

**A** *udit*



**R** *eport*

CONTRACT MANAGEMENT FOR THE NATIONAL DEFENSE  
CENTER FOR ENVIRONMENTAL EXCELLENCE

Report No. D-2000-188

September 14, 2000

This special version of the report has been revised  
to omit contractor sensitive and Privacy Act data

Office of the Inspector General  
Department of Defense

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### **Acronyms**

ARDEC	Armament Research, Development, and Engineering Center
CAS	Cost Accounting Standards
CTC	Concurrent Technologies Corporation
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DEER2	Demufacturing of Electronic Equipment for Reuse and Recycling
FAR	Federal Acquisition Regulation
NDCEE	National Defense Center for Environmental Excellence
OMB	Office of Management and Budget
TACOM	Tank-Automotive and Armaments Command



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

September 14, 2000

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE  
(ENVIRONMENTAL SECURITY)  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY  
DEFENSE CONTRACT AUDIT AGENCY  
DEFENSE CONTRACT MANAGEMENT AGENCY

SUBJECT: Audit Report on the Contract Management for the National Defense Center  
for Environmental Excellence (Report No. D2000-188).

We are providing this audit report for your information and use. This audit was initiated in response to a request from the Deputy Under Secretary of Defense (Environmental Security) to review the National Defense Center for Environmental Excellence. This report is the second in a series. We considered comments from the Department of the Army, the Defense Contract Audit Agency, and the Defense Contract Management Agency when preparing the final report. As a result of management comments, we deleted a draft report recommendation.

Management comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the audit staff. Questions should be directed to Mr. William C. Gallagher at (703) 604-9270 (DSN 664-9270) or Mr. Benjamin A. Mehlman at (703) 604-9291 (DSN 664-9291). See Appendix E for the report distribution. The audit team members are listed inside the back cover.

*David K. Steensma*

David K. Steensma  
Assistant Inspector General  
for Auditing

This special version of the report has been revised to omit contractor sensitive and Privacy Act data.

## Office of the Inspector General, DoD

**Report No. D-2000-188**

(Project No. D1999CB-0068.001)  
(Formerly Project 9CB-5016.01)

**September 14, 2000**

### **Contract Management for the National Defense Center for Environmental Excellence**

#### **Executive Summary**

**Introduction.** This audit was initiated in response to a request from the Deputy Under Secretary of Defense (Environmental Security) to review the National Defense Center for Environmental Excellence (the Center). Congress established the Center as a resource to transition environmentally acceptable materials and processes to DoD industrial activities and private industry. Concurrent Technologies Corporation operates the Center under contract DAAE30-98-C-1050, a cost-plus-fixed-fee, level of effort contract, with a ceiling price of \$150 million.

This report is the second in a series. On May 22, 2000, we issued Report No. D-2000-127, "Program Management of the Materials and Processes Partnership for Pollution Prevention," that discussed that a lease analysis was not performed for a commercial facility in Edgefield, South Carolina, in which \$3 million in facility renovations were directly charged to the contract.

**Objective.** The overall audit objective was to determine the effectiveness of the Center in developing and disseminating environmental technologies for DoD. This report discusses our evaluation of the contracting procedures relating to contract DAAE30-98-C-1050. We also evaluated the adequacy of management controls related to the objective. A subsequent report will discuss the Center's transfer of environmental technologies and the associated benefits to the DoD end user.

**Results.** The Concurrent Technologies Corporation charged general purpose property<sup>1</sup> and leased facility improvements as direct costs to contract DAAE30-98-C-1050 instead of applying them as indirect costs. As a result, the contractor issued purchase orders for \$\* in unallowable charges that are not in compliance with Office of Management and Budget Circular A-122, Federal Acquisition Regulation, and Cost Accounting Standards regulations; and the Army cannot be assured of receiving best value for its contract expenditures. The contractor also has charged lease costs for unoccupied office space in a commercial leased facility in Edgefield, South Carolina (Finding A).

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<sup>1</sup>Property' is defined as all property, both real and personal and includes general purpose equipment, material, special test equipment, and agency peculiar property.

\* Proprietary data omitted.

In addition, the Army did not require Concurrent Technologies Corporation to conduct a lease analysis for a leased facility in Largo, Florida. As a result, the Army cannot be assured of receiving best value for the lease costs and facility construction costs incurred to perform the contract. Further, Concurrent Technologies Corporation charged lease costs for the commercial facility in Largo, while the facility was under construction and unoccupied by the contractor (Finding B).

The management controls that we reviewed were effective in that no material management control weakness was identified. See Appendix A for details on the management control program.

**Summary of Recommendations.** We recommend that the Army require Concurrent Technologies Corporation to comply with Federal Acquisition Regulation and the Office of Management and Budget Circular A-122 provisions for capital expenditures and leased facilities for the National Defense Center for Environmental Excellence contract. We recommend that the Director, Defense Contract Audit Agency, make indirect cost rate adjustments on contract DAAAE30-98-C-1050 for all unallowable direct and indirect charges for general purpose property, lease costs, and leased facility improvements. We recommend that the Director, Defense Contract Management Agency, implement Defense Contract Audit Agency recommendations for indirect cost rate adjustments for the unallowable direct and indirect contract charges on contract DAAAE30-98-C-1050.

**Management Comments.** The Army concurred with the recommendations relating to compliance with Federal Acquisition Regulation and the Office of Management and Budget Circular A-122 provisions for capital expenditures and leased facilities. The Army non-concurred with a draft report recommendation that approval be obtained from the Assistant Secretary of the Army for incurred construction costs for the Largo, Florida facility. The Army noted that approval was not necessary since the contracting officer did not intend to authorize the construction. The Defense Contract Audit Agency and the Defense Contract Management Agency concurred with recommendations on indirect cost rate adjustments for the unallowable contract charges.

**Audit Response.** Management comments were responsive. As a result of Army comments we deleted the draft report recommendation concerning approval from the Assistant Secretary of the Army.

# Table of Contents

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<b>Executive Summary</b>	i
<b>Introduction</b>	
Background	1
Objective	3
<b>Findings</b>	
A. Direct Contract Costs for Government Property and Leased Facility Improvements	4
B. Lease Analysis and Facility Construction	11
<b>Appendixes</b>	
A. Audit Process	
Scope	19
Methodology	19
Management Control Program	20
Prior Coverage	21
B. Contract Task Description	22
C. Federal Acquisition Regulation Guidance	24
D. Summary of Purchase Order Costs	26
E. Report Distribution	31
<b>Management Comments</b>	
Department of the Army	33
Defense Contract Audit Agency	39
Defense Contract Management Agency	47

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## Background

The FY 1990 Supplemental Appropriations Act, Public Law 101-302, provided for the establishment of the National Defense Center for Environmental Excellence (NDCEE) in Johnstown, Pennsylvania. Congress established the NDCEE as a DoD resource to transfer demonstrated environmentally acceptable materials and processes to DoD industrial activities, to provide training that supports new environmentally acceptable technologies, and to support applied research and development.

**Executive Agent.** The Deputy Under Secretary of Defense (Environmental Security) designated the Army as the executive agent for NDCEE in 1991. The Secretary of the Army delegated NDCEE responsibility to the Army Materiel Command. On March 14, 2000, the Secretary of the Army reassigned the task of Executive Agent to the Assistant Secretary of the Army (Installations and Environment). The Executive Agent will provide oversight in the areas of policy, budget, and other Defense Department concerns to NDCEE. The Army staff will oversee day-to-day operations at NDCEE.

**NDCEE Program.** The NDCEE is managed by Concurrent Technologies Corporation (CTC), a nonprofit corporation with headquarters in Johnstown, Pennsylvania, and regional field offices throughout the United States. In July 1991, the Army awarded CTC a startup cost reimbursement contract to operate and manage the NDCEE program. In April 1993, CTC was awarded a 60 month, noncompetitive cost reimbursement contract (DAAA21-93-C-046) for the continued operation of the NDCEE.

CTC operates the NDCEE under contract DAAE30-98-C-1050 awarded April 30, 1998. This contract is a noncompetitive, cost-plus-fixed-fee, level of effort, research and development contract for 60 months, with a ceiling price of \$150 million. As of February 2000, the Army has obligated \$59 million on this contract.

**Contracting Officials.** The Tank-automotive and Armaments Command-Armament Research, Development and Engineering Center (TACOM-ARDEC) Acquisition Center provides contracting officer support for the NDCEE contract, while the TACOM-ARDEC Industrial Ecology Center provides the contracting officer's technical representative for the NDCEE contract. The Defense Contract Management Agency (DCMA)<sup>2</sup> provides contract administration services and the Defense Contract Audit Agency (DCAA) has contract audit responsibility for CTC. Both DCMA and DCAA provide services from their Pittsburgh, Pennsylvania, offices.

We requested audit assistance from DCAA in support of this audit. DCAA reviewed the contractor's incurred costs for contract DAAE30-98-C-1050 to determine compliance with cost accounting standards (CAS) and Office of

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<sup>2</sup>Effective March 27, 2000, the Defense Contract Management Command was redesignated as the Defense Contract Management Agency.

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Management and Budget (OMB) Circular A-122, "Cost Principles for Non-Profit Organizations." We also requested that DCMA review CTC leased space requirements in Edgefield, South Carolina, for management of the Materials and Processes Partnership for Pollution Prevention program.

On April 24, 2000, DCAA issued a report that concluded CTC submitted \$\* in unallowable contract charges for general purpose property, leased facility renovations, and idle leased facility space. These contractor costs were not in compliance with CAS and OMB Circular A-122 provisions. On May 17 and July 17, 2000, DCAA released additional reports to the DCMA detailing CTC noncompliance with CAS standards.

**Demanufacturing of Electronic Equipment for Reuse and Recycling (DEER2).** By the summer of 2000, CTC plans to open a DEER2 demonstration facility in Largo, Florida. This is a congressionally directed project that was funded in FY 1999 and FY 2000. The objective of the DEER2 program is to develop and demonstrate technologies and processes for the reuse, recycling, or disposal of electronic equipment and material used by DoD and its suppliers. Also, the DEER2 program will establish a pilot recycling site at Johnstown, Pennsylvania, to develop a cost-effective operational site to integrate and apply demanufacturing technology management of surplus commercial and Government electronic equipment. For FY 1999, the DEER2 program was funded at \$5.5 million. For FY 2000, DEER2 has been appropriated \$13 million in research and development funds. Appendix B describes the contract tasks reviewed.

**Federal Acquisition Regulation (FAR).** Subpart 45.302-"Providing facilities," states, "(a) Contractors shall furnish all facilities required for performing Government contracts except as provided in this subsection . . . Agencies shall not furnish facilities to contractors for any purpose, including restoration, replacement, or modernization . . ." unless they qualify for one of five exceptions allowed by the FAR. Also, the FAR states, (b) "Agencies shall not . . . (2) Use research and development funds to provide contractors with new construction or improvement of general utility, unless authorized by law." Appendix C discusses FAR Part 45, "Government Property" provisions.

