

# Naval Audit Service



## Audit Report



### **American Recovery and Reinvestment Act of 2009 – Naval Support Activity Annapolis, MD**

*Releasable outside the Department of the Navy  
only on approval of the Auditor General of the Navy*

N2010-0022 revised  
15 April 2010

## Obtaining Additional Copies

To obtain additional copies of this report, please use the following contact information:

**Phone:** (202) 433-5757  
**Fax:** (202) 433-5921  
**E-mail:** [NAVAUDSVC.FOIA@navy.mil](mailto:NAVAUDSVC.FOIA@navy.mil)  
**Mail:** Naval Audit Service  
Attn: FOIA  
1006 Beatty Place SE  
Washington Navy Yard DC 20374-5005

## Providing Suggestions for Future Audits

To suggest ideas for or to request future audits, please use the following contact information:

**Phone:** (202) 433-5840 (DSN 288)  
**Fax:** (202) 433-5921  
**E-mail:** [NAVAUDSVC.AuditPlan@navy.mil](mailto:NAVAUDSVC.AuditPlan@navy.mil)  
**Mail:** Naval Audit Service  
Attn: Audit Requests  
1006 Beatty Place SE  
Washington Navy Yard DC 20374-5005

## Naval Audit Service Web Site

To find out more about the Naval Audit Service, including general background, and guidance on what clients can expect when they become involved in research or an audit, visit our Web site at:

<http://secnavportal.donhq.navy.mil/nauditservices>



**DEPARTMENT OF THE NAVY**  
NAVAL AUDIT SERVICE  
1006 BEATTY PLACE SE  
WASHINGTON NAVY YARD, DC 20374-5005

7510  
N2009-NIA000-0143.001  
15 Apr 10

MEMORANDUM FOR DISTRIBUTION

Subj: **AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 - NAVAL SUPPORT ACTIVITY, ANNAPOLIS, MD (AUDIT REPORT N2010-0022)**

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

Encl: Project Summary Information

**1. Introduction.** This is the first in 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 three ARRA projects at the Naval Support Activity (NSA) at Annapolis, MD. The overall audit effort was announced by reference (a). We concluded that the three projects at NSA Annapolis appeared sufficiently planned and the contracts for the projects were properly awarded and written. Only minor issues were discovered during our review and none of the issues impacted the need for the project. During the audit, we recommended corrective actions to management that addressed these issues. Because the issues were minor, and because management took prompt action and provided documentation to show that our recommended actions had been taken, no response is required to this final report.

**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:

- The selected ARRA projects at NSA, Annapolis, MD, 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;

Subj: **AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 - NAVAL SUPPORT ACTIVITY, ANNAPOLIS, MD (AUDIT REPORT N2010-0022)**

- 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 (FedBizOpps.gov) to promote transparency to the public.

**3. Communication with Navy Management/Noteworthy Accomplishments.** We met with personnel from Naval Facilities Engineering Command (NAVFAC) Washington, DC, on 8 December 2009, to inform them that one of the contracts did not contain three of the FAR clauses required by the ARRA; NAVFAC Washington personnel modified the contract in February and March 2010 to include the missing clauses. We also informed NAVFAC Washington, via e-mail on 9 December 2009, that data, reported by a contractor, that was on the FederalReporting.gov website contained errors. NAVFAC Washington personnel asked the contractor to correct the information. The contractor corrected the information on the FederalReporting.gov portal, which updated information on the RECOVERY.GOV website<sup>1</sup> with the next submission for the period ending 31 December 2009.

#### **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 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).

---

<sup>1</sup> Contractors report via the FederalReporting.gov portal. The information is subsequently used to update the RECOVERY.GOV website.

Subj: **AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 - NAVAL SUPPORT ACTIVITY, ANNAPOLIS, MD (AUDIT REPORT N2010-0022)**

b. **Scope.** We audited the three ARRA projects, estimated to cost about \$54 million, at NSA Annapolis:

- Whole Galley Renovation, King Hall, \$51 million, FSRM;
- Facility Energy Improvements (Various Buildings), \$1 million, FSRM; and
- Steam Generation Plant Replacement, \$2 million, MILCON

Conditions noted in this report existed during the time period of our review, which we performed at NSA Annapolis, MD, from August 2009 to February 2010. We also met with personnel from the NAVFAC Washington who were responsible for planning the projects, writing the solicitations, and awarding the contracts.

c. **Methodology**

(1) DoDIG identified and provided the sample of the projects to be reviewed from the ARRA DoD Expenditure Plans, 20 March 2009. DoDIG selected one project and the Naval Audit Service selected the remaining two ARRA projects associated with NSA Annapolis.

