Audit Report

OFFICE OF THE INSPECTOR GENERAL

INTRA-AGENCY, SOLE SOURCE, SECTION (8 a) CONTRACT FOR THE NAVAL AVIATION TRAINING SYSTEMS PROGRAM OFFICE

Report No. 97-043

December 10, 1996

Department of Defense

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Acronyms

CFR	Code of Federal Regulations
NAVAIR	Naval Air Systems Command
NUWC	Naval Undersea Warfare Center
FAR	Federal Acquisition Regulation
FEDSIM	Federal Systems Integration and Management Center
FIP	Federal Information Processing
FISC	Fleet Industrial Supply Center

December 10, 1996

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on Intra-Agency, Sole-Source, Section 8(a) Contract for the Naval Aviation Training Systems Program Office (Report No. 97-043)

We are providing this report for your information and use. Management comments on a draft of this report were considered in preparing the final report. This report is the first of two reports discussing a complaint to the Defense Hotline. This report discusses the complaint that a $30 million, sole-source contract to procure Federal Information Processing resources (computer-based training equipment) was about to be inappropriately awarded to JIL Information Systems, Incorporated (JIL), under the Small Business Administration Section 8(a) program. The second report will discuss reimbursable orders issued to the Naval Undersea Warfare Center, Keyport, Washington, to obtain supplies and services for other Navy activities.

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

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Terry L. McKinney, Audit Program Director, at (703) 604-9288 (DSN 664-9288) or Mr. Henry F. Kleinknecht, Audit Project Manager, at (703) 604-9324 (DSN 664-9324). See Appendix H for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 97-043
(Project No. 6CF-8009)

December 10, 1996

Intra-Agency, Sole-Source, Section 8(a) Contract for the Naval Aviation Training Systems Program Office

Executive Summary

Introduction. This is the first of two reports in response to a complaint to the Defense Hotline about reimbursable orders issued to the Naval Undersea Warfare Center (NUWC), Keyport, Washington, to obtain supplies and services for other Navy organizations. This report discuses the complaint that a $30 million, sole-source, contract to procure Federal Information Processing (FIP) resources (computer-based training equipment) was about to be improperly awarded to JIL Information Systems, Incorporated, under the Small Business Administration Section 8(a) program. The second report will discuss NUWC Keyport reimbursable orders, its stabilized rate, and Government property supplied to a support services contractor.

The Federal Acquisition Regulation requires competition on procurements that will exceed $3 million under the Section 8(a) program. Furthermore, in May 1993, the Director, Defense Procurement, issued a DoD memorandum instructing contracting officers not to use the Small Business Administration's guidance on the "guaranteed minimum value" for indefinite-delivery, indefinite-quantity contracts to circumvent competition requirements. The guaranteed minimum value rule allowed contracting officers to use a minimum contract amount versus an estimated contract amount when determining whether competition was required. Effective August 7, 1995, the Small Business Administration amended its guidance to eliminate the guaranteed minimum value rule because the rule was being abused. On April 18, 1996, we sent a memorandum to the Commander, Naval Supply Systems Command (headquarters for the procuring activity), suggesting that the decision on whether to award a sole-source contract to JIL not be made until issues were resolved. The contract award was suspended until completion of the audit.

Audit Objectives. The primary audit objective was to determine whether there was merit to a complaint made to the Defense Hotline. The complaint alleged that the Naval Air Systems Command (NAVAIR), Aviation Training Systems Program Office planned to improperly award a $30 million, sole-source, Section 8(a) contract to JIL Information Systems, Incorporated, through intra-agency acquisition procedures. The audit also evaluated the NAVAIR management controls related to the use of intra-agency acquisition procedures and the procurement of Federal Information Processing equipment.

Audit Results. The complaint was substantiated. The Aviation Training Systems Program Office improperly planned to avoid competing a $30 million, sole-source, Section 8(a) contract to JIL Information Systems, Incorporated, through the use of intra-agency acquisition procedures. In addition, the role and associated costs of NUWC Keyport were not adequately defined and justified, and there was no need to stage (assemble and test) the commercial off-the-shelf hardware being procured. As a result of the problems associated with the procurement, the Government has no assurance that it would receive the best value for the least amount of money. Implementing the recommendations would allow NAVAIR to reduce costs by at least

$2.0 million and as much as $3.4 million for FYs 1996 through 1998 by competing the contract. NAVAIR could also reduce cost by an additional $3.6 million by eliminating staging costs for the commercial off-the-shelf FIP resources. See Part I and Appendix A for the details of our review. See Appendix G for a summary of potential benefits resulting from the audit.

Summary of Recommendations. We recommend that the Aviation Training Systems program manager prepare, coordinate, and obtain appropriate approvals of its acquisition plan from the cognizant NAVAIR offices and eliminate staging costs for commercial off-the-shelf FIP resources. We also recommend that the acquisition plan specify NUWC Keyport life-cycle costs, and contractor versus Government-performance issues. We also recommend that the Aviation Training Systems program manager provide funding documents and sole-source justifications to the cognizant NAVAIR contracts division when orders are placed through other Navy organizations that are for noncompetitive requirements greater than $1 million. We recommend that the Assistant Secretary of the Navy (Research, Development, and Acquisition) issue guidance that contracts requiring acquisition plans should not be awarded through other Navy organizations until an acquisition plan has been approved by the contracting office of the organization with acquisition responsibility. Further, we recommend that the Commander, Naval Supply Systems Command, instruct the Fleet Industrial Supply Center Detachment Long Beach contracting officer not to award the $30 million, sole-source, Section 8(a) contract to JIL Information Systems, Incorporated.

Management Comments. The Navy concurred with the recommendations and cancelled the award in favor of a competitive procurement. See Part I for a summary of management comments and Part III for the complete text of management comments.