**DoD Policy.** In a November 25, 1996, Office of the Under Secretary of Defense (Acquisition and Technology) memorandum, "Government Property," the Director of Defense Procurement stated:

A recent Defense Contract Management Command (DCMC) special review identified contractor acquisition and direct charging of general-purpose equipment to be a wide spread problem. The review disclosed that contractors are purchasing general-purpose items such as personal computers, fax machines, camcorders, and furniture, and allocating the acquisition cost as direct cost to cost type contracts.

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\* Proprietary data omitted.

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Generally, Far 31.202, "Direct costs," precludes a contractor from allocating general-purpose equipment acquisition cost directly to a Government contract if cost incurred for other general-purpose equipment in like circumstances have been charged as indirect costs.

OMB Circular A-122, FAR, and CAS provisions cover the NDCEE contract.

**Indirect Contract Costs.** Because of the diverse characteristics and accounting practices of nonprofit organizations, it is not possible to specify the types of costs that may be classified as indirect costs in all situations. However, OMB Circular A-122 guidance states that:

Indirect costs shall be classified within two broad categories: 'Facilities' and 'Administration.' 'Facilities' is defined as depreciation and use allowances on building, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. 'Administration' is defined as general administration and general expenses such as the director's office, accounting, personnel, library expenses and all other types of expenditures not listed specifically under one of the subcategories of 'Facilities'.

## **Objective**

The overall audit objective was to determine the effectiveness of the NDCEE in developing and disseminating environmental technologies for DoD. This report discusses our audit of the contracting procedures relating to DAAE30-98-C-1050 issued to CTC. We also evaluated the adequacy of management controls related to the audit objective. A subsequent report will discuss the benefits of the NDCEE transfer of environmental technologies to the DoD end user. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program.

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## A. Direct Contract Costs for Government Property and Leased Facility Improvements

CTC charged general purpose property and leased facility improvements as direct costs to contract DAAE30-98-C-1050 (the contract) instead of applying the purchases as indirect costs to the contract. The unallowable direct contract charges occurred because:

- the contractor did not provide adequate information in keeping with procurement policies and regulations when submitting contract task proposals, and
- the TACOM-ARDEC contracting officer did not adequately evaluate the task proposals or require additional information.

As a result, the contractor issued purchase orders for at least \$\* in unallowable charges that are not in compliance with OMB Circular A-122, FAR, and CAS regulations; and the Army cannot be assured of receiving best value for its contract expenditures. Further, the contractor charged lease costs for unoccupied office space in a leased facility in Edgefield, South Carolina.

### Office of Management and Budget Requirements

**Office of Management and Budget Requirements.** The OMB Circular A-122, "Cost Principles for Non-Profit Organizations," June 1, 1998, includes the following provisions for equipment and facilities purchases:

**General Purpose Equipment.** Attachment B, paragraph 15a(4) states, "General Purpose Equipment means equipment which is usable for other than research, medical, scientific, or technical activities . . . . Examples of general purpose equipment include office equipment and furnishings, air conditioning equipment, reproduction and printing equipment, motor vehicles, and automatic data processing equipment."

**Capital Expenditures.** Attachment B, paragraphs 15b, c, and d state, "Capital expenditures for general purpose equipment are unallowable as a direct cost except with the prior approval of the awarding agency. Capital expenditures for land or building are unallowable as a direct cost except with the prior approval of the awarding agency. Capital expenditures for improvement to land,

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\* Proprietary data omitted.

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buildings, or equipment, which materially increase their value or useful life, are unallowable as direct cost except with the prior approval of the awarding agency."

## Direct Contract Costs

CTC charged general purpose property and leased facility improvements as direct costs to contract DAAE30-98-C-1050 instead of applying them as indirect costs. CTC routinely charged the contract for acquisitions such as computer hardware and software, communications equipment, office furniture, office supplies, and leased facility improvements without the approval or authority of the contracting officer.

Based on OMB Circular A-122 requirements, since the general purpose property can be used for contracts other than this one, CTC charges should be applied as indirect costs and not as direct costs to the contract.

**Contract Tasks.** We reviewed seven contract tasks with a total value of \$\* (about \* percent of total contract costs) to assess contractor purchases. For the seven tasks, we selected 162 purchase orders<sup>3</sup> issued for general-purpose property and leased facility improvements. The purchase orders, totaling \$\*, were charged to direct cost categories: equipment, material, other direct costs, and subcontracts for general-purpose property and leased facility improvements. Appendix D summarizes the questionable purchase order charges for seven tasks. CTC charged the same types of equipment to several different cost categories. The following is a breakout of cost categories used by the contractor.

- **Equipment Costs.** Direct charges of \$\* for computer hardware, office furniture, office equipment, fax machines, telephones, and printers.
- **Material Costs.** Direct charges of \$\* for purchase of computer hardware and software, office equipment, office supplies, window blinds, and printers. Several of these purchases were for leased facilities in Edgefield, South Carolina, and Largo, Florida.
- **Other Direct Costs.** Direct charges of \$\* for the purchase of general property items such as computer hardware and software, office furniture, maintenance agreements on office equipment, and window blinds. Several of these items were for the leased facilities in Edgefield, South Carolina, and Largo, Florida.

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<sup>3</sup>A portion of the 162 purchase orders selected for this audit were also included in the DCAA statistical sample for the incurred cost audit of contractor expenditures under this contract.

\* Proprietary data omitted.

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- **Subcontract Costs.** CTC charged \$\* for subcontract costs. The direct costs included \$\* for leased facility construction improvements, \$\* in Edgefield, South Carolina, and \$\* in Largo, Florida. Additional subcontract costs of \$\* purchased office carpet, computers, network cabling installation, and other office-related items.

**DoD Policy.** DoD policy and FAR provisions provide few exceptions that allow a contractor to charge general purpose property as direct contract costs. Because of this policy, contractors purchase or lease items and the costs for the items are then applied as indirect charges to the contract. Certain high-dollar items purchased by the contractor must be capitalized and amortized for specified time periods and applied as indirect charges to the contract.

## Contracting Actions

The unallowable direct charges occurred because the contractor did not provide information in keeping with procurement policies and regulations when submitting contract task proposals. In addition, the TACOM-ARDEC contracting officer did not adequately evaluate the task proposals or require additional information from the contractor to make an informed decision and to comply with OMB Circular A-122 and FAR provisions.

**Contract Task Proposals.** In reviewing ten contract tasks, we found that the contract task proposals<sup>4</sup> did not include detailed price data or other information to allow TACOM-ARDEC contract officials to adequately evaluate the reasonableness of purchasing computer hardware and software, communications equipment, office furniture, office supplies, and leased facility improvements. The CTC task proposals either did not list general purpose property items purchased, or included items that cost more than the amount approved and authorized by the contracting officer. OMB Circular A-122 requires prior approval and authorization from contracting officials' for the contractor to charge general-purpose property expenditures as direct costs to the contract.

Inadequate pricing information in the task proposals limited the contract officials' ability to analyze the cost proposals to make an informed decision. The lack of information resulted in the purchase of general purpose items and capital expenditures for leased facilities without the contracting officer approval and authorization as required by OMB Circular A-122 guidance and contract terms.

**FAR Guidance.** For proposed contract items, the contractor should identify the item and show the source, quantity, and price. FAR subpart 15.403-3, "Requiring information other than cost or pricing data," states, "The contracting officer is responsible for obtaining information that is adequate for evaluating

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\* Proprietary data omitted.

<sup>4</sup>The term "task proposal" describes the contractual documentation that consists of the task statement of work, the Government and contractor cost estimates, and the Cost Agreement Memorandum.

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the reasonableness of the price or determining cost realism." Also, FAR subpart 15.404-1, "Proposal analysis techniques," holds the contracting officer accountable for evaluating the reasonableness of the offered prices. "The complexity and circumstances of each acquisition should determine the level of detail of the analysis required."

**Task 228.** Contract task 228, DEER2, is an example of incomplete contractor task proposal information provided to the contracting officer. The task cost proposal did not specify subcontract costs, leased facility construction costs, or equipment requirements. After task 228 was negotiated, the contractor purchased office furniture, computer office systems, office supplies, office carpet, network cabling, and leased facility improvements. The contractor did not comply with the contract clause FAR 52.244-2 "Subcontracts" provision that requires subcontract information to be submitted to the contracting officer for review and evaluation. Appendix C discusses the FAR provisions.

**Public Vouchers.** NDCEE contract Section G.4, "Invoicing Procedures," authorized the contractor to submit public vouchers directly to payment offices of the Defense Finance and Accounting Service. CTC was only required to submit the contract's first public voucher to DCAA and the final contract public voucher to DCAA and DCMA for review of appropriateness of expenditures and compliance with Government regulations.

On July 14, 2000, DCAA rescinded CTC's authorization to submit interim public vouchers for contract DAAE30-98-C-1050, citing unallowable direct charges to the contract (discussed below) that did not have required Government approval. The interim voucher procedure limited oversight of contractor direct charges for general-purpose property or leased facility improvements. Individual contractor expenditures were not monitored to ensure compliance with OMB Circular A-122 and FAR provisions. Our audit showed that the contractor purchased general purpose property items such as office furniture, computers, telephones, fax machines, and other property. These items were not proposed as contract costs and were not authorized by contract officials.

## Unallowable Contract Costs

The contractor issued purchase orders for \$\* in unallowable charges to the contract that are not in compliance with OMB Circular A-122, FAR, and CAS regulations; and the Government cannot be assured of receiving best value for its contract expenditures. In addition, the contractor also charged lease costs of \$\* for unoccupied office space in the Edgefield, South Carolina, facility.

**Lease Costs.** A DCMA space utilization survey concluded that the Edgefield leased facility has \* square feet of office space (1st floor) unoccupied by CTC personnel. The Army paid \$3 million for the facility renovations that included the first floor. CTC pays \$\* per month for this unoccupied space, the costs of which are being applied as indirect costs to the contract.

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\* Proprietary data omitted.

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We believe the CTC lease costs of \$\* incurred from July 1, 1999, through April 30, 2000, should be unallowable as indirect costs since the office space is not occupied by CTC. In effect, the Army is not getting best value because they are paying for renovation costs and monthly lease costs for office space that is not being used.

**DCAA Report.** DCAA reviewed the contractor incurred costs for selected contract tasks and questioned contractor charges of \$\* related to general purpose property and leased facility costs. The questioned costs included:

- \$\* for other direct costs, equipment, and material;
- \$\* for the Edgefield, South Carolina, leased space; and
- \$\* for indirect costs as a result of questioned direct charges to the contract.

The DCAA audit identified the unallowable charges as noncompliant with the following CAS provisions:

**CAS 402.** "Consistency in Allocating Costs for the Same Purpose." The contractor charged general-purpose property as direct contract costs when similar items were applied as indirect costs to other CTC contracts.

**CAS 404.** "Capitalization of Tangible Assets." The contractor charged the general purpose equipment as direct contract costs when the contractor disclosure statement on the cost accounting methodology required these charges to be capitalized and recovered through indirect costs to the contract.

