noted earlier, NAVFAC MIDLANT's solicitation for Steam Plant Area Decentralization (Project P-116) was protested by a bidder deemed to have an organizational conflict of interest. On 26 February 2010, GAO denied the protest. NAVFAC MIDLANT plans to award the contract in the next few months. Therefore, we are not able to conclude whether the contract for Project P-116 was properly awarded and funds were distributed in a prompt, fair, and reasonable manner. The solicitation was disclosed on FedBizOpps.gov website.

**7. Other Information.**

a. This report is subject to followup in accordance with reference (b).

b. We appreciate the cooperation, courtesies, and professional assistance extended to our auditors during this audit effort.



RON J. BOOTH  
Assistant Auditor General  
Installations and Environment Audits

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# Descriptions of Projects and Results of Audit

## Steam Lines

**Description.** Project P-115, “Replace Steam Lines,” is located at Naval Station Norfolk, VA. The project was a Military Construction (MILCON) project that provided for replacing existing steam lines on the base.

**Audit Results.** In our opinion, the current steam lines appeared old and in poor condition, therefore, the project appeared needed.

The Department of Defense (DoD) Expenditure Plans estimated the cost of this Energy Conservation and Alternative Energy project at \$1,054,000. The contract was awarded for \$976,256 on 22 July 2009. Subsequently, the contract was modified on 9 December 2009 and increased by \$80,758, primarily for removing and properly disposing of asbestos-contaminated insulation. The contract was awarded as a sole-source award under the 8(a) (small and disadvantaged business) program. The contract and modification awards were posted on Federal Business Opportunities website (FedBizOpps.gov). The contract contained the required ARRA clauses. The contractor was recording data at FederalReporting.gov website as required by the ARRA.

The Recovery.Gov website shows that contractor recorded data at FederalReporting.gov website as required by the ARRA for the period ended 30 September 2009.

**Status of the Project.** According to the Recovery.Gov website, the project was less than 50 percent completed as of 30 September 2009.

## Steam Plant

**Description.** Project P-116, “Steam Plant Area Decentralization,” is located at Naval Station Norfolk, VA. The project was a MILCON project that provided for lighting retrofit in 44 buildings; water conservation measures in 31 buildings; steam to natural gas conversions in 30 buildings; and infra-red heaters in 7 buildings.

**Audit Results.** In our opinion, the project is needed to reduce energy costs as mandated by the Energy Policy Act of 2005 and Executive Order 13423, *Strengthening Federal Environmental, Energy, and Transportation Management*.

The DoD Expenditure Plans estimated the cost of this Energy Conservation and Alternative Energy project at \$23.6 million. The solicitation was for an Unrestricted Best Value Source Selection. The solicitation was originally posted on FedBizOpps.gov on 30 September 2009.

**Status of the Project.** A contract had not been awarded under this solicitation as of 30 March 2010 because a bid protest, file number B402324, was filed with the Government Accountability Office (GAO) on 4 December 2009. The protester objected to its exclusion from the competition under request for proposals (RFP) No. N40085-09--5083, issued by the Department of the Navy, Naval Facilities Engineering Command, for energy conservation and efficiency design-build services at Naval Station Norfolk. The protester “contends that the Navy unreasonably concluded that the protester’s preparation of a study that was used by the agency to develop the statement of work (SOW) for the RFP created a biased ground rules organization conflict of interest (OCI) that required its exclusion from the competition”. GAO denied the protest in a decision dated 26 February 2010.

The solicitation was postponed awaiting the GAO decision on the protest. Now that the protest has been denied, Naval Facilities Engineering Command stated that they are currently preparing to issue amendment(s) to the solicitation to address any outstanding Requests for Information. The Navy expected to receive bids in late April, complete the tech/cost evaluation and any followup discussion by the end of June, and then award the contract in mid-July.