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

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

(4) We visited NSA Annapolis, MD; toured the facilities; and analyzed documentation to evaluate the need for the projects.

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

(6) We obtained contract solicitation, award, and funding documentation from NAVFAC Washington 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.

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

Subj: **AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 - NAVAL SUPPORT ACTIVITY, ANNAPOLIS, MD (AUDIT REPORT N2010-0022)**

(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 reports issued that related to our specific objectives; therefore no followup was required.

**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 3 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 (OPNAVINST) 11010.20G, “Facilities Project Instruction,” 14 October 2005, provides detailed guidance for the administration of facilities projects at Navy shore installations.
- Naval Facilities Acquisition Supplement (NFAS) 2006 Edition (Change Thirteen), 12 November 2009, provides guidance for Utility Energy Service Contracts (UESC) projects.

**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

Subj: **AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 - NAVAL SUPPORT ACTIVITY, ANNAPOLIS, MD (AUDIT REPORT N2010-0022)**

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.

**6. Audit Results and Conclusions.** The selected projects were sufficiently planned to ensure the appropriate use of ARRA funds. In addition, in our opinion the contracts for the selected ARRA projects were properly awarded and funds distributed in a prompt, fair, and reasonable manner. Due to an oversight, one of the three contracts for the ARRA projects did not include three minor FAR clauses that should have been included. During the audit, we recommended to NAVFAC Washington personnel that they address the omissions. NAVFAC Washington responded to our recommended actions by adding these clauses via modifications; therefore, no further action or response is required to this final report. In addition, the contractors receiving the ARRA funds entered information on the RECOVERY.GOV website for the period ended 30 September 2009. The information for one contractor contained an apparent error, which was corrected on the quarterly report for the period ended 31 December 2009. The enclosure discusses information related to each of the projects audited, including background data and the results of our audit work.

**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

**Distribution:**

Commander, Navy Installations Command  
Commander, Naval Facilities Engineering Command  
Commander, Naval Facilities Engineering Command, Atlantic  
Commanding Officer, Naval Support Activity, Annapolis, MD  
Commanding Officer, Naval Facilities Engineering Command, Washington, DC

Copy to (next page)

**Subj: AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 - NAVAL  
SUPPORT ACTIVITY, ANNAPOLIS, MD (AUDIT REPORT N2010-0022)**

Copy to:

UNSECNAV

DCMO

OGC

ASSTSECNAV FMC

ASSTSECNAV FMC (FMO)

ASSTSECNAV IE

ASSTSECNAV MRA

ASSTSECNAV RDA

CNO (VCNO, DNS-33, N4B, N41)

CMC (ACMC)

DON CIO

NAVINGEN (NAVIG-4)

AFAA/DO

Enclosure:

# Descriptions of Projects and Results of Audit

## Steam Generation Plant

**Description.** Project P-613, “Replace Steam Generation Plant,” is located at the U.S. Naval Academy, Naval Support Activity Annapolis, MD. The project was a Military Construction project that provided for replacing the existing steam generation plant in Building 187 with newer, more efficient equipment. The current plant is old and in our opinion appears to be in poor condition with no mechanical upgrades since 1969. One boiler is not operational. The building is part of the historic district of the Academy.

**Audit Results.** The contract order for supplies and services was competitively awarded using a Multiple Award Construction Contract for a fixed price. The project was planned for about \$2 million and was awarded for \$2.3 million on 15 July 2009. The contract award and solicitation were posted on the Federal Business Opportunities website. The contract contained the required American Recovery and Reinvestment Act of 2009 (ARRA) Federal Acquisition Regulation (FAR) clause. The RECOVERY.GOV website shows the contractor recorded data at FederalReporting.gov website as required by the ARRA. The Project Manager/Contracting Officer’s Representative and the Quality Assurance Officer are all located on site to monitor the contractor’s performance.

**Status of the Project.** According to the RECOVERY.GOV website, the project was less than 50 percent completed as of 30 September 2009, and the contractor reported he was able to retain two (2) fulltime equivalent positions and created one (1) additional fulltime equivalent as a result of this contract award.

## Galley Renovation

**Description.** The galley renovation project at the U.S. Naval Academy is classified as a facilities sustainment, restoration, and modernization (FSRM) project. The galley is located in the basement of King Hall. King Hall serves as the dining facility for the student body at the Naval Academy and connects to Bancroft Hall, which serves as the dormitories for the Midshipmen. The building is over 100 years old and considered historic.