**CAS 405.** "Accounting for Unallowable Costs." The contractor charged renovation costs related to unoccupied facility space in Edgefield, South Carolina. Because the unoccupied space represents \* percent of the facility office space, the unallowable costs are \$\* (\* percent of the \$\* facility renovation costs).

**Indirect Cost.** DCAA also questioned CTC indirect costs of \$\*. These indirect costs represent the applied FY 1999 and FY 2000 fixed rates to questioned direct contract costs.

## Conclusion

The Army allowed CTC to routinely acquire and directly charge the contract for general purpose property such as computer hardware and software, office furniture, office supplies, and other property items. CTC purchased general purpose property not proposed in the contract task and consequently, not approved and authorized by Army contract officials.

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\* Proprietary data omitted.

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Since Army contract officials did not approve the general purpose items, the contractor cannot charge these items as direct costs to the contract. The items must be charged as indirect costs instead. We further believe that the lease costs for the unoccupied office space in Edgefield, South Carolina are unallowable as indirect contract costs.

## **Recommendations and Management Comments**

**A.1. We recommend that the Director of Corporate Contracting, U.S. Army Tank-automotive Armaments Command, direct the contracting officer appointed to contract DAAE30-98-C-1050 to comply with:**

**a. Federal Acquisition Regulation Part 15, "Contracting by Negotiations," provisions for competitive and noncompetitive negotiated acquisitions.**

**b. Federal Acquisition Regulation Part 44, "Subcontracting Policies and Procedures," provisions for subcontracts proposed by the contractor.**

**c. Federal Acquisition Regulation Part 45, "Government Property," to minimize the purchase of Government property by the contractor.**

**d. Office of Management and Budget Circular A-122, "Cost Principles for Non-Profit Organizations," June 1, 1998, provisions for contractor actions related to all capital expenditures for general purpose property and for leased commercial facilities for National Defense Center for Environmental Excellence requirements.**

**Army Comments.** The Army concurred with Recommendation A.1. noting that all the recommended actions were included in a planned July 2000 Director of Corporate Contracting letter to the contracting officer directing continuing review of the identified problem areas and assurance that all matters are resolved in accordance with FAR and OMB circulars.

**A.2. We recommend that the Director, Defense Contract Audit Agency, Pittsburgh Suboffice:**

**a. Adjust the direct costs and indirect rates for contract DAAE30-98-C-1050, to reflect the unallowable contract charges for:**

**(1) general-purpose property the contractor charged as direct costs instead of indirect costs to the contract;**

**(2) leased facility improvements for the Concurrent Technologies Corporation leased building in Edgefield, South Carolina; and**

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**(3) monthly lease costs of \$\* for the \* square feet of unoccupied space in the leased facility in Edgefield, South Carolina.**

**b. Rescind Concurrent Technology Corporation authority to directly submit vouchers for DAAE30-98-C-1050 contract expenditures to the Defense Finance Accounting Service payment office without prior approval.**

**c. Provide the Defense Contract Management Agency, Pittsburgh Area Office, recommendations to adjust direct charges and indirect rates for contract DAAE30-98-C-1050 for unallowable charges that have been incurred by Current Technologies Corporation.**

**DCAA Comments.** DCAA concurred with Recommendation A.2 stating that actions called for by Recommendations A.2.a.(1), A.2.a.(2), and A.2.b. were completed through release of DCAA Report No. 6701-2000G19200001, "Audit Report on Noncompliance with Cost Accounting Standard 404, Capitalization of Tangible Assets; CAS 405, Accounting for Unallowable Costs; CAS 402, Consistency in Allocating Costs Incurred for the Same Purpose; the Contractor's Disclosed Cost Accounting Practice; and OMB Circular A-122," dated May 17, 2000; and Report No. 6701-2000G19200003, "Audit Report on Noncompliance with Cost Accounting Standard 401, Consistency in Estimating, Accumulating and Reporting Costs and the Contractor's Disclosed Cost Accounting Practices," dated July 17, 2000.

DCAA noted that the previously released Report No. 6701-1999G17900003 questioned contract DAAE30-98-C-1050 charges of about \$\* for unallowable direct materials and additional \$\* of unallowable charges and included recommendations to adjust contract direct charges and indirect rates. DCAA also stated that Report No. 6701-2000G19200001 cited CTC for noncompliance with Cost Accounting Standards 402, 404, and 405 due to the unallowable charges. DCAA stated that its Pennsylvania Branch Office advised CTC that any cost claimed in FY 2000 and future periods related to the idle space will be questioned in annual incurred cost audits of CTC. On July 14, 2000, DCAA notified CTC, the administrative contracting officer, and the Defense Finance and Accounting Service paying office, that CTC was no longer authorized to submit interim vouchers for payment directly on contract DAAE30-98-C-1050.

**A.3. We recommend that the Director, Defense Contract Management Agency, Pittsburgh Area Office, implement the Defense Contract Audit Agency, Pittsburgh Suboffice, recommendations to adjust the direct charges and the indirect rates for unallowable costs incurred on contract DAAE30-98-C-1050.**

**DCMA Comments.** DCMA concurred with Recommendation A.3. stating that the DCMA Pittsburgh Area Office would implement the DCAA recommendations as deemed appropriate.

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\* Proprietary data omitted.

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## B. Lease Analysis and Facility Construction

The Army did not require CTC to conduct a lease analysis for a commercial facility in Largo, Florida. The failure to conduct a lease analysis occurred because TACOM-ARDEC contracting officials:

- did not adequately evaluate the task proposals submitted by CTC,
- did not comply with procurement policies and regulations, and
- did not coordinate with the Defense Contract Management Agency, Pittsburgh Area Office.

As a result, the Army cannot be assured of receiving the best value for its research and development funds because the Army may pay for lease costs and facility renovation costs not needed to perform the contract. Further, the Army has paid lease costs of \$\* for the leased facility in Largo, since July 1999, while the facility was under construction.

### Contracting Requirements

**United States Code.** Section 2353, title 10, United States Code (10 U.S.C. 2353) prohibits new construction or improvements of a general utility for research and development facilities operated under DoD contracts. Facilities that cannot be removed or separated without unreasonable expense or loss of value will not be installed or constructed on property not owned by the Government. The Government will be reimbursed for the fair value of the facilities constructed on property not owned by the Government at the completion of the contract or within a reasonable time thereafter, or the Government will be given the option to acquire the underlying land.

**Federal Acquisition Regulation Supplement.** Army FAR Supplement, subpart 35.014, "Government Property and Title" states:

*Prior to entering into a contract for research or development or both which provides for the acquisition or construction by, or furnishing to, the contractor of research, development, or test facilities and equipment, the Secretary of the Army must determine that the facilities and equipment are necessary for the performance of the contract (10 U.S.C. 2352). [Emphasis added]*

The authority to approve such requests was delegated to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology (formerly the Assistant Secretary of the Army for Research, Development, and Acquisition).

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\* Proprietary data omitted.

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**Office of Management and Budget.** The OMB Circular A-122, "Cost Principles for Non-Profit Organizations," June 1, 1998, includes the following provisions for facilities acquired by nonprofit organizations.

**Material Improvements.** Attachment B, Paragraph 15d, states, "Capital expenditures for improvement to land, buildings, or equipment which materially increase their value or useful life are unallowable as direct cost except with the prior approval of the awarding agency."

**Lease Analysis.** Attachment B, Paragraph 46, states, "Rental costs are allowable to the extent that rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased."

## Lease Analysis

The Army contracting officer did not require CTC to conduct a lease analysis for the commercial facility in Largo, Florida. On February 9, 1999, TACOM-ARDEC issued a cost agreement memorandum to CTC that authorized work on the DEER2 task proposal for \$5.5 million. The CTC task proposal did not include an analysis of lease space for the Largo, geographic area to support the DEER2 task statement of work requirements.

A lease analysis was needed by the TACOM-ARDEC contracting officials to ensure that the Government would incur minimum lease costs for the DEER2 task. An analysis would have provided contracting officials an objective basis to determine the reasonableness of lease costs, to include any leased facility construction improvements needed for contract requirements.

Inspector General, DoD, Report No. D-2000-127, "Program Management of the Materials and Processes Partnership for Pollution Prevention," May 22, 2000, discusses CTC failure to perform a lease analysis for a commercial facility in Edgefield, South Carolina, for which \$3 million in facility renovations were directly charged to the contract. The report also states that the contracting officer did not coordinate with the DCMA administrative contracting officer to perform a commercial leased space utilization review for NDCEE facility requirements at the Johnstown, Pennsylvania, or the Edgefield, South Carolina, locations.

**Facility Lease Agreement.** On April 1, 1999, CTC entered into a 10-year facility lease agreement with the lessor, HP Star 1, Limited, for the Technology

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Center in Largo. The Technology Center will be approximately \* square feet; \* square feet of office space and \* square feet of open bay space.

On July 1, 1999, CTC initiated lease payments of \$\* per month for the Technology Center facility even though the facility was under construction and the DEER2 staff will not occupy the facility until the summer of 2000. The lease agreement states:

The term of this Lease shall commence on July 1, 1999, (the "commencement date") and shall end on the last day of the month that is 120 months after the commencement date. Tenant may occupy the Premises and begin interior finish work on the "occupancy date" . . . .

The lease has a provision that allows CTC to terminate only in the event that the Government task funding for the DEER2 task is terminated, cancelled, or expired. The termination will be allowed only if CTC funding is eliminated or substantially reduced. CTC will have the right to terminate the lease effective June 30 of each year by providing a written notice on or before March 30.

**Facility Improvement Costs.** On February 25, 1999, CTC issued a subcontract to Ed Taylor Construction South, Incorporated, for construction services for infrastructure improvements at two leased facilities (Building 1200 and the Technology Center) in Largo. As of January 2000, construction costs of \$\* had been charged as direct costs: \$\* for Building 1200 and \$\* for the Technology Center. An additional \$\* expense will be incurred for infrastructure improvements to the Technology Center facility. The following is a partial list of the interior construction requirements for the Technology Center:

- design fees for architectural, structural, electrical and mechanical;
- sanitary underground drains, including permits and fees;
- electrical underground work;
- increase of mezzanine size;
- concrete footings for mechanical and electrical rooms;
- additional panel height and pits for the loading dock as well as overhead doors;
- design provisions for the finish-out for office space; and
- design provisions for air conditioning equipment and system operation.

CTC stated that the \$\* construction costs for leased facilities at Largo would be charged directly to the DEER2 task using research and development program funds for FY 1999 and FY 2000.

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\* Proprietary data omitted.

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**Site Visit.** On February 18, 2000, we inspected Building 1200 in Largo. During our visit, we observed that the Technology Center building shell was completed but that the facility infrastructure was still under construction. We were informed that the facility would be completed by the summer of 2000 for DEER2 contractor personnel. During our inspection of Building 1200, it appeared the space was largely unused because the needed equipment for the DEER2 task requirements had not arrived.