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Part I - Audit Results

Introduction

This audit resulted from a complaint to the Defense Hotline. This is one of two reports about reimbursable orders issued to the Naval Undersea Warfare Center (NUWC), Keyport, Washington, to obtain supplies and services for other Navy organizations. This report discusses the allegation that the Naval Air Systems Command (NAVAIR), Aviation Training Systems Program Office planned to improperly award a $30 million, sole-source contract to procure Federal information processing (FIP) resources. The contract was to support the Aviation Training Systems Program Office and was to be awarded to JIL Information Systems, Incorporated (JIL), under the Small Business Administration Section 8(a) program. The Section 8(a) program is discussed under "Origin of the Section 8(a) Program."

Specifically, the contract was to procure Naval aviation computer-based training equipment for the Aviation Training Systems Program Office (program office), Naval Air System Command, Washington, D.C. The program office was using intra-agency acquisition procedures to allow NUWC Keyport, through the contracting office at the Fleet Industrial Supply Center (FISC) Detachment, Long Beach, California, to use the Small Business Administration to award the contract.

Audit Background

Requirement for Naval Aviation Computer-Based Training. In February 1995, the Chief of Naval Operations and the program office established the quality management board for aviation computer-based training. A computer-based training system initiative was established to develop and implement training systems for maintenance personnel, air crews, and operators. The program office was designated both the computer-based training team leader and the program manager for the computer-based training systems. The program office assigned systems integration and acquisition responsibility to NUWC Keyport.

Aviation Training Systems Program Office Mission. The program office provides total life-cycle management for naval aviation training systems. Total life-cycle management includes providing general training equipment and support to meet fleet and shore establishment needs. The goals of the program office are to develop training systems concurrent with the acquisition of parent weapon systems, maintain weapon system training configurations, and manage emerging training system technologies. The responsibility of the program office includes supporting specific training for weapon systems, general training, and various areas of research and development. The program office must also remain abreast of latest technologies such as computer-based training, interactive simulation, and virtual reality.

Mission of NUWC Keyport. NUWC Keyport supports the mission of the Naval Undersea Warfare Center by providing test and evaluation, in-service engineering, maintenance and repair, fleet support, and industrial base support for undersea warfare systems, undersea weapon systems, countermeasures, and sonar systems. NUWC Keyport also operates as a Defense Business Operations Fund organization that provides goods and services, on a reimbursable basis, to other DoD organizations. In FY 1995, NUWC Keyport received reimbursable orders, totaling $256.9 million, from 17 major customers. About $28 million of the reimbursable work supported the program office. NUWC Keyport charges its customers about 10 percent of the total value of reimbursable orders for operating costs at NUWC Keyport. NUWC Keyport contracting office has a total of 5 personnel and has contracting authority to award contracts up to and including $100,000. For contract awards greater than $100,000, NUWC Keyport uses contracting personnel at the FISC.

NAVAIR Contracting Office Mission. NAVAIR has dedicated contracting officers that support NAVAIR programs and other programs managed by different program executive officers. The NAVAIR contracting office has approximately 985 people and awards contracts totaling about $9 billion annually.

Memorandum of Agreement Between the Program Office and NUWC Keyport. The program office identifies scientific, technological, and program support needs to NUWC Keyport in mission-related areas; descriptions of assigned task requirements and points of contact for each project; and the funding to support execution of task assignments.

NUWC Keyport executes and manages support services contracts that support the program office. Contract execution and management services include review of contractor cost and technical proposals, negotiation of task order costs, and oversight of task order execution. NUWC Keyport also provides points of contact for each task order; representation at program reviews and other meetings as required; status reports and other documentation on assigned projects for execution, as specified in task orders; and proposals for existing and emerging technologies for application to program office requirements. Since FY 1992, NUWC Keyport has supported the program office by using three support services contracts with OC, Incorporated. The contractor has provided engineering, technical support, logistics, maintenance, and training support for aircraft and associated systems.

Intra-Agency Contracting. United States Code, title 31, section 1535 (31 U.S.C. 1535), "Agency agreements," generally permits orders for goods and services to be placed with a major organizational unit either within the same agency or at another agency, so long as the orders are in the best interest of the Government.

Origin of the Section 8(a) Program. The Small Business Act (United States Code, title 15, section 637 [15 U.S.C. 637]) assigned the Small Business Administration responsibility over the administration of the Section 8(a) program. The Section 8(a) program was designed to afford small businesses that are owned by minorities and other socially and economically disadvantaged

individuals an equitable opportunity to compete for contracts that they can perform. Eligible businesses have a maximum of nine years in which they can participate in the Section 8(a) program. Government agencies establish contracts with the Small Business Administration, which then subcontracts work for performance by eligible Section 8(a) firms.

Audit Objectives

The primary audit objective was to determine whether there was merit to a complaint made to the Defense Hotline. Specifically, the complainant alleged that the Aviation Training Systems Program Office planned to improperly award a $30 million, sole-source, Section 8(a) contract to JIL Information Systems, Incorporated, through intra-agency acquisition procedures. The audit also evaluated the NAVAIR management controls related to the use of intra-agency acquisition procedures and the procurement of FIP. See Appendix A for a discussion of the audit scope, methodology, and management control program. Appendix B summarizes prior coverage related to the audit objectives.

Intra-Agency, Sole-Source, Section 8(a) Contract

The Aviation Training Systems Program Office (program office) inappropriately planned to award a $30 million, sole-source, Section 8(a) contract to JIL Information Systems, Incorporated (JIL), through intra-agency acquisition procedures. The sole-source contract was inappropriately planned because the program office used NUWC Keyport to prepare the acquisition plan and because the plan was not reviewed by cognizant NAVAIR offices. Although the Federal Acquisition Regulation (FAR) and NAVAIR requirements for preparing, coordinating, and obtaining appropriate approvals of the acquisition plan were clear and concise for acquisitions within NAVAIR, such clarity did not exist when other Navy organizations were considered in preparing intra-agency plans. Further, the contract was not going to be competed because the contracting officer at FISC Long Beach misinterpreted guidance from the Director, Defense Procurement. Also, neither the role and associated costs of NUWC Keyport, nor the costs for the contractor to stage (assemble and test) the commercial off-the-shelf hardware being procured, were adequately defined and justified. As a result, the Government has no assurance that it would receive the best value for the least amount of money. A comparison of the proposed material prices with competitive quotes showed that the program office could reduce costs by at least 11 percent, and maybe as much as 17 percent, or $2 million to $3.4 million, if the requirements are competed. Also, costs could be reduced by an additional $3.6 million if proposed staging costs are eliminated.