**Audit Results.** The project supports a valid need for the Department of the Navy. In our opinion, the current galley is outdated, in poor condition, and not efficiently laid out. Based on our observations, the configuration of the space is not conducive to what was accomplished by the staff on a daily basis. We also observed potential hazards, such as uneven floors (inclines and declines); areas where the roof was leaking onto the floor; and garbage being transported through cooking areas to be disposed because of the layout of the cooking and disposal sites. In our opinion, the equipment used on a daily basis is outdated and in some instances broken. We were told the equipment remains broken because it is too old to find repair parts. According to the DD-1391, the renovation would replace all the existing equipment to meet current requirements.

The scope (size) of the project was supported.

The project was planned for about \$51 million and was awarded for about \$41 million under a request for proposals. The contractor was selected based on Best Value and a negotiated firm fixed price contract was awarded on 21 July 2009. The project solicitation and award were shown on the Federal Business Opportunities website.

While the contract solicitation contained the required clauses, the contract award did not contain three of the clauses required by the ARRA. The contract was missing the following clauses:

- FAR 52.225-22, Notice of Required Use of American Iron, Steel, and Manufactured Goods – Buy American Act – Construction Materials;
- FAR 52.225-23, Required Use of American Iron, Steel, and Manufactured Goods - Buy American Act – Construction Materials Under Trade Agreements; and
- FAR 52.225-24, Notice of Required Use of American Iron, Steel, and Manufactured Goods and Buy American Act – Construction Materials Under Trade Agreements.

This issue was raised to Naval Facilities Engineering Command (NAVFAC) Washington, DC, personnel, who amended the contract effective 2 February 2010, to include two of the missing clauses. NAVFAC Washington issued another modification effective 4 March 2010 to include the final missing clause that was inadvertently left out of the 2 February 2010 amendment.

The RECOVERY.GOV website shows the contractor recorded data at the FederalReporting.gov website as required by the ARRA for the period ended 30 September 2009. A Quality Assurance Plan (Construction Quality Control Manual) was developed with detailed controls and procedures for the established Design and Construction Team to use during their review of the construction phase.

**Status of the Project.** According to the RECOVERY.GOV website, the project was less than 50 percent completed as of 30 September 2009, and the contractor reported that one job had been created.

## Facility Energy Improvements

**Description.** The facility energy improvements project was an FSRM project for Athletic Field Lighting. It was awarded as part of a Utility Energy Service Contract with the local utility contractor that services the command. The contract was for five Energy Conservation Measures (ECMs), including ECM-5, which is the Athletic Field Lighting. Only ECM-5 is funded with ARRA funds; the other four ECMs were financed by the local utility under the UESC. ECM-5 is to replace/upgrade lighting on two athletic fields at the Academy. EMC-5 provided for new fixtures containing high-efficiency, long-lasting lamps, controlled by a web-based lighting control system (lighting can be programmed to shut down at a specified time), that will provide energy and operational savings. According to NAVFAC Washington, the current lighting on the fields is manually operated, and when the Midshipmen need to practice on the fields for a few hours during nighttime, the light poles burn all night long.<sup>2</sup>

**Audit Results.** This project (ECM-5) was planned for \$1.02 million and was awarded as a sole-source contract for \$998,231 on 7 August 2009. The award was posted on the Federal Business Opportunities website. Justification was maintained in the contract file that supported the reasoning for using the sole source selection and using ARRA funds for ECM-5. The contract contained all required ARRA FAR clauses.

The RECOVERY.GOV website shows the contractor was recording data at the FederalReporting.gov website as required by the ARRA. However, we noted that there was an error in the information reported, in that the contractor indicated they invoiced and received the entire contract amount of \$998,231. This was brought to the attention of NAVFAC Washington. The data was corrected on the submission for the quarter ended 31 December 2009, to show \$58,727 were the funds invoiced and received. According to NAVFAC Washington personnel, there will be a Project Manager/Quality Control person on site to monitor the contractor's progress during construction.

**Status of the Project.** According to the RECOVERY.GOV website as of September 2009, the project was still in the design phase, and there has been no movement on starting construction. However, according to the website, with less than 50 percent of the project completed, there have been 11 jobs created.

---

<sup>2</sup>Due to information provided subsequent to the issuance of the original report, this sentence is being revised by deletion of the final phrase: "According to NAVFAC Washington, the current lighting on the fields is manually operated, and when the Midshipmen need to practice on the fields for a few hours during nighttime, the light poles burn all night long, costing thousands of dollars per night."