## Contract Management

The failure to conduct a lease analysis occurred because TACOM-ARDEC contracting officials did not adequately evaluate the task proposals submitted by CTC, did not comply with procurement policies and regulations, and did not coordinate with the Defense Contract Management Agency, Pittsburgh Area Office.

**Task Proposal.** The DEER2 task statement of work specified leased space in Largo, Florida, as the preferred location for a CTC field office. This requirement should have put both CTC and TACOM-ARDEC contracting officials on notice that a lease analysis to support this decision was required by OMB Circular A-122 provisions.

Because there was no contractor lease analysis as required by OMB Circular A-122 provisions, the contracting officials did not perform an adequate analysis of the DEER2 cost proposal for the task requirements. A lease analysis of alternative facilities in the Largo area would have provided an objective basis for determining if CTC leased space costs were reasonable and in the best interest of the Army.

**Subcontract Documentation.** The CTC DEER2 task proposal negotiated with TACOM-ARDEC contracting officials did not include subcontract costs for the infrastructure construction requirements at the leased facility. After the task proposal was negotiated on February 9, 1999, CTC issued a subcontract for facility infrastructure construction work at the facility. The construction costs were charged as direct contract costs to Task 228. These direct charges are unallowable because the Army contracting officials did not negotiate and authorize the use of research and development funds for subcontracted construction work.

**Construction Approval.** In response to our audit the contracting officer determined that the construction of the DEER2 facility would not be authorized and that a construction approval request for the facility to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology, was not necessary.

**Defense Contract Management Agency Review.** The TACOM-ARDEC contracting officer did not request that the DCMA administrative contracting officer review the DEER2 task plan to lease an \* square foot facility in Largo.

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\* Proprietary data omitted.

An evaluation of the leased space utilization requirements would have provided an independent Government estimate of CTC space requirements for the DEER2 task. This evaluation would have assured the Army that it was incurring minimum lease costs and that lease contracts did not include idle facility space with construction improvements paid for by the Army.

## Leased Facility Costs

The Army cannot be assured of receiving the best value for its money because the Government may pay lease costs and facility renovation costs not needed to perform the NDCEE contract.

**Leased Facility Costs.** The Technology Center facility total estimated costs for the DEER2 requirements will be \$\* : \$\* for construction costs and \$\* for lease costs for 46 months.<sup>5</sup>

Included in the lease costs are contractor charges of \$\* while the Technology Center in Largo has been under construction since July 1999. Except for the construction direct costs, the Technology Center's annual lease cost is applied as an indirect charge to the NDCEE contract.

The following table shows the Technology Center annual occupancy costs for 46 months (July 1, 1999, through April 29, 2003).

<b>Technology Center Facility Costs</b>			
	<u>Facility Space (square feet)</u>	<u>Lease Rate (square feet)</u>	<u>Annual Occupancy Costs</u>
Year 1	*	\$* <sup>1</sup>	\$*
Year 2	*	*	*
Year 3	*	*	*
Year 4	*	*	* <sup>2</sup>

<sup>1</sup>Square footage cost of \$\* includes the \$\* square foot rate plus the computed square foot cost of \$\* based on the leased facility construction costs of \$\*.  
<sup>2</sup>The lease costs include only 10 months, July 1, 2002 through April 29, 2003.

**Indirect Lease Cost.** We believe the CTC lease costs being applied as indirect costs are unallowable because the Technology Center has been under construction

<sup>5</sup>The lease costs are determined through April 29, 2003, the NDCEE contract performance period of April 30, 1998 through April 29, 2003.

\* Proprietary data omitted.

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during this period. The facility should be considered idle space until occupied by DEER2 contractor personnel.

In effect, the Army lease costs for the first year are underwriting the construction costs of the Technology Center. Generally, a commercial real estate lessor incurs the costs to construct a commercial facility. Lease costs are charged to the tenant only when the facility is occupied.

## Conclusion

The Army failure to require CTC to do a lease analysis for DEER2 leased facility requirements has resulted in increased lease costs for the Army. The Technology Center has been improved from a commercial building shell configuration to an upgraded facility consisting of an open bay area and office space. The Army has not received contract consideration for the \$\* that will be invested in the facility, which benefits the lessor because of the increased value of the facility. In addition, since July 1, 1999, CTC has paid about \$\* in monthly lease costs for the Technology Center while it has been under construction. These lease costs have been applied as indirect contract costs for space that we consider idle space while the Technology Center is under construction. The lease costs should be disallowed as indirect costs until CTC DEER2 personnel occupy the Technology Center.

We believe the leased facility construction costs in Largo are unallowable as direct costs and should be applied as indirect costs to the contract. The leased facility construction costs were not proposed in the DEER2 task and, consequently, the facility construction costs were not approved by Army officials as allowable direct charges to the contract. In response to our audit the contracting officer determined that the construction of the DEER2 facility would not be authorized and that Assistant Secretary of the Army for Acquisition, Logistics, and Technology approval would not be requested.

## Management Comments on the Finding and Audit Response

**Management Comments.** The Army, while concurring with the finding disagreed with a draft report comment that contracting officials did not request construction approval for the DEER2 facility from the Assistant Secretary of the Army for Acquisition, Logistics, and Technology, as required by the Army FAR supplement part 35.014. The Army noted that Army FAR supplement part 35.014 does not apply since the contracting officer will not approve construction of the DEER2 facility.

**Audit Response.** We revised the finding discussion to reflect the contracting officer decision.

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\* Proprietary data omitted.

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## Recommendations, Management Comments, and Audit Response

**Deleted and Renumbered Recommendations.** As a result of Army comments we deleted Draft Recommendation B.1.a. and renumbered Draft Recommendations B.1.b. and B.1.c. as Recommendations B.1.a. and B.1.b., respectively.

**B.1. We recommend that the Director of Corporate Contracting, U.S. Army Tank-automotive Armaments Command:**

**a. Require Concurrent Technologies Corporation to perform a lease analysis for leased space requirements in the Largo, Florida, area for present and future leased space requirements for the National Defense Center for Environmental Excellence program.**

**b. Comply with provisions of Office of Management and Budget Circular A-122, "Cost Principles for Non-Profit Organizations," June 1, 1998, to provide a lease analysis for all future leased space requirements for the National Defense Center for Environmental Excellence program.**

**Army Comments.** The Army concurred with Recommendations B.1.a. and B.1.b. noting that these recommended actions were included in the Director of Corporate Contracting direction to the contracting officer noted in Recommendation A.1. The Army non-concurred with a draft report recommendation that the contracting officer be directed to request approval from the Assistant Secretary of the Army for the \$\* in incurred construction costs for the CTC Largo, Florida facility. The Army noted that secretarial approval was not required because the contracting officer did not intend to authorize the construction.

**Audit Response.** Management comments were responsive. Based on the Army comments we deleted the draft report recommendation concerning approval from the Assistant Secretary of the Army.

**B.2. We recommend that the Director, Defense Contract Audit Agency, Pittsburgh Suboffice, adjust the direct costs and the indirect rates for contract DAAE30-98-C-1050 due to unallowable charges for:**

**a. Leased facilities improvements of \$\* for the Pinellas Star Technology Center and Building 1200 in Largo, Florida, charged as direct costs to the contract.**

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\* Proprietary data omitted.

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**b. Lease costs incurred from July 1, 1999 through June 1, 2000, for idle leased space in the Pinellas Star Technology Center in Largo, Florida, while the facility was under construction and not occupied by Concurrent Technologies Corporation personnel associated with the Demanufacturing of Electronic Equipment for Reuse and Recycling task.**

**c. Provide the Defense Contract Management Agency, Pittsburgh Area Office, recommendations to adjust the direct costs and the indirect rates for contract DAAE30-98-C-1050 for the unallowable charges for Concurrent Technologies Corporation leased space in Largo, Florida.**

**DCAA Comments.** DCAA concurred with Recommendation B.2. stating that Report No. 6701-19999G17900003 requested that DCMA immediately adjust \$\* of the \$\* in unallowable Largo leased facilities costs. DCAA stated that it had notified CTC that the remaining \$\* would be questioned when DCAA reports to DCMA the results of its annual incurred cost audit of CTC charges as of June 30, 2000. DCAA also noted that recommendations to adjust the direct costs and the indirect rates would also be made to DCMA upon completion of the referenced audit.

**B.3. We recommend that the Director, Defense Contract Management Agency, Pittsburgh Area Office, ensure that the contractor implements the Defense Contract Audit Agency, Pittsburgh Suboffice, recommendations to adjust the direct costs and the indirect rates for contract DAAE30-98-C-1050 for the unallowable charges for leased facility costs in Largo, Florida.**

**DCMA Comments.** DCMA concurred with Recommendation B.3. stating that the DCMA Pittsburgh Area Office plans to review and implement the DCAA recommendations as deemed appropriate.

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\* Proprietary data omitted.

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## Appendix A. Audit Process

### Scope

We reviewed NDCEE research and development contract DAAE30-98-C-1050, awarded April 30, 1998, as a noncompetitive, cost-plus-fixed-fee, level of effort contract with a ceiling price of \$150 million. We evaluated the contract costs using applicable requirements contained in the OMB Circular A-122, FAR, and CAS.

We reviewed 10 contract tasks funded for \$47.2 million (about 80 percent of contract costs) from May 1998 through January 2000. We judgmentally selected and reviewed 162 purchase orders for 7 of 10 contract tasks to determine what the contractor was charging the contract. The audit reviewed the CTC purchase orders issued from October 1, 1998, through February 1, 2000. We also made a site visit to Largo, Florida, to review the leased facility requirements and the associated construction costs charged to the contract.

DCAA reviewed incurred costs for contract DAAE30-98-C-1050. DCAA statistically selected CTC purchase orders that incurred costs from October 1, 1998, through October 31, 1999. For FY 1999 and FY 2000, the purchase of high-dollar items and a sampling of the remaining purchase order transactions for this period was made. DCMA reviewed CTC current commercial leased space utilization for facilities in Johnstown, Pennsylvania; Edgefield, South Carolina; and Largo, Florida; and for CTC leased space requirements for NDCEE.

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

### Methodology

To accomplish the audit, we identified and analyzed contract DAAE30-98-C-1050 task requirements, policy, and guidance related to the NDCEE program. For each task we:

- reviewed the contract task documentation, the associated contract negotiation memorandum, and other related contract information;
- reviewed CTC purchase orders for each task to determine what was being purchased, and compared the purchase orders with each task statement of work, cost proposal, and other task related information;
- compared the purchase orders we reviewed with DCAA purchase orders it selected for review; and

- 
- conducted interviews, site visits, and data collection at the Army Research and Development Center, Picatinny, New Jersey; Defense Contract Management Agency, Pittsburgh, Pennsylvania; Defense Contract Audit Agency, Pittsburgh Suboffice, Pennsylvania; and Concurrent Technologies Corporation, Johnstown, Pennsylvania; Edgefield, South Carolina; and Largo, Florida.