Section 8(a) Competition Requirements

Public Law Competition Requirements. The Business Opportunity Development Reform Act of 1988 was enacted to improve the growth and development of small business concerns. The Act contained certain corrective measures to restore integrity to the Section 8(a) program, one of which was the injection of competition for large dollar contracts. Section 637(a)(1)(D)(i) of 15 U.S.C. was added to provide the new requirement:

> A contract opportunity offered for award pursuant to this subsection shall be awarded on the basis of competition restricted to eligible Program Participants if-
>
> (I) there is a reasonable expectation that at least two eligible Program Participants will submit offers and that award can be made at a fair market price; and

> (II) the anticipated award price of the contract (including options) will exceed $5,000,000 in the case of a contract opportunity assigned a standard industrial classification code for manufacturing and $3,000,000 (including options) in the case of all other contract opportunities.

Code of Federal Regulations. Code of Federal Regulations (the Code), title 13, section 124.311 (13 CFR 124.311), developed by the Small Business Administration, allowed contracting officers to award indefinite-delivery, indefinite-quantity contracts using a guaranteed minimum value rule without regard to the competition thresholds required by FAR 19.805, "Competitive 8(a)," (1), "General." The Code states the same requirements as the public law, but adds, "For purposes of indefinite quantity/delivery contracts, the thresholds will be applied to the guaranteed minimum value of the contract."

CFR Rule Change. The Small Business Administration recently determined that the guaranteed minimum value rule was being improperly used to avoid competition. Effective August 7, 1995, the Small Business Administration amended 13 CFR 124.311(a)(2) for all requirements accepted by the Small Business Administration on or after that date to eliminate the guaranteed minimum value rule. The new rule required the competition threshold to be based on the Government estimate of the requirement, including options, as identified by the procuring agency.

Federal Acquisition Regulation. FAR subpart 19.805, "Competitive 8(a)," sets the dollar threshold on Section 8(a) contracts that must be awarded through competition. Subpart 19.805-1, "General," states the same requirements as the public law and identifies no special rules for indefinite-delivery, indefinite-quantity contracts as the CFR does.

Office of the Under Secretary of Defense and Department of the Navy Memorandums. In response to a recommendation made in an Inspector General, DoD, audit report, on May 4, 1993, the Director, Defense Procurement, issued a memorandum admonishing contracting officers against using 13 CFR 124.311 to circumvent the requirement for competition as outlined in FAR 19.805-1. The memorandum required that contracting officers pay close attention to the use of indefinite-delivery, indefinite-quantity contracts for Section 8(a) procurements to ensure that type of contract is used appropriately, and not for circumventing competition requirements.

On May 20, 1993, the Director, Procurement Policy, Department of the Navy, issued a memorandum throughout Navy procurement arenas, reiterating the guidance issued by the Director, Defense Procurement.

Guidance on Acquisition Plans and Intra-Agency Acquisitions

FAR Guidance on Acquisition Plans. FAR subpart 7.1, "Acquisition Plans," 7.101, "Definitions," states:

> "Acquisition planning" means the process by which the efforts of all personnel responsible for an acquisition are coordinated and integrated through a comprehensive plan for fulfilling the agency need in a timely manner and at a reasonable cost. It includes developing the overall strategy for managing the acquisition.

FAR 7.104(c) states that "the planner shall coordinate with and secure the concurrence of the contracting officer in all acquisition planning. If the plan proposes using other than full and open competition, the plan shall also be coordinated with the cognizant competition advocate."

FAR 7.105, "Contents of written acquisition plans," provides detailed guidance that the planner should follow, along with the implementing instructions of the agency, in preparing an acquisition plan. The guidance is in two paragraphs. The first paragraph, "acquisition background and objectives," covers the statement of need, applicable conditions, cost, capability or performance, delivery or performance-period requirements, trade-offs, risks, and acquisition streamlining. The second paragraph, "plan of action," covers many areas including sources; competition; source-selection procedures; contracting considerations; contractor versus Government performance; inherently governmental functions; Government-furnished property; and identification of participants in acquisition plan preparation.

Navy Guidance on Acquisition Plans. On April 20, 1992, the Navy Acquisition Executive and Senior Procurement Executive issued a memorandum for all Navy acquisition personnel to ensure that acquisition planning was performed to meet the needs of the Navy in the most effective, economical, and timely manner. The memorandum included an Acquisition Planning Guide to provide an improved acquisition plan format and to ensure that the content of Navy acquisition plans conformed to FAR and DoD guidance. The Acquisition Planning Guide states that acquisition planning is required to promote and provide for full and open competition or, when full and open competition is not required, to obtain competition to the maximum extent practicable. The Acquisition Planning Guide also states that acquisition planning is the process by which the resources and efforts of key personnel responsible for the acquisition are coordinated and integrated through a comprehensive plan for fulfilling the agency need in an effective and timely manner, at a reasonable cost.

Section 1.3, "Requirements For An AP [Acquisition Plan]," of the Acquisition Planning Guide states that acquisition plans are required for the following acquisitions.

