

Naval Audit Service



Audit Report



American Recovery and Reinvestment Act of 2009 – Marine Corps Air Station, Miramar, CA

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N2010-0058

17 September 2010

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MEMORANDUM FOR DISTRIBUTION

Subj: **AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 –
MARINE CORPS AIR STATION, MIRAMAR, CA (AUDIT REPORT
N2010-0058)**

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, Results of Audit, and Project Status

1. **Introduction.** 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 presents the results of our audit of one ARRA project at Marine Corps Air Station (MCAS) Miramar, CA to replace the hydronic heating and domestic water heating boilers in 32 separate building locations in Area 6000 and in Areas 7000, 8000, and 9000. While shown in the ARRA Department of Defense (DoD) Expenditure Plans as a single project programmed for \$7.682 million (Project MI09BOILM), the project was competed and awarded as two projects (Project MI0904M and Project MI0905M/906M) on task orders under an existing multiple award construction contract (MACC) for about \$5.3 million. We concluded that the two projects audited at MCAS Miramar appeared to be sufficiently planned and the contract/task orders for the projects were properly awarded and written. Therefore, we are making no recommendations.

2. **Reason for Audit.** The audit objective was to verify that funds received by the Department of the Navy (DON) under ARRA were 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 ARRA within DON. Our specific objectives for this phase of the audit were to verify that:

- The selected ARRA projects at MCAS Miramar were sufficiently planned to ensure the appropriate use of ARRA funds;
- Contract/Task Orders for the selected ARRA projects:
 - Were properly awarded and funds distributed in a prompt, fair, and reasonable manner; and

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- Included all Federal Acquisition Regulation (FAR) clauses required by ARRA; and
- Solicitation and contract award information for the selected ARRA projects was reported by DON on the Federal Business Opportunities Web site to promote transparency to the public.

3. Communication with Navy Management. We communicated with representatives from Naval Facilities Engineering Command (NAVFAC) Southwest, Officer in Charge of Construction Marine Corps Installation West (OICC MCI West) and MCAS Miramar, located in the San Diego, CA area on 5 November 2009 to provide initial results of the audit.

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

a. Background.

(1) On 17 February 2009, the President signed ARRA into law, with the express purpose of stimulating the economy. ARRA provided DON with \$280 million for military construction (MILCON) that is available for obligation until 30 September 2013. It also provided \$865.9 million for Facilities, Sustainment, Restoration, and Modernization (FSRM) projects that is available for obligation until 30 September 2010.

(2) The goal of ARRA is to provide an infusion of money, within specific guidelines, that will result in a jump start to the United States 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 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 have been 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 audited the following two projects for boiler replacement, totaling about \$5.3 million, at MCAS Miramar:¹

- **Project MI0904M** - Replace boilers in the 6000 Area, \$2.8 million, FSRM;
- **Project MI0905M/906M** - Replace boilers in the 7000, 8000, and 9000 Areas, \$2.499 million, FSRM.

Conditions noted in this report existed during the period of our review from November 2009 until July 2010. We performed on-site work at OICC MCI WEST, NAVFAC SW and MCAS Miramar in November 2009. We reviewed data on the Recovery.gov Web site through 20 August 2010.

c. **Methodology:**

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

2. We verified that both projects were included on the Federal Business Operations Web site and obtained posted information from this site.

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

4. We visited MCAS Miramar, toured buildings in the 6000, 7000, 8000, and 9000 areas of the base, observed the boilers and domestic hot water units scheduled for replacement, and analyzed documentation to evaluate the need for the projects.

5. While on site, we interviewed responsible NAVFAC SW, OICC MCI WEST, and MCAS Miramar personnel to verify that documentation was developed in compliance with appropriate guidelines. We also evaluated documentation to verify that projects were properly scoped.

6. We obtained contract solicitation, award, and funding documentation from OICC MCI WEST personnel and reviewed it for compliance with ARRA guidance.

7. We obtained data from the Recovery.gov Web site to verify that the recipient of the funds was providing required information.

¹ For our audit, DoDIG selected what was shown in the DoD Expenditure Plans, submitted to Congress on 20 March 2009, as one project for MCAS Miramar estimated to cost \$7.682 million (Project MI09BOILM). The initial cost estimate for what were actually two projects was high. The combined cost of the projects when we audited them was about \$5.299 million.

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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 Government Accountability Office (GAO) reports issued in the last 5 years that related to our specific objectives, although both DoDIG and GAO are currently conducting audits related to ARRA.

d. **Pertinent Guidance**

1. 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.

2. 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.

5. Federal Manager's Financial Integrity Act. The Federal Manager's Financial Integrity Act of 1982, as codified in Title 31, United States Code, requires each Federal agency head to annually certify the effectiveness of the agency's internal and accounting 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.

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6. Audit Results and Conclusions. In our judgment, the selected projects were sufficiently planned to ensure the appropriate use of ARRA funds. In addition, the contract/task orders for the selected ARRA projects were properly awarded and funds distributed in a prompt, fair, and reasonable manner. The contract/task orders included all FAR clauses required by ARRA. Solicitation and contract award information for both projects was reported by DON on the Federal Business Opportunities Web site. The prime contractor reported required information on the Recovery.gov Web site. The enclosure provides a description of each project, the audit results associated with that project, and the status of the projects as of 20 August 2010.