To determine compliance with CAS, FAR, OMB Circular A-122, and contract terms, we requested assistance from the Defense Contract Audit Agency to review the CTC direct and indirect charges for contract DAAE30-98-C-1050. We also requested assistance from the DCMA to review the CTC leased space utilization requirements for facilities at Johnstown, Pennsylvania; Edgefield, South Carolina; and Largo, Florida.

**Audit Type, Dates, and Standards.** We performed this program audit from July 1999 through April 2000, in accordance with 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.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD and Concurrent Technologies Corporation located in Johnstown, Pennsylvania; and Largo, Florida. Further details are available upon request.

## Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provide reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of Management Controls.** We reviewed the adequacy of the management controls over the TACOM-ARDEC research and development contract. Specifically, we reviewed the cost reimbursable contract DAA30-98-C-1050 and the associated NDCEE project tasks.

**Adequacy of Management's Control.** We identified no material management control weakness in the award and administration of tasks issued on contract DAA30-98-C-1050. We did not assess the adequacy of management's self-evaluation.

However, our review of tasks for contract DAA30-98-C-1050 showed that the TACOM-ARDEC contracting officials did not comply with management controls for a nonprofit Government contract. Recommendations A.1. and B.1. will correct the noncompliance with internal management controls for a nonprofit Government contract. A copy of the report will be provided to the senior official responsible for management controls in TACOM-ARDEC.

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## **Prior Coverage**

### **Inspector General, DoD**

Inspector General, DoD, Report No. 97-090, "Audit Report on Electronic Commerce Resource Centers," February 11, 1997.

### **Defense Contract Audit Agency**

DCAA Report No. 6701-2000G19200003, "Audit Report on Noncompliance with Cost Accounting Standard 401, Consistency in Estimating, Accumulating and Reporting Costs and the Contractor's Disclosed Cost Accounting Practices," July 17, 2000.

DCAA Report No. 6701-2000G19200001, "Audit Report on Noncompliance with Cost Accounting Standard 404, Capitalization of Tangible Assets, CAS 405, Accounting for Unallowable Costs, CAS 402, Consistency in Allocating Costs Incurred for the Same Purpose, the Contractor's Disclosed Cost Accounting Practice and OMB Circular A-122 Noncompliance with Cost," May 17, 2000.

DCAA Report No. 6701-1999G17900003, "Audit of Costs Incurred on Contract No. DAAE30-98-C-1050," April 24, 2000.

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## Appendix B. Contract Task Description

**Task 001.** For the 1998 NDCEE contract, Task 001 is issued each fiscal year for the Army to manage the NDCEE program. The NDCEE funds are used by CTC to demonstrate and export new environmentally acceptable technology for use by the Services' industrial activities.

The Army funded the NDCEE program at \$4.5 million in FY 1999 and as of February 14, 2000, \$3.5 million in FY 2000. Task 001 funds are applied to various environmental areas such as the CTC technology facility in Johnstown, Pennsylvania; Army/DoD initiatives for environmental management systems; marketing energy conservation on fuel cell applications; and expanding capabilities in corrosion protection through surface technologies to support military logistics and operational requirements.

**Task 200.** Task 200 is the Navy Environmental Leadership Program (NELP) demonstration project. In April 1998, the NELP program received \$2.3 million. The period of the task performance is April 1998 through April 1999.

Task 200 was initiated by NELP in cooperation with CTC, Electrolux Inc, and Bath Iron Works. The task is to identify and demonstrate a technology to remove the problematic constituents of aqueous film from wastewater generated at Navy shore installations that causes environmental compliance problems.

**Task 211.** Task 211 is the "U.S. Army Construction Engineering Research Laboratory Fuel Cell" program. The program task was appropriated \$1.9 million. The period of the task performance is September 1998 through September 2001.

The fuel cell program provides testing and evaluations of a 200-kilowatt PC25 phosphoric acid power plant to achieve life-cycle-cost reduction and performance improvements. The program initiated the design and construction of a fuel cell test and evaluation center power plant to be operated by CTC. The plant's purpose is to design improvements in energy conservation and environmental applications for the DoD.

**Task 213.** Task 213 is the "Environmental Quality Technology-Sustainable Green Manufacturing" program that was funded for \$4.8 million. The period of the task performance is from September 1998 through September 2000.

The Sustainable Green Manufacturing program conducts research modeling and simulation, environmental engineering, coatings, corrosion prevention, and demilitarization technologies required for environmental improvements. The program also facilitates environmental technology development and a training program concerning the application of environmental life-cycle concepts.

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**Task 221.** Task 221 is the "Puget Sound Naval Shipyard Wastewater Technology Test Bed" program. The Naval program provides the technology to recycle, recover, and reuse shipyard wastewater.

In July 1998, the Navy program was funded for \$2.5 million. Task 221 is completed and closed.

**Task 227.** Task 227 is the "Materials and Processes Partnership for Pollution Prevention (MP4)" funded for \$14 million. The National Defense Authorization Act of FY 1999 directed that DoD use these funds to develop new materials and manufacturing processes to validate technology for pollution abatement, enhancement of weapons systems performance, and the reduction of life cycle operations and maintenance costs for DoD. The MP4 is also focusing on environmentally friendly corrosion protection for material coatings and their associated manufacture processing. The scheduled task performance is February 1999 through April 2000.

**Task 228.** Task 228, the "Demufacturing of Electronic Equipment for Reuse and Recycling" (DEER2) program, develops and demonstrates technologies and processes for the reuse, recycling, or disposal of manufactured electronic equipment used by DoD and its suppliers. The DEER2 program will disassemble obsolete commercial and Government electronics equipment, recover/store components and raw materials (e.g., glass, plastics, and precious metals) for reuse and recycling, and demilization; and dispose of any remaining waste. The DEER2 task performance is February 1999 through September 2003.

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## Appendix C. Federal Acquisition Regulation Guidance

### Subpart 45.302 Providing facilities.

**Subpart 45.302-1 Policy**, states, "(a) Contractors shall furnish all facilities required for performing Government contracts except as provided in this subsection. Government facilities provided to contractors shall be individually identified in the solicitation, if possible, and contract. Agencies shall not furnish facilities to contractors for any purpose, including restoration, replacement, or modernization except as follows . . . :

- (1) For use in a Government-owned, contractor-operated plant operated on a cost-plus-fee-basis.
- (2) For support of industrial preparedness programs.
- (3) As component of special tooling or special test equipment acquired or fabricated at Government expense.
- (4) Contractor's inability to obtain facilities to fulfill the contract terms. Mere assertion by a contractor that it is unable to provide facilities is not, in itself, sufficient to justify approval. The Agency head or designee must issue a Determination and Finding (FAR Subpart 1.7) that the contract cannot be fulfilled by any other practical means or that it is in the public interest to provide the facilities. . . .
- (5) As otherwise authorized by law or regulation.

b) Agencies shall not:

- (1) Furnish new facilities to contractors unless existing Government-owned facilities are either inadequate or cannot be economically furnished;
- (2) Use research and development funds to provide contractors with new construction or improvement of general utility, unless authorized by law;
- (3) Provide facilities to contractors solely for non-Government use, unless authorized by law."

**Subpart 52.244-2, "Subcontracts,"** states, "(f)(1) The Contractor shall notify the Contracting Officer reasonably in advance of placing any subcontract or modification thereof for which consent is required under paragraph (c), (d), or (e) of this clause, including the following information:"

- (i) "A description of the supplies or services to be subcontracted.
- (ii) Identification of the type of subcontract to be used.

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- (iii) Identification of the proposed subcontractor.
  - (iv) The proposed subcontract price.
  - (v) The subcontractor's current, complete, and accurate cost or pricing data and Certificate of Current Cost or Pricing Data, if required by other contract provisions.
  - (vi) The subcontractor's Disclosure Statement or Certificate relating to CAS when such data is required by other provisions of this contract.
  - (vii) A negotiation memorandum reflecting-
    - (A) The principal elements of the subcontract price negotiations;
    - (B) The most significant considerations controlling establishment of initial or revised prices;
    - (C) The reason cost or pricing data were or were not required;
    - (D) The extent, if any, to which the Contractor did not rely on the subcontractor; cost or pricing data in determining the price objective and in negotiating the final price;
    - (E) The extent to which it was recognized in the negotiation that the subcontractor's cost or pricing data were not accurate, complete, or current; the action taken by the Contractor and the subcontractor; and the effect of any such defective data on the total price negotiated;"

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## Appendix D. Summary of Purchase Order Costs

<u>Purchase Order</u>	<u>Vendor</u>	<u>Description</u>	<u>Amount</u>
991100248	*	Computer Memory	\$*
990500174	*	Video Projector	*
990500293	*	Printers	*
990500123	*	Computer	*
990300272	*	Computer	*
990100057	*	Printer	*
991000322	*	Printer/Copier/Scanner	*
991100220	*	Computer	*
990400042	*	Computer Related Items	*
991100443	*	Computer Hard Drive/Memory	*
990900361	*	Interface Card	*
991200008	*	Modem/Controller/Cable	*
990900051	*	Computer	*
990200003	*	Computer Monitor	*
990700005	*	Digital Camera	*
990400213	*	Computer Notebook	*
990200023	*	Printer	*
990100217	*	Computer	*
990400331	*	Computer Equipment	*
990400370	*	Computer Rental	*
990500349	*	Computer Rental	*
990600224	*	Computer Rental	*
990600243	*	Computer	*
990700162	*	Computer Rental	*
990700169	*	Interface Card	*
990500209	*	Computers & Related Equipment	*
990400226	*	Computer/Hard Dr/Monitor	*
990400198	*	Switch/Maintenance	*
990400075	*	Fax Machine/Maintenance	*
990300237	*	Compressor Installation	*
991200019	*	Herman Miller Furniture	*
991200163	*	Furniture	*
990700407	*	Computer	*
990800291	*	Network Analysis Module	*
990800326	*	Computer	*
990900368	*	Zip Internal Drive	*
990900115	*	Computer	*
990400085	*	Ehernet	*
991100245	*	Copier	*
990800229	*	IBM 104 Keyboard	*
990400081	*	Computer Related Item	*
990300295	*	Computer Equipment	*
990400080	*	HP Laser Jet 4000N Printer	*
990900388	*	Projector/Case/Stand	*
990800039	*	Computer Monitor	*

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\* Proprietary data omitted.