> e. Federal Information Processing (FIP) Resources, formerly called Automated Data Processing (ADP) Resources, managed under the current version of SECNAVINSTs [Secretary of the Navy Instructions] 5231.1 and 5236.1, with acquisition costs meeting the following thresholds:
>
> (1) Commercially available FIP equipment or FIP software whose total contractual cost is estimated at $5,000,000 or more for all fiscal years.
>
> (2) FIP services or FIP support services whose total contractual cost is estimated at $30,000,000 or more for all fiscal years, or $15,000,000 or more in any one year.

NAVAIR Instruction 4200.36, "Acquisition Plans," January 26, 1994, provides policy and guidance for the preparation, coordination, and approval of acquisition plans within NAVAIR. The Instruction requires that acquisition plans be prepared in accordance with the Navy Acquisition Planning Guide, April 20, 1992, which is included as part of the Instruction. The Instruction designates the acquisition manager as responsible for the preparation, coordination, processing, and submission of the acquisition plan in a timely manner. The term "acquisition manager" as used in the Instruction refers to the responsible executive who provides overall life-cycle management, direction, control, resource utilization, and integration of an assigned system or program.

Instruction 4200.36 requires that draft acquisition plans be routed for review and comment by numerous NAVAIR offices, including the Assistant Program Executive Officers for Acquisition, Business and Financial Manager, Contracts, Engineering, and Logistics. Additional review includes evaluation by the Office of Counsel, competition advocate, and acquisition streamlining advocate. The Instruction also specifies procedures to resolve any outstanding issues connected with the acquisition plan.

NAVAIR Guidance on Intra-Agency Contracting with Other Navy Organizations. NAVAIR Instruction 7300.8C, "Naval Air Systems Command Headquarters Responsibilities and Procedures for Funding Field Organizations," May 20, 1994, provides responsibilities and procedures for ordering supplies and services from other Navy organizations. The Instruction requires that the cognizant NAVAIR contract division review orders for supplies or services purchased through other Navy organizations that result in sole-source contracts greater than $1 million.

> Funding documents (either direct cite or reimbursable) to other Navy activities (including NAVAIR field activities) which ultimately result in noncompetitive contracts greater than one million dollars must be forwarded to the cognizant Contracts Division for review. The funding documents and sole source justification will be submitted to the Contracts Division prior to forwarding to the Comptroller. . . .

Planned Sole-Source Section 8(a) Contract Award to JIL

Planned Contract Award to JIL. The program office improperly planned the award of a $30 million, sole-source, Section 8(a) contract, JIL Proposal 95-079 under FISC Long Beach solicitation N00244-95-R-0432. The Business Opportunity Development Reform Act and other guidance requires competition for contracts with anticipated award prices that will exceed $3 million. The program office planned to use intra-agency acquisition procedures to have NUWC Keyport award the sole-source, Section 8(a) contract to JIL for computer-based training systems. The program office assigned NUWC Keyport system integration and acquisition responsibilities. NUWC, in turn, planned to use FISC Long Beach to award the contract. On April 18, 1996, we issued a memorandum to the Commander, Naval Supply Systems Command (the headquarters of FISC), suggesting that the decision to award the contract not be made until contracting issues were resolved. The contract award was suspended until completion of the audit.

Acquisition Plans and Intra-Agency Funding Documents

Responsibility for Preparing, Coordinating, and Obtaining Approval for Acquisition Plans. The program office did not follow FAR and NAVAIR requirements for preparing, coordinating, and obtaining appropriate approvals for the acquisition plan. The program office as the "acquisition manager" has responsibility for preparation, coordination, processing, and submittal of the acquisition plan in a timely manner. However, the program office used NUWC Keyport to prepare the acquisition plan, and the plan was reviewed by only the program office and NUWC Keyport officials. Consequently, key personnel with overall acquisition responsibility at NAVAIR, such as the Deputy Commander for Acquisition and Operations and the Assistant Commander for Contracts Group (Competition Advocate), did not review and approve the proposed acquisition. The acquisition plan prepared by NUWC Keyport initially identified a total estimated cost of about $37 million for the training systems design, development, production, and installation and NUWC Keyport support costs. The sole-source JIL proposal was for $30 million. We discussed the proposed sole-source award with the NAVAIR Competition Advocate who indicated that the proposed sole-source procurement would not have been approved in the acquisition plan if the plan had been properly coordinated. The program office acquisition manager needs to prepare, coordinate, and obtain appropriate approvals of its acquisition plan from the various cognizant NAVAIR offices.

The guidance in NAVAIR Instruction 4200.36 and the Navy Acquisition Planning Guide is clear for acquisitions that stay within NAVAIR or a single Navy agency. The guidance is less clear for acquisitions contracted outside NAVAIR and for the agency preparing the acquisition plan. Consequently, NAVAIR program managers believe they can contract large acquisitions outside NAVAIR using intra-agency contracting without submitting the acquisition plan

for review by the cognizant NAVAIR contracting office. Further, the FISC Long Beach contracting officer had not seen or provided input for the acquisition plan relating to the JIL procurement. As a result, the cognizant NAVAIR contracting office was excluded from the acquisition planning process. The Assistant Secretary of the Navy (Research, Development, and Acquisition) needs to revise guidance in the Acquisition Planning Guide. Such revisions should clarify that contracts requiring acquisition plans should not be awarded by other Navy organizations until an acquisition plan is approved by the contracting office of the organization with acquisition responsibility.

Intra-Agency Funding Documents. NAVAIR Instruction 7300.8C also requires that when intra-agency contracting is used to place orders through other Navy organizations, and those orders ultimately result in noncompetitive contracts greater than $1 million; funding documents and the sole-source justification must be forwarded to the cognizant NAVAIR contracts division for review. The program office acquisition manager was unaware of this requirement and did not forward the funding documents or sole-source justification to the cognizant NAVAIR contracts division for review. The program office should forward funding documents and sole-source justifications to the cognizant NAVAIR contracts division when intra-agency contracting is used in conjunction with noncompetitive contracts greater than $1 million.