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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Enclosure:

Descriptions of Projects, Results of Audit, and Project Status

Project MI0904M

Description

Project MI0904M “Replace Boilers – 6000 Area,” is located at Marine Corps Air Station (MCAS) Miramar, CA. It was a Facilities, Sustainment, Restoration, Modernization (FSRM) project to replace the hydronic heating and domestic water heating boilers in 16 separate building locations of the 6000 area at MCAS Miramar, CA. The existing units will be replaced with high-efficiency equipment, including solar panels, to improve comfort, system reliability, and efficiency.

Audit Results

In our opinion the project supports a valid need for the United States Marine Corps (USMC). During the tour of buildings in the 6000 area, we observed an insufficient boiler system that showed signs of rust and corrosion. The DD Form 1391 states that maintenance costs are increasing, and the energy efficiency of the boilers scheduled for replacement is far below current standards. Based on the tour of these facilities and the documentation provided, this project appears to support a valid need to MCAS Miramar. Additionally, the replacement of the boilers appears to be a cost effective way to help DON meet the Energy Policy Act of 2005 and Executive Order 13423 requirements. The life-cycle cost analysis for the replacement boilers shows the project has a simple payback of 8.79 years and a savings to investment ratio of 1.44.

This procurement was solicited under an indefinite delivery, indefinite quantity multiple award construction contract for heating, ventilation, and air-conditioning systems. The procurement was competitively awarded on 4 September 2009 based on a technical management approach, schedule, and price, under contract number N68711-05-D-4011-0017 for \$2.8 million.

The contract award and pre-solicitation were posted on the Federal Business Opportunities Web site (fedbizopps.gov). The contract contained the required Federal Acquisition Regulation (FAR) clauses for American Recovery and Reinvestment Act (ARRA) contract actions. The Construction Manager and the Technical Engineer are located on site to monitor the contractor’s performance. The contractor is meeting its

technical requirements, and status reports on work completion are updated to show the most current information.

Status of the Project

According to the Recovery.gov Web site as of 30 June 2010, Project MI0904M was more than 50 percent completed and the contractor reported that one job had been created. The contractor invoiced and received \$2.6 million of the \$2.8 million award.²

² The contractor awarded two subcontracts worth about \$2.4 million. According to FAR 52.204-11 (March 2009), the prime contractor reports an estimate of the number of jobs created and retained by the prime contractor. Therefore, any jobs created by the sub-contractor are not shown. The FAR clause was modified in July 2010, requiring an estimate of the number of jobs created and retained by the prime contractor and all first-tier subcontracts valued at \$25,000 or more. However, the updated FAR clause applies only for contracts awarded after July 2010.

Project MI0905M/906M

Description

Project MI0905M/906M “Replace Boilers – 7000, 8000, and 9000 Areas,” is located at MCAS Miramar. The project was an FSRM project to replace the hydronic heating and domestic water heating boilers in 16 separate building locations of the 7000 area and 6 separate building locations of the 8000 and 9000 areas at MCAS Miramar, CA. The existing units will be replaced with high efficiency equipment, including solar panels, to improve comfort, system reliability, and efficiency.

Audit Results

In our opinion the project supports a valid need for the USMC. We observed during the tour of buildings 7128, 8672, and 9182, that the original boilers are still in place. The DD Form 1391 states that maintenance costs are increasing, and the energy efficiency of the boilers scheduled for replacement is far below current standards. Based on the tour of these facilities and the documentation provided, this project appears to support a valid need to MCAS Miramar. Additionally, the replacement of the boilers appears to be a cost effective way to help DON meet the Energy Policy Act of 2005 and Executive Order 13423 requirements. The life-cycle cost analyses show the project has a simple payback of just over 7 years and a savings to investment ratio of about 2.00.

This procurement was solicited under an indefinite delivery, indefinite quantity multiple award construction contract for heating, ventilation, and air-conditioning systems. The procurement was competitively awarded on 15 September 2009 based on a technical management approach, schedule, and price, under contract number N68711-05-D-4011-0018 for \$2.5 million.

The contract award and pre-solicitation were properly posted on the Federal Business Opportunities Web site (fedbizopps.gov). The contract contained the required FAR clauses for ARRA contract actions. The Construction Manager and the Technical Engineer are located on site to monitor the contractor’s performance. The contractor is meeting its technical requirements, and status reports on work completion are updated to show the most current information.

Status of Project

According to the Recovery.gov Web site as of 30 June 2010, project MI0905M/906M was more than 50 percent completed and the contractor reported that 1 job had been created. The contractor invoiced and received \$817,393 of the \$2.5 million award.³

³ The contractor awarded two subcontracts worth approximately \$1.9 million. According to FAR 52.204-11 (March 2009), the prime contractor reports an estimate of the number of jobs created and retained by the prime contractor. Therefore, any jobs created by the sub-contractor are not shown. The FAR clause was modified in July 2010, requiring an estimate of the number of jobs created and retained by the prime contractor and all first-tier subcontracts valued at \$25,000 or more. However, the updated FAR clause applies only for the contracts awarded after July 2010.