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<u>Purchase Order</u>	<u>Vendor</u>	<u>Description</u>	<u>Amount</u>
990300188	*	Computer	\$*
990300307	*	Computer	*
990400049	*	Computer and Manuals	*
990400173	*	Computer	*
990400221	*	Computer Notebooks	*
990400291	*	Computer Equipment	*
990500106	*	Laser Jet Printer	*
990500351	*	Computer	*
990500352	*	Computer	*
990700422	*	Computers	*
990700423	*	Computers	*
990700424	*	Computers	*
990700450	*	Computers	*
990700502	*	Computer Equipment	*
990700503	*	Smartnet Maintenance	*
990800005	*	Herman Miller Furniture	*
990800017	*	Computers	*
990800019	*	Herman Miller Furniture	*
990700456	*	Computer	*
990600236	*	Computer	*
990500209	*	Computer Memory	*
990400226	*	Computer Memory	*
990300295	*	Computer	*
990700503	*	Computer	*
990300344	*	Computer Notebooks	*
990400055	*	Computer	*
990500260	*	Computer Notebooks	*
990400217	*	Laserjet Printer	*
990300040	*	Lucent Black Telephones	*
990400189	*	Computer	*
990400054	*	Computer	*
990700065	*	Computer Monitor	*
990600424	*	Flat Panel Display	*
990600193	*	Fax Machine	*
990600348	*	Projector pus	*
990700312	*	Laserjet Printer/Computer	*
990400192	*	Computer	*
990600392	*	Office furniture	*
990300429	*	Lucent Black Telephones	*
991000378	*	Computers	*
990300332	*	Computers	*
990300348	*	Office furniture	*
990700066	*	Scanner/Printer	*
990500042	*	Electrohome Marquee	*
990500248	*	Monitor	*
991200024	*	Misc. Hand Tools	*

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\* Proprietary data omitted.

<u>Purchase Order</u>	<u>Vendor</u>	<u>Description</u>	<u>Amount</u>
<b>Subtotal For Equipment</b>			<b>\$*</b>
991200218	*	Cleaning Cartridge	*
991200001	*	Tape Cartridge	*
991000166	*	Tape Cartridge	*
990400365	*	Tape Cartridge	*
991200447	*	Tape Cartridge	*
990500355	*	Panaboard/Stand	*
990400042	*	Cable/Disk Pack	*
990800137	*	Port/Maintenance	*
990700005	*	Accessory Kit/Wide Angle Lens	*
991100007	*	Adapter	*
990600243	*	Adapter/Charger/Batteries	*
990700407	*	Cable/Adapter	*
990300295	*	Speakers	*
990700166	*	Adaptec Controller	*
990800039	*	Computer Equipment	*
991000045	*	Window Blinds	*
990300227	*	Computer Disks	*
990800233	*	Matrix Power Distribution Box	*
990400049	*	Computer	*
990700503	*	Computer Equipment	*
990800138	*	Computer Equipment	*
990400189	*	Computer Monitor	*
990500042	*	Cable/Barrels	*
990500153	*	Office Supplies	*
990400088	*	Printer/Ink Cartridges	*
990500248	*	Mouse/Keyboard	*
991200243	*	Copier Toner	*
990600174	*	Software	*
990600348	*	Replacement Lamps	*
<b>Subtotal For Materials</b>			<b>*</b>
990500166	*	Adapter	*
990700303	*	Zip Disks	*
990700095	*	Computer Centers-Servers	*
990600336	*	Service Visit	*
990600051	*	Banquet	*
990300453	*	Antivirus Software/Scanmill	*
990300299	*	Maintenance	*
991200365	*	Tape Cartridge	*
990800186	*	Internet Access	*
990800304	*	Adobe Acrobat	*
990900082	*	Maintenance Renewal	*
990900279	*	Maintenance Agreement	*
990900374	*	Maintenance Agreement	*
991000117	*	Server Magic	*
990300440	*	Licenses, Media Pack	*

\* Proprietary data omitted.

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<u>Purchase Order</u>	<u>Vendor</u>	<u>Description</u>	<u>Amount</u>
990200215	*	Software	\$*
990400042	*	Labor/Software	*
990400086	*	Microsoft Project	*
981000333	*	Computer Printer Rental	*
981200324	*	Computer & Printer Rental	*
990200040	*	Computer Printer Rental	*
990200083	*	Computer Rental	*
990300150	*	Computer Rental	*
990400368	*	Computer Rental	*
990400330	*	Computer Software	*
990600199	*	Computer Software	*
990400333	*	Ethernelink	*
990500169	*	Computer Memory	*
990600403	*	Software	*
990400171	*	Software/Server License	*
990400145	*	Software	*
990600398	*	Software	*
990400080	*	Memory/Hardware Repair	*
990900388	*	Third Year Warranty	*
990700355	*	Edgefield Communication Room	*
990300019	*	Software	*
990700169	*	Cisco Maintenance	*
990500209	*	Proliant800 Coverage	*
991200163	*	Furniture Installation	*
991100245	*	Copy Maintenance Agreement	*
990300295	*	MS Office/CAD-CAM/Mouse	*
991000045	*	Window Blind Installation	*
990500106	*	Memory Upgrade/Hardware	*
990700422	*	Computer Server	*
990700423	*	Computer Server	*
990700450	*	Computer Server	*
990800017	*	Computer Server	*
990600193	*	Fax Maintenance	*
990700335	*	Software	*
991200192	*	Computer Server	*
990800143	*	File maker	*
990400244	*	Work Stations	*
990300224	*	Computer Equipment	*
990400168	*	Desk Chair	*
990600483	*	ABC Flow Chart 7.0	*
990600323	*	Rental Computer	*
990700066	*	Computer Equipment	*
990600198	*	Copier/Maintenance	*
990600103	*	Rental Computer	*
991200170	*	Labor to de-install PBX	*
990700357	*	Maintenance Renewals	*
990600334	*	Shipping Charges for Carpet	*
990600345	*	Shipping Charges for Carpet	*

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\* Proprietary data omitted.

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<u>Purchase Order</u>	<u>Vendor</u>	<u>Description</u>	<u>Amount</u>
<b>Subtotal For Other Direct Costs</b>			<b>\$*</b>
991000120	*	Carpet	*
991200430	*	Furniture Shipping & Installation	*
990200291	*	Edgefield Facility Construction	*
990600437	*	Carpet	*
990500046	*	Computer	*
990600334	*	Carpet	*
990600345	*	Carpet	*
990200325	*	Largo Facility	*
990400306	*	Workbench	*
990400161	*	Network Cable Installation-Largo	*
990900227	*	Security System Installation-Largo	*
<b>Subtotal For Subcontracts</b>			<b>*</b>
<b>TOTAL</b>			<b>\$*</b>

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## **Appendix E. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Deputy Under Secretary of Defense (Environmental Security)  
Director, Defense Research and Engineering  
Director, Defense Logistics Studies Information Exchange  
Director, Defense Procurement  
Under Secretary of Defense (Comptroller)  
Deputy Comptroller (Program/Budget)  
Deputy Chief Financial Officer

### **Department of the Army**

Assistant Secretary of the Army (Acquisition, Logistics, and Technology)  
Assistant Secretary of the Army (Financial Management and Comptroller)  
Assistant Secretary of the Army (Installations and Environment)  
Army Materiel Command  
Commander, Tank-automotive and Armaments Command, Army Research and  
Development Center  
Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Installations and Environment)  
Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations and  
Environment)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Contract Management Agency  
Director, Defense Finance and Accounting Service

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## **Non-Defense Federal Organizations and Individuals**

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

## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

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 Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Management, Information, and Technology,  
House Subcommittee on National Security, Veterans Affairs, and International,  
Committee on Government Reform  
House Subcommittee on National Security, Veteran Affairs, and International Relations,  
Committee Government Reform

# Department of the Army Comments



REPLY TO  
ATTENTION OF

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

SAAL-ZCS-E

3 August 2000

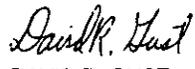
MEMORANDUM FOR MR. DONALD MANCUSCO, ACTING DEPARTMENT OF  
DEFENSE INSPECTOR GENERAL, 400 ARMY NAVY  
DRIVE, ARLINGTON, VA 22202-2885

SUBJECT: DoDIG Draft Report, Contract Management for the National Defense  
Center for Environmental Excellence, Project 9CB-0068 (AMC No. D9949)

We are enclosing our position on subject report IAW AR 362. We concur with  
the actions taken or proposed by the U.S. Army Tank-automotive and  
Armaments Command.

The point of contact for this action is Mr. George Terrell, (703) 617-9651,  
e-mail: [terrellg@hqamc.army.mil](mailto:terrellg@hqamc.army.mil).

Encl  
as

  
DAVID R. GUST  
Major General, GS  
Deputy for Combat  
Service Support

Printed on  Recycled Paper



**DEPARTMENT OF THE ARMY**  
UNITED STATES ARMY TANK-AUTOMOTIVE AND ARMAMENTS COMMAND  
WARREN, MICHIGAN 48397-5000

11 JUL 2000

REPLY TO  
ATTENTION OF

AMSTA-CM-PA (36-2b)

**MEMORANDUM FOR** Commander, U.S. Army Materiel Command, **ATTN:**  
AMCIR-A, 5001 Eisenhower Avenue, Alexandria, VA  
22333-0001

**SUBJECT:** DoDIG Draft Report, Contract Management for the National Defense  
Center for Environmental Excellence, Project 9CB-0068 (AMC No. D9949)

1. Reference your memorandum, dated 13 June 2000, SAB.
2. In accordance with AR 36-2, we are attaching the TACOM position to the subject draft report. With one exception, our reply concurs with the findings and recommendations. The exception is that for Recommendation B-1a, we do not agree that Army FAR Supplement part 35.014 applies to the DEER2 facility; and therefore we nonconcur with that recommendation. Our proposed corrective action, along with our target date, is contained in the reply.
3. The TACOM point-of-contact for this audit is Chuck Krulic, (DSN) 786-6158, or by Email at [krulic@tacom.army.mil](mailto:krulic@tacom.army.mil).

Atch

  
GARY G. BISHOP  
Colonel, GS  
Chief of Staff

**COMMAND REPLY**  
**PROJECT No. D1999CB-0068.001, Contract Management**  
**For the National Defense Center for Environmental Excellence**  
**U.S. Army Tank-automotive and Armaments Command**

**Finding A: DIRECT CONTRACT COSTS FOR GOVERNMENT PROPERTY AND LEASED FACILITY IMPROVEMENTS**

*CTC charged general purpose property and leased facility improvements as direct costs to contract DAAE30-98-C-1050 (the contract) instead of applying the purchases as indirect costs to the contract. The unallowable direct contract charges occurred because:*

- *The Contractor did not provide adequate information in keeping with procurement policies and regulations when submitting contract task proposals, and*
- *The TACOM-ARDEC contracting officer did not adequately evaluate the task proposals or require additional information.*

*As a result, the contractor issued purchase orders for at least \$ \* in unallowable charges that are not in compliance with OMB Circular A-122, FAR, and CAS regulations; and the Army cannot be assured of receiving best value for its contract expenditures. Further, the contractor charged lease costs for unoccupied space in a leased facility in Edgefield, South Carolina.*

**Comments on the Finding:** None.

**Recommendation:**

*Recommendation A.1: We recommend that the Director of Corporate Contracting, U.S. Army Tank-automotive Armaments Command, direct the contracting officer appointed to contract DAAE30-98-C-1050 to comply with:*

- a. Federal Acquisition Regulation Part 15, "Contracting by Negotiations," provisions for competitive and noncompetitive negotiated acquisitions.*
- b. Federal Acquisition Regulation Part 44, "Subcontracting Policies and Procedures," provisions for subcontracts proposed by the contractor.*
- c. Federal Acquisition Regulation Part 45, "Government Property," to minimize the purchase of Government property by the Contractor.*
- d. Office of Management and Budget Circular A-122, "Cost Principles for Non-Profit Organizations", June 1, 1998, provisions for contractor actions related to all capital expenditures for general purpose property and for leased commercial facilities for National Defense Center for Environmental Excellence requirements.*

\* Proprietary data omitted.