Planned Sole-Source Section 8(a) Contract Award

The contracting officer at FISC Long Beach inappropriately recommended to the Small Business Administration the award of a $30 million, sole-source, Section 8(a) indefinite-delivery, indefinite-quantity contract to JIL. Although competition was required for Section 8(a) contracts with an anticipated award price greater than $3 million, the contracting officer was using the Small Business Administration "guaranteed minimum value" rule to award the contract without competition. The Small Business Administration determined in June 1995 that the guaranteed minimum value rule was being improperly used to avoid competition and eliminated the rule for procurements accepted by the Small Business Administration on or after August 7, 1995.

The contract was accepted by the Small Business Administration before August 7, 1995, although the contract should not have been sent there. The Director, Defense Procurement, issued guidance on May 3, 1993, against using the guaranteed minimum value to circumvent competition requirements, particularly those for automatic data processing equipment. The FISC Long Beach contracting officer misinterpreted the guidance from the Director, Defense Procurement, and allowed the sole-source procurement to proceed. The Commander, Naval Supply Systems Command, needs to notify the FISC Long Beach contracting officer that the $30 million, sole-source, Section 8(a) contract planned to be awarded to JIL should not be awarded using the guaranteed minimum value rule to circumvent competition.

Other Acquisition Issues

Role and Justification to use NUWC Keyport. The program office did not adequately define or justify the role and associated support costs of NUWC Keyport in the acquisition plan for the computer-based training systems initiative. The FY 1996 task book proposed for the Naval Aviation Computer Based Training showed NUWC Keyport providing about $1.2 million of support in FY 1996. The support includes system requirements integration engineering, production baseline integration engineering, and system acquisition support. The NUWC Keyport support is an ongoing requirement that will last for the life of the program. However, the acquisition plan neither specified the NUWC Keyport life-cycle costs nor contractor versus Government performance issues. The program office acquisition manager needs to specify NUWC Keyport life-cycle costs in the acquisition plan and the contractor versus Government performance issues.

Staging Costs. There is no need for staging costs (assembling and testing) of $3.6 million. JIL proposed establishing a facility in Oklahoma City, Oklahoma, to stage all the commercial off-the-shelf hardware being procured (see Appendix D). The hardware would then be repackaged and sent to the users. This staging also overlaps system engineering and integration functions the NUWC Keyport plans to perform. FAR subpart 9.3, "First Article Testing and Approval," states that normally, testing and approval is not required in contracts for products normally sold in the commercial market. The program office acquisition manager could reduce costs by about $3.6 million by eliminating the proposed staging costs. If the acquisition manager determines the staging costs are necessary, they should be adequately described and justified in the acquisition plan.

Benefits of Competition

Reason for Competition. With the Competition in Contracting Act, Congress clearly established an "absolute preference" for competition. Various statutes and regulations on competition were designed to give an equal right to all persons to compete for Government contracts; to prevent unjust favoritism, collusion, or fraud in the letting of Government contracts; and to secure for the Government the benefits of competition. Competition allows the Government to get the best value for the least amount.

Competitive Versus Sole-Source FIP Costs. The program office could reduce costs by as much as $3.4 million on the FIP resources and other items if the contract is competed. We obtained price quotes for about $19 million of the total proposed FIP resource costs and other item costs totaling about $26 million. We used quotes from the low bid vendors for each item to calculate the $3.4 million cost benefit. Also, we compared JIL costs for the

workstations and peripheral and training support equipment to each vendor quote that we obtained. The vendor costs for FIP resources were lower than JIL costs.

Table 1 shows a comparison of the proposed prices from JIL and the quoted prices from other vendors. See Appendix E for more detailed information.

Table 1. Comparison of JIL Proposed Prices With Other Vendor Quoted Prices

Item Description	JIL Extended Price	Low Bid Vendor Extended Price	Difference Between JIL and Low Bid Vendor Extended Price	Difference (percent)
AMITS* workstations	$ 7,862,400	$ 6,875,600	$ 986,800	(12.55)
Peripheral and training support equipment	3,604,600	3,062,000	542,600	(15.05)
Rear screen project	6,992,300	5,440,715	1,551,585	(22.19)
Desk, right-hand	759,900	486,540	273,360	(35.97)
Total	**$19,219,200**	**$15,864,855**	**$3,354,345**	**(17.45)**

*Aviation Maintenance Interactive Training System.

The Program office acquisition manager needs to obtain competitive prices to the maximum extent possible on the FIP resources and other items.

Other Acquisition Alternatives. We contacted the Federal Systems Integration and Management Center (FEDSIM) to obtain price quotations on the hardware items being procured from JIL. FEDSIM serves all branches and departments of the Federal Government, has completed more than 3,000 projects, and has provided support to more than 50 Federal agencies. Further, FEDSIM offers client services such as acquisition, systems integration, office systems, software management, and data center management on a fee-for-service basis. FEDSIM has multiple indefinite-delivery, indefinite-quantity contracts with Section 8(a) contractors for FIP resources and competes orders among the contractors. Also, FEDSIM charges a $90 per hour rate for work needed to prepare and complete orders, along with a percentage of the reimbursable order amount to cover contracting costs (0.5 percent for hardware and 2.5 percent for services).

The program office could reduce costs by a minimum of about $2.0 million if the FIP resources and other items are procured from FEDSIM. The FEDSIM unit costs were based on small lot sizes (30 to 50 items), and larger quantity buys would result in lower unit costs. Also, hardware is purchased on a cost-reimbursable basis and support services are procured on a fixed-price basis.

Table 2 compares the proposed prices from JIL with the quoted prices from FEDSIM. See Appendix F for more detailed information.

Table 2. Comparison of JIL Proposed Prices With FEDSIM Quoted Prices

Item Description	JIL Extended Price	FEDSIM Extended Price	Difference Between JIL and FEDSIM Extended Price	Difference (percent)
AMITS* workstations	$ 7,862,400	$ 6,434,800	$1,427,600	(18.16)
Peripheral and training support equipment	3,604,600	3,126,900	477,700	(13.25)
Rear screen projector	6,992,300	6,907,285	85,015	(1.22)
Total	**$18,459,300**	**$16,468,985**	**$1,990,315**	**(10.78)**

*Aviation Maintenance Interactive Training System.