**Action Taken: Concur.** TACOM's Director of Corporate Contracting will send a letter to the responsible Contracting Officer directing him to continue his review of the identified problem areas of this contract, and to ensure that all matters are resolved in accordance with the FAR and OMB Circulars. This letter will be sent by 28 July 2000.

**Finding B: LEASE ANALYSIS AND FACILITY CONSTRUCTION**

*The Army did not require CTC to conduct a lease analysis for a commercial facility in Largo, Florida. The failure to conduct a lease analysis occurred because TACOM-ARDEC contracting officials:*

- *did not adequately evaluate the task proposals submitted by CTC,*
- *did not comply with procurement policies and regulations, and*
- *did not coordinate with the Defense Contract Management Agency, Pittsburgh Area Office.*

*As a result, the Army cannot be assured of receiving the best value for its research and development funds because the Army may pay for lease costs and facility renovation costs not needed to perform the contract. Further, the Army has paid lease costs of \$700,000 for the leased facility in Largo, since July 1999, while the facility was under construction.*

**Comments on the Finding:** On report page 15, the auditors state that we did not comply with the Army FAR supplement part 35.014, "Government Property and Title" with regard to requesting approval of construction costs for the DEER2 facility. We disagree. The Army FAR supplement does not apply to the DEER2 facility since the contracting officer will not be approving either the construction or it's costs.

**Recommendations:**

**Recommendation B.1:** *We recommend that the Director of Corporate Contracting, U.S. Army Tank-automotive Armaments Command, direct the contracting officer appointed to contract DAAE30-98-C-1050 to:*

- a. *Request approval from the Assistant secretary of the Army for Acquisition, Logistics, and Technology, for the incurred construction costs of \$ \* for the facility infrastructure improvements to the Pinellas Star Technology Center leased facility in Largo, Florida.*

**Action Taken: Nonconcur.** We do not agree that Army FAR supplement 35.014 applies to the DEER2 facility. The contracting officer has not, and will not, authorize this construction and thus secretarial approval is not required.

- b. *Require Concurrent Technologies Corporation to perform a lease analysis for leased space requirements in the Largo, Florida area for present and future leased space requirements for the National Defense Center for Environmental Excellence program.*

**Action Taken: Concur.** The letter to our Contracting Officer, as referred to in Recommendation A-1 of this report, will also require him to have the CTC perform a

Revised  
Page 15-16.

Deleted.

Renumbered  
Recommendation  
A.1.a.

\* Proprietary data omitted.

Renumbered  
Recommendation B.1.b.

lease analysis for the proposed Largo, FL site. Also, the letter will require a similar analysis for all future projects.

- c. *Comply with provisions of Office of management and Budget Circular A-122, "Cost Principles for Non-Profit Organizations", June 1, 1998, to provide a lease analysis for all future leased space requirements for the National Defense Center for Environmental Excellence program.*

**Action Taken: Concur.** The above mentioned letter will also contain this recommended action.

# Defense Contract Audit Agency Comments



DEFENSE CONTRACT AUDIT AGENCY  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PQA 225.4 (D1999CB-0068.001)

04 August 2000

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

SUBJECT: DCAA Comments on the Draft DoDIG Report on the Contract Management  
for the National Defense Center for Environmental Excellence (Project No.  
D1999CB-0068.001, Formerly Project 9CB 5016.1)

Our comments regarding the subject report findings and recommendations are presented below. Since DCAA has already completed the actions called for by recommendations A.2.a(1), A.2.a(2), A.2.b, and B.2.a (in part), we ask that you consider revising your report to reflect the completed actions and/or eliminating the applicable recommendations.

**IG Recommendation A.2:** *We recommend that the Director, Defense Contract Audit Agency, Pittsburgh Suboffice:*

*a. Adjust the direct costs and indirect rates for contract DAAE3098-C-1050, to reflect the unallowable contract charges for:*

*(1) general purpose property the contractor charged as direct costs instead of indirect costs to the contract;*

*(2) leased facility improvements for the Concurrent Technologies Corporation leased building in Edgefield, South Carolina; and*

*(3) monthly lease cost of \$ . \* for the . \* square feet of unoccupied space in the leased facility in Edgefield, South Carolina.*

*b. Rescind Concurrent Technologies Corporation authority to directly submit vouchers for DAAE30-98-C-1050 contract expenditures to the Defense Finance Accounting Service payment office without prior approval.*

*c. Provide the Defense Contract Management Agency (DCMA), Pittsburgh Area Office, recommendations to adjust direct charges and indirect rates for contract DAAE30-98-C-1050 for unallowable charges that have been incurred by Concurrent Technologies Corporation.*

\* Proprietary data omitted.

PQA 225.4 (D1999CB-0068.001)  
SUBJECT: DCAA Comments on the Draft DoDIG Report on the Contract Management  
for the National Defense Center for Environmental Excellence (Project No.  
D1999CB-0068.001, Formerly Project 9CB 5016.1)

**DCAA Response A.2:** Concur.

a(1). DCAA's Pennsylvania Branch Office has completed the recommended action through issuance of its Audit Report No. 6701-1999G17900003 dated 24 April 2000 to the Defense Contract Management Agency (DCMA), Pittsburgh Area Office. This report questioned about \$ \* for direct material items (General Purpose Equipment) which did not have required Government approval.

a(2). DCAA's Pennsylvania Branch Office has completed the recommended action through issuance of its Audit Report No. 6701-1999G17900003, which questioned \$ \* for renovations on unallowable idle space.

a(3). Although lease costs for the idle space in Edgefield, SC were not included in the contractor's FY99 incurred cost submission, DCAA's Pennsylvania Branch Office advised the contractor that any cost claimed in FY00 and future periods related to the idle space will be questioned in the annual incurred cost audits at Concurrent Technologies Corporation (CTC).

With respect to recommendation A.2, also note that DCAA issued Audit Report No. 6701-2000G19200001 on 17 May 2000 (enclosure 1), citing CTC for noncompliance with Cost Accounting Standards 402, 404, and 405 due to the unallowable charges for General Purpose Equipment and idle space renovations. Additionally, DCAA issued Audit Report No. 6701-2000G19200003 on 17 July 2000 (enclosure 2), citing CTC for noncompliance with Cost Accounting Standard 401, for the failure to comply with its disclosed accounting practices for reporting overhead costs. Resolution of these audit reports will resolve any required adjustments to the CTC rate structure.

b. DCAA's Pennsylvania Branch Office has completed the recommended action by notifying the contractor, administrative contracting officer, and the paying office on 14 July 2000 that CTC is no longer authorized to submit interim vouchers for payment directly to Defense Finance and Accounting Service (DFAS) on contract DAAE30-98-C-1050. (See enclosures 3 to 5.)

c. DCAA's Pennsylvania Branch Office has completed the recommended action. Appropriate recommendations to adjust direct charges and indirect rates for contract DAAE30-98-C-1050 for unallowable charges that have been incurred by Concurrent Technologies Corporation are included Audit Report No. 6701-1999G17900003, as described above.

Enclosures 1  
and 2 were  
deleted due  
to length.

PQA 225.4 (D1999CB-0068.001)

SUBJECT: DCAA Comments on the Draft DoDIG Report on the Contract Management for the National Defense Center for Environmental Excellence (Project No. D1999CB-0068.001, Formerly Project 9CB 5016.1)

**IG Recommendation B.2:** *We recommend that the Director, Defense Contract Audit Agency, Pittsburgh Suboffice, adjust the direct costs and the indirect rates for contract DAAE30-98-C-1050 due to unallowable charges for:*

- a. Leased facilities improvements of \$ \* for the Pinellas Star Technology Center and Building 1200 Largo, Florida, charged as direct costs to the contract.*
- b. Lease costs incurred from July 1, 1999 through June 1, 2000, for idle leased space in the Pinellas Star Technology Center in Largo, Florida, while the facility was under construction and not occupied by Concurrent Technologies Corporation personnel associated with the Demanufacturing of Electronic Equipment for Reuse and Recycling task.*
- c. Provide the Defense Contract Management Agency, Pittsburgh Area Office, recommendations to adjust the direct costs and the indirect rates for contract DAAE30-98-C-1050 for the unallowable charges for Concurrent Technologies Corporation leased space in Largo, Florida.*

**DCAA Response B.2:** Concur.

- a. DCAA's Pennsylvania Branch Office provided audit reports to DCMA to adjust \$ \* of the \$ \* direct costs and indirect costs for contract DAAE30-98C-1050, due to unallowable charges for leased facilities improvements for the Pinellas Star Technology Center, Building 1200 in Largo, FL (see Audit Report No. 6701-1999G17900003, page 8, Note 3a(2)). The balance of the \$ \* identified by the DoDIG will be questioned when the annual incurred cost audits are completed and reports issued. The CTC FY00 ended 30 June 2000.
- b. The Pennsylvania Branch advised CTC that lease costs incurred from 1 July 1999 through 1 June 2000, for idle leased space in the Pinellas Star Technology Center, Building 1200 in Largo, Florida, will be questioned when the FY 2000 incurred cost audit is performed and the formal audit report is issued to DCMA Pittsburgh.
- c. Recommendations to adjust direct charges and indirect rates for contract DAAE30-98-C-1050 for unallowable charges that have been incurred by Concurrent Technologies Corporation for lease space in Largo Florida, will be made when the FY 2000 incurred cost audit is performed and the formal audit report is issued to DCMA Pittsburgh.

Final Report  
Reference

PQA 225.4 (D1999CB-0068.001)  
SUBJECT: DCAA Comments on the Draft DoDIG Report on the Contract Management  
for the National Defense Center for Environmental Excellence (Project No.  
D1999CB-0068.001, Formerly Project 9CB 5016.1)

Please direct any questions you may have regarding this memorandum to Mr. Marc Parvin,  
Quality Assurance Division, DCAA Headquarters, at (703) 767-2250 or e-mail at DCAA-  
PQA@dcaa.mil.



For Lawrence P. Uhlfelder  
Assistant Director  
Policy and Plans

Enclosures - 5

1. Audit Report No. 6701-2000G1920001
2. Audit Report No. 6701-2000G1920003
3. Letter to CTC, 14 Jul 00
4. Memo to DCMA, 14 Jul 00
5. Memo to DFAS, 14 Jul 00

Enclosures 1  
and 2 were  
deleted due to  
length.