Management Control Program at NAVAIR

As reported in Inspector General, DoD, Audit Report No. 96-059, "Complaint to the Defense Hotline on Sole-Source Section 8(a) Contracts at the Naval Air Systems Command," January 16, 1996, NAVAIR had not fully implemented a management control program. In December 1992, NAVAIR developed a management control plan with 82 assessable units. NAVAIR assigned a medium risk to the assessable units and scheduled reviews of intra-agency agreements and FIP systems acquisition and life-cycle management planning in FYs 1995, 1996 and 1997. However, for FYs 1993, 1994, and 1995, NAVAIR had scheduled 40 reviews of assessable units (11 high risk areas), but performed none of the reviews. The management control officer stated that the reviews were not performed because of inadequate staffing. In response to recommendations in the previous report, the Commander, NAVAIR, agreed to

fully implement a management control program and to ensure that reviews of assessable units were performed. Therefore, we make no recommendations regarding the management control program in this report.

Recommendations and Management Comments

1. We recommend that Aviation Training Systems Program Manager, Naval Air Systems Command, require that the acquisition manager for the computer-based training systems procurement:

a. Prepare, coordinate, and obtain appropriate approvals of the acquisition plan for Federal Information Processing resources from the cognizant Naval Air Systems Command offices.

Management Comments. The Navy concurred and transferred the contracting responsibility to the NAVAIR contracting office. The Navy stated that the acquisition plan will be revised and fully staffed in accordance with NAVAIRINST 4200.36, to include the NAVAIR contracting office.

b. Forward funding documents and sole-source justifications to the cognizant Naval Air Systems Command contracts division when intra-agency contracting is used to place orders through other Navy organizations that ultimately result in noncompetitive contracts greater than $1 million.

Management Comments. The Navy concurred and stated that sole-source justifications and funding documents will be forwarded for review in accordance with NAVAIRINST 7300.8C, whenever applicable. The program office has sent its procurement request to NAVAIR contracting which plans to procure the training systems hardware and attendant services competitively. Actual monetary saving will be determined at the completion of the competitive award scheduled for early 1997.

c. Specify Naval Undersea Warfare Center Keyport life-cycle costs in the acquisition plan and the contractor versus Government performance issues.

Management Comments. The Navy concurred and stated that additional details on the Keyport technical support for systems integration and testing will be included in the amended acquisition plan.

d. Eliminate the proposed staging costs from the purchase of commercial off-the-shelf Federal information processing resources.

Management Comments. The Navy concurred with the intent of the recommendation and stated that the staging tasks performed by the contractor would be screened to ensure there is no overlap with tasks performed by Keyport. These tasks will be addressed in the acquisition plan. The Navy

stated that the exact monetary benefits related to staging would be determined after the screening in the revised competitive procurement scheduled for award in early 1997.

2. We recommend that the Assistant Secretary of the Navy (Research, Development, and Acquisition) revise guidance in the Acquisition Planning Guide to state that contracts for acquisitions that require acquisition plans not be awarded by other Navy organizations unless an acquisition plan is approved by the contracting office of the organization with acquisition responsibility.

Management Comments. The Navy nonconcurred but the response satisfied the intent of the recommendation.

3. We recommend that the Commander, Naval Supply Systems Command, notify the Fleet Industrial Supply Center, Detachment Long Beach contracting officer that the $30 million, sole-source, Section 8(a) contract, JIL Proposal 95-079 not be awarded under the Fleet Industrial Supply Center, Detachment Long Beach, Solicitation N00244-95-R-0432.

Management Comments. The Navy concurred and will have NAVAIR conduct a competitive procurement.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

Audit Scope. We reviewed the acquisition plan, contract solicitation, JIL proposals, and technical reviews prepared by NUWC Keyport for the computer-based training systems procurement.

Audit Period, Standards, and Locations. We performed this economy and efficiency audit from March through June 1996 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

Methodology

Review of the Proposed Sole-Source Section 8(a) Procurement. We reviewed the proposed prices from JIL for selected FIP resources and other items as of March 1996 and compared the prices to quoted prices obtained from other vendors using the FISC requirements and specifications to JIL as of May 1996 (see Appendixes E and F). We compared the proposed prices from JIL with prices quoted from FEDSIM. We did not attempt to obtain quotes for all items in the solicitation. We selected quotes for various components to show that those items were available from other sources and that the prices were lower when compared to JIL prices. The FISC independent estimate on those items was not available. Also, we interviewed NAVAIR acquisition officials, program office acquisition officials, NUWC Keyport officials, and FISC Long Beach contracting officials.

Use of Computer-Processed Data. We did not use computer-processed data or statistical procedures for this audit.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and the Small Business Administration.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of the management control procedures at NAVAIR. We also reviewed the adequacy of management controls over intra-agency acquisition, FIP systems acquisition, and life-cycle management planning. Specifically, we reviewed the NAVAIR management control program to determine whether management control reviews were scheduled and performed. We also reviewed the NAVAIR vulnerability assessments that rated each of the program assessable units.

Adequacy of Management Controls. We identified material control weaknesses for NAVAIR as defined by DoD Directive 5010.38*. The NAVAIR headquarters had not performed scheduled reviews of the major assessable units identified in the management control plan. Although we identified the material weaknesses, we make no recommendations because Inspector General, DoD, Audit Report No. 96-059, "Complaint to the Defense Hotline on Sole-Source Section 8(a) Contracts at the Naval Air Systems Command," January 16, 1996, contains recommendations to NAVAIR that should correct the material weaknesses identified in this report. A copy of the report will be sent to senior officials in charge of management controls for NAVAIR.

Adequacy of Management's Self-Evaluation. In December 1992, NAVAIR developed a management control plan with 82 assessable units. NAVAIR assigned medium risk to its assessable units and scheduled reviews of intra-agency acquisitions, FIP systems acquisition, and FIP life-cycle management planning in FYs 1995, 1996, and 1997. However, for FYs 1993, 1994, and 1995, NAVAIR had scheduled 40 reviews of assessable units (11 high-risk areas), but performed none of the reviews. The management control officer stated that the reviews were not performed because of inadequate staffing. In response to recommendations in the previous report, the Commander, NAVAIR, agreed to fully implement a management control program and to ensure that reviews of assessable units were performed.

*DoD Directive 5010.38 has been revised as "Management Control Program," August 26, 1996. The audit was performed under the April 1987 version of the directive.

Appendix B. Summary of Prior Audits and Other Reviews

General Accounting Office

General Accounting Office Report No. GAO/RCED-94-28 (OSD Case No. GAO/RCED-94-28), "Energy Management: Department of Energy Can Improve Distribution of Dollars Awarded Under SBA's [Small Business Administration's] 8(a) Program," February 23, 1994, states that the Department of Energy avoided the competition requirement directed by the Small Business Act to award Section 8(a) contracts sole source to a select number of contractors. Program offices structured procurements to understate the actual costs of obtaining contractor services. The Department of Energy awarded 58 percent of the $1 billion worth of active contracts to 13 contractors. The remaining 42 percent was allotted among 112 contractors.

The report recommends that the Department of Energy direct program offices at headquarters not to structure Section 8(a) contracts to avoid competition thresholds established in the Business Opportunity Development Reform Act. The Department of Energy indicated that it would evaluate the recommendation as part of its reform effort and would review the effects that contract award practices have on competition.

Inspector General, DoD

Report No. 96-059. Inspector General, DoD, Report No. 96-059, "Complaint to the Defense Hotline on Sole-Source Section 8(a) Contracts at the Naval Air Systems Command," January 16, 1996, states that NAVAIR inappropriately recommended to the Small Business Administration the sole-source award of six Section 8(a) indefinite-delivery, indefinite-quantity contracts, each with an anticipated award price that exceeded $3 million. As a result, NAVAIR paid about 30 percent more for labor costs on the sole-source contracts than it would have paid if the work had been competed among eligible Section 8(a) program participants. The report also states that implementing the recommendations would allow NAVAIR to reduce costs by about $45.7 million for FYs 1996 through 2001 by obtaining competition on all Section 8(a) contracts with anticipated award prices that exceeded $3 million. Additionally, the NAVAIR management control program could be improved in that a material weakness was identified related to NAVAIR headquarters not performing the scheduled reviews of the major program assessable units identified in the management control plan.

The report makes four recommendations to the Commander, NAVAIR. One was to require NAVAIR contracting officers and small business representative to define the anticipated award price of Section 8(a) contracts as 95 percent (or other appropriate percentage based on historic funding levels) of the maximum contract value. The second recommendation was to require contracting officers to recommend competition for Section 8(a) contracts with anticipated award prices greater than $3 million. Also, a recommendation was made to require the NAVAIR small business representative to recommend to the Small Business Administration competition for Section 8(a) contracts with anticipated award prices greater than $3 million. The fourth recommendation was that the Commander fully implement a management control program and ensure that management perform scheduled reviews of assessable units.

NAVAIR concurred with the intent of the recommendations to require contracting officers and the small business representative to recommend competition for Section 8(a) contracts with anticipated award prices greater than $3 million and to fully implement a management control program. NAVAIR nonconcurred with the recommendation to base Section 8(a) competitive threshold decisions on a percentage of the maximum contract amount determined by historic contract funding levels. NAVAIR stated it uses 100 percent of the "good faith estimate of the total value" to determine the anticipated contract award price. NAVAIR also nonconcurred with the potential monetary benefits, stating that the amended guidance from the Small Business Administration was in effect before the draft audit report was received and that NAVAIR was in compliance with the guidance. After meeting with NAVAIR and clarifying its response to the report, we accepted NAVAIR's response to the recommendations.

Report No. 96-203. Inspector General, DoD, Report No. 96-203, "Contracted Services for the Medium Altitude Endurance Unmanned Aerial Vehicle Joint Project Office, July 31, 1993, states that the Joint Project Office issued orders to other Navy organizations without appropriate reviews by the Naval Air Systems Command Contracts Division, ultimately resulting in the award of sole-source contracts greater than $1 million with Battlespace as a subcontractor. As a result, Battlespace was awarded a high-risk mix of overlapping labor contracts, and Battlespace charged DoD contracts questionable labor costs totaling $379,257 for 1993 and 1994.

Two recommendations were in the report. One was made to the Program Executive Officer, Cruise Missiles Project and the Unmanned Aerial Vehicles Joint Project, to issue a policy memorandum to project offices and to provide appropriate training to project office personnel, emphasizing the need to follow the Naval Air Systems Command requirement to forward funding documents and sole-source justifications to the cognizant NAVAIR Contracts Division for orders issued through other Navy organizations, ultimately resulting in sole-source contracts greater than $1 million. The second recommendation was made to the Commander, NAVAIR, to instruct the contracting officer for contract N00019-94-D-0129 to renegotiate fixed-hourly rates for Option Year II to a rate that reflects the actual hours worked under prior contracts.

The Navy concurred with the intent of the recommendations to have the Program Executive Officer, Cruise Missiles Project and the Unmanned Aerial Vehicles Joint Project, issue a policy memorandum to project offices and provide appropriate training to project office personnel relating to intra-agency contracting. Also, the Navy concurred with the recommendations to clarify the guidance on intra-agency contracting to ensure that "noncompetitive contracts" also includes noncompetitive orders on existing contracts and to instruct the contracting officer for contract N00019-94-D-0129 to renegotiate fixed-hourly rates for Option Year II to a rate that reflects the actual hours worked under prior contracts.