BRANCH MID-ATLANTIC REGION PENNSYLVANIA OFFICE  
DEFENSE CONTRACT AUDIT AGENCY  
PENNSYLVANIA BRANCH OFFICE  
700 AMERICAN AVENUE, SUITE 100  
KING OF PRUSSIA, PA 19406-4031  
TELEPHONE (610) 878-2860  
FAX (610) 878-2870

6701 820.1

14 July 2000

Mr. John Bartholomew  
Director, Financial Resources  
Concurrent Technologies Corporation  
100 CTC Drive  
Johnstown, PA 15904-1935

Dear Mr. Bartholomew:

As discussed with Mr. Newton H. Davis, Supervisory Auditor, at our Pittsburgh Suboffice on 14 July 2000, CTC's authorization to submit interim vouchers directly to Government paying offices has been rescinded for contract no. DAAE30-98-C-1050. Our decision to rescind CTC's direct billing authority has been made because CTC has billed \$ \* of unallowable direct charges on Government contract DAAE30-98-C-1050 for items (e.g., general purpose equipment, and renovation costs related to idle space) that did not have required Government approval. The details regarding unallowable direct charges were previously reported under Audit Report No. 6701-1999G17900003 issued 24 April 2000.

CTC must correct its accounting and billing procedures to preclude billing unallowable costs on Government contracts in order for CTC to be reinstated in the direct submission program for contract no. DAAE30-98-C-1050.

When CTC has implemented a corrective action plan to preclude billing unallowable costs, please notify us and we will schedule a review to determine if the revised procedures and controls are adequate. If our review indicates the CTC corrective actions are adequate, we will reinstate your authorization to submit vouchers directly to Government paying offices.

A copy of this letter is being sent to your cognizant administrative contracting officer (ACO) for notification that your company is no longer authorized to submit vouchers directly to Government paying offices. We are also notifying the DFAS paying office that your company is no longer authorized to submit vouchers directly to Government paying offices for contract no. DAAE30-98-C-1050.

Enclosure

\* Proprietary data omitted.

6701 820.1  
Mr. John Bartholomew  
Director, Financial Resources  
Concurrent Technologies Corporation

13 July 2000

If you have any questions regarding this letter, please contact Mr. Newton H. Davis,  
Supervisory Auditor, at (412) 395-4760.

Sincerely,

Edmond E. Slattery, Jr.  
Branch Manger

Copy Furnished:  
DCMC ACO  
MPO Point of Contact  
DFAS Columbus

2

Enclosure



BRANCH MID-ATLANTIC REGION PENNSYLVANIA OFFICE  
DEFENSE CONTRACT AUDIT AGENCY  
PENNSYLVANIA BRANCH OFFICE  
700 AMERICAN AVENUE, SUITE 100  
KING OF PRUSSIA, PA 19406-4031  
TELEPHONE (610) 878-2860  
FAX (610) 878-2870

6701- 820.1

14 July 2000

MEMORANDUM FOR COMMANDER DEFENSE CONTRACT MANAGEMENT,  
COMMAND PITTSBURGH, 1612 WILLIAM S. MOORHEAD  
FEDERAL BUILDING, 1000 LIBERTY AVENUE,  
PITTSBURGH, PA 15222-4190

ATTENTION: Mr. Alan Marian, Administrative Contracting Officer

SUBJECT: Rescinding Concurrent Technologies Corporation's Authorization to  
Directly Submit Vouchers

This is to notify you that Concurrent Technologies Corporation, Cage Code OW151, is no longer authorized to submit vouchers directly to DFAS on contract to DAAE30-98-C-1050. Therefore, the DCAA authorization memorandum is rescinded as of the date of this memorandum for this contract only.

Please direct any questions regarding this memorandum to Mr. Newton H. Davis, Supervisory Auditor, at (412) 395-4760. Our FAX number is (412) 395-4828 and our E-mail address is [DCAA-FAO6701@dcaa.mil](mailto:DCAA-FAO6701@dcaa.mil).

/s/ Newton H. Davis

for Edmond E. Slattery, Jr.  
Branch Manager  
DCAA Pennsylvania Branch Office

Enclosure



BRANCH MID-ATLANTIC REGION PENNSYLVANIA OFFICE  
DEFENSE CONTRACT AUDIT AGENCY  
PENNSYLVANIA BRANCH OFFICE  
700 AMERICAN AVENUE, SUITE 100  
KING OF PRUSSIA, PA 19406-4031  
TELEPHONE (610) 878-2860  
FAX (610) 878-2870

6701 820.1

14 July 2000

MEMORANDUM FOR DEFENSE FINANCE AND ACCOUNTING SERVICE, COLUMBUS  
CENTER, DFAS-CO/MINUTEMAN, P.O. BOX 182266,  
COLUMBUS, OHIO 43218-2266

ATTENTION: DFAS Columbus-Minuteman Division

SUBJECT: Rescinding Concurrent Technologies Corporation's Authorization to  
Directly Submit Vouchers

This is to notify Defense Finance and Accounting Service (DFAS) that Concurrent Technologies Corporation, Cage Code OW151, is no longer authorized to submit vouchers directly to DFAS for payment for Contract No. DAAE30-98-C-1050. Therefore, the DCAA authorization memorandum is rescinded as of the date of this memorandum for this contract only.

Please direct any questions regarding this memorandum to Mr. Newton Davis, Supervisory Auditor at (412) 395-4760. Our FAX number is (412) 395-4828 and our E-mail address is DCAA-FAO6701@dcaa.mil.

Edmond E. Slattery, Jr.  
Branch Manager  
DCAA Pennsylvania Branch Office

Enclosure

# Defense Contract Management Agency Comments



DEFENSE CONTRACT MANAGEMENT AGENCY  
8725 JOHN J. KINGMAN ROAD, SUITE 4539  
FORT BELVOIR, VIRGINIA 22060-6221

AUG 08 2000

IN REPLY  
REFER TO DCMA-OCB

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on the Contract Management for the National  
Defense Center for Environmental Excellence (Project No.  
D1999CB-0068.001, Formerly Project 9CB 5016.1)

Per your June 7, 2000 letter, we are providing our management comments on the subject draft audit report. The attached comments address each of the findings and recommendations involving the Defense Contract Management Agency. We concur with the recommendations and plan to adjust contract DAAE30-98-C-1050 for unallowable costs.

We appreciate the opportunity to provide comments on the draft report. Please contact Glenn Gulden at (703) 767-3406 if there are any questions.

*for Paul Farley*  
Robert W. Schmitt  
Executive Director  
Contract Management Operations

Attachments

cc:  
Internal Review

**SUBJECT:** Contract Management for the National Defense Center for Environmental Excellence (Project No. D1999CB-0068.001, Formerly Project 9CB-5016.1)

**FINDING A: Direct Contract Costs for Government Property and Leased Facility Improvements.** CTC charged general purpose property and leased facility improvements as direct costs to contract DAAE30-98-C-1050 (the contract) instead of applying the purchases as indirect costs to the contract. The unallowable direct contract charges occurred because:

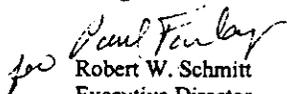
- the contractor did not provide adequate information in keeping with procurement policies and regulations when submitting contract task proposals, and
- the TACOM-ARDEC contracting officer did not adequately evaluate the task proposals or require additional information.

As a result, the contractor issued purchase orders for at least \$ \* in unallowable charges that are not in compliance with OMB Circular A-122, FAR, and CAS regulations; and the Army cannot be assured of receiving best value for its contract expenditures. Further, the contractor charged lease costs for unoccupied office space in a leased facility in Edgefield, South Carolina.

**DCMA COMMENTS:** No Comments.

**ACTION OFFICER:** Glenn Gulden  
**REVIEW/APPROVAL:** DCMA-OCB  
**COORDINATION:** DCM Pittsburgh

**DCMA APPROVAL:**

*for*   
Robert W. Schmitt  
Executive Director  
Contract Management Operations

\* Proprietary data omitted.

**SUBJECT:** Contract Management for the National Defense Center for Environmental Excellence (Project No. D1999CB-0068.001, Formerly Project 9CB-5016.1)

**RECOMMENDATION A.3:** We recommend that the Director, Defense Contract Management Agency, Pittsburgh Area Office, implement the Defense Contract Audit Agency, Pittsburgh Suboffice, recommendations to adjust the direct charges and the indirect rates for unallowable costs incurred on contract DAAE30-98-C-1050.

**DCMA COMMENTS:** Concur. DCM Pittsburgh plans to review and implement the DCAA "recommendations to adjust the direct costs and the indirect rates for contract DAAE30-98-C-1050", as deemed appropriate.

**DISPOSITION:**

- Action is ongoing. ECD: Six months upon receipt of DCAA's audit report.  
 Action is considered complete.

**DCMA APPROVAL:**

*Paul Farley*  
for Robert W. Schmitt  
Executive Director  
Contract Management Operations

**SUBJECT:** Contract Management for the National Defense Center for Environmental Excellence (Project No. D1999CB-0068.001, Formerly Project 9CB-5016.1)

**FINDING B:** The Army did not require CTC to conduct a lease analysis for a commercial facility in Largo, Florida. The failure to conduct a lease analysis occurred because TACOM-ARDEC contracting officials:

- did not adequately evaluate the task proposals submitted by CTC,
- did not comply with procurement policies and regulations; and
- did not coordinate with the Defense Contract Management Agency, Pittsburgh Area Office.

As a result, the Army cannot be assured of receiving the best value for its research and development funds because the Army may pay for lease costs and facility renovation costs not needed to perform the contract. Further, the Army has paid lease costs of \$ \* for the leased facility in Largo, since July 1999, while the facility was under construction.

**DCMA COMMENTS:** No Comments.

**ACTION OFFICER:** Glenn Gulden  
**REVIEW/APPROVAL:** DCMA-OCB  
**COORDINATION:** DCM Pittsburgh

**DCMA APPROVAL:**

*for Paul Farley*  
Robert W. Schmitt  
Executive Director  
Contract Management Operations

\* Proprietary data omitted.

**SUBJECT:** Contract Management for the National Defense Center for Environmental Excellence (Project No. D1999CB-0068.001, Formerly Project 9CB-5016.1)

**RECOMMENDATION B.3:** We recommend that the Director, Defense Contract Management Agency, Pittsburgh Area Office, ensure that the contractor implements the Defense Contract Audit Agency, Pittsburgh Suboffice, recommendations to adjust the direct costs and the indirect rates for contract DAAE30-98-C-1050 for the unallowable charges for leased facility costs in Largo, Florida.

**DCMA COMMENTS:** Concur. DCM Pittsburgh plans to review and implement the DCAA "recommendations to adjust the direct costs and the indirect rates for contract DAAE30-98-C-1050 for unallowable charges for leased facility costs in Largo, Florida", as deemed appropriate.

**DISPOSITION:**

- ( x ) Action is ongoing. ECD: Six months upon DCAA's audit report.
- ( ) Action is considered complete.

**ACTION OFFICER:** Glenn Guiden  
**REVIEW/APPROVAL:** DCMA-OCB  
**COORDINATION:** DCM Pittsburgh

**DCMA APPROVAL:**

*for Paul Farley*  
Robert W. Schmitt  
Executive Director  
Contract Management Operations

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