Report No. 93-051. Inspector General, DoD, Report No. 93-051, "Contract Award Protest of a Small Business Administration 8(a) Contractor," February 4, 1993, states that the U.S. Army Information Systems Selection and Acquisition Agency did not adequately comply with the requirements related to the Walsh-Healey Public Contracts Act and other small business Section 8(a) contracting requirements for the Installation Transition Processing program. Specifically, the contracting officer did not determine Walsh-Healey Act compliance. Further, competition was not pursued, and proposals were not adequate to ensure that small business requirements were met.

Because the procurement was withdrawn, no recommendations were made. The Army Information Systems Selection and Acquisition Agency elected to comment, stating that it acted appropriately and in accordance with the applicable rules in its Installation Transition Processing acquisition.

Report No. 93-024. Inspector General, DoD, Report No. 93-024, "The Use of Small Business Administration Section 8(a) Contractors in Automatic Data Processing Acquisitions," November 25, 1992, states that DoD Components were not following specific guidance for the effective use of the Section 8(a) Program. The Navy did not take full advantage of the opportunity to compete (offer for competitive bids) an automatic data processing acquisition under the Reform Act. The report identifies six Navy Section 8(a) contracts that had exceeded competition thresholds, but were sole-source acquisitions. Five of the six contracts were not competed because of a loophole in the regulations.

The report includes two recommendations. One was made to the Director, Office of Small and Disadvantaged Business Utilization, requesting that the Small Business Administration regulatory language in 13 CFR 124.311(a)(2) be changed from "the guaranteed minimum value of the contract" to "the estimated total lifetime value of the contract." The other recommendation was made to the Director, Defense Procurement, requesting that the Defense Acquisition Regulatory Council (now the Defense Acquisition Regulations Council) change the Defense Federal Acquisition Regulation Supplement to require that contracting officers justify in the "Agency Offering" why a proposed procurement that exceeds the dollar thresholds cannot be competed under the Business Opportunity Development Reform Act of 1988. As a result of mediation, the Director, Defense Procurement, issued a memorandum instructing contracting officers to pay close attention to the use of indefinite-

delivery, indefinite-quantity contracts for Section 8(a) procurements and to ensure appropriate use of that contract type and that it not be used to circumvent competition requirements.

Appendix C. Other Matters of Interest

Contractor Organization. JIL was founded in January 1985 under the laws of the Commonwealth of Virginia and certified as a minority-owned "small disadvantaged business" under the Small Business Administration Section 8(a) program through October 1994, when it was graduated from the program.

Innovative Management Solutions, Inc. was founded in January 1991 and certified as a minority-owned, small disadvantaged business under the Small Business Administration Section 8(a) program.

In 1994, discussions took place regarding the potential sale of JIL to Innovative Management Solutions. Prior to the sale, Innovative Management Solutions changed its name to JIL Information Systems, Inc. The overriding concern for Innovative Management Solutions was to preserve its eligibility under the Section 8(a) program. On July 31, 1995, the shareholders of JIL exchanged their holdings for shares ($3.2 million) in JIL Information Systems pursuant to a statutory merger of the two companies. The $3.2 million from JIL Information Systems, Inc., was based on a promissory note and a personal guarantee by its corporate executive officer. Monthly payments are made by the corporation. All JIL contracts were transferred to JIL Information Systems, which continues to perform using the same facilities and people as previously used by JIL. JIL Information Systems became the surviving corporation, and JIL was dissolved. JIL Information Systems will graduate from the Section 8(a) program in June 2002.

Appendix D. JIL Proposed Staging Costs

Description	Quantity	Oklahoma City Labor Cost	Assembly/ Test Cost	Box and Packing Material Cost	Total Labor Unit Cost[1]	Total Labor Extended Cost
Base Year						
AMITS[2] workstation	600	$896	$112	$55	$1,063	$ 637,800
AMITS instructor workstation	60	896	112	55	1,063	63,780
AMITS server workstation	30	896	154	55	1,105	33,150
AMITS course development workstation	5	896	112	55	1,063	5,315
AMITS engineering management workstation	5	896	112	55	1,063	5,315
Portable AMITS workstation	60	896	112	0	1,008	60,480
Ethernet hub	60	896	25	0	921	55,260
Remote access port	5	896	25	0	921	4,605
Modem, external	18	896	25	0	921	16,578
Printer, B&W[3]	180	896	25	0	921	165,780
Printer, color	8	896	25	0	921	7,368
Scanner, color	8	896	50	0	946	7,568
Subtotal						**$1,062,999**
Option Year 1						
AMITS workstation	900	$672	$118	$55	$ 845	$ 760,500
AMITS instructor workstation	90	672	118	55	845	76,050
AMITS server workstation	45	672	162	55	889	40,005
AMITS course development workstation	7	672	118	55	845	5,915
AMITS engineering management workstation	9	672	118	55	845	7,605
Portable AMITS workstation	90	672	118	0	790	71,100
Ethernet hub	90	672	26	0	698	62,820
Remote access port	7	672	26	0	698	4,886
Modem, external	27	672	26	0	698	18,846
Printer, B&W	270	672	26	0	698	188,460
Printer, color	14	672	26	0	698	9,772
Scanner, color	14	672	52	0	724	10,136
Subtotal						**$1,256,095**

See footnotes at end of table.

Appendix D. JIL Proposed Staging Costs

Description	Quantity	Oklahoma City Labor Cost	Assembly/ Test Cost	Box and Packing Material Cost	Total Labor Unit Cost[1]	Total Labor Extended Cost
Option Year 2						
AMITS workstation	500	$1,273	$124	$55	$1,452	$ 726,000
AMITS instructor workstation	50	1,273	124	55	1,452	72,600
AMITS server workstation	25	1,273	170	55	1,498	37,450
AMITS course development workstation	4	1,273	124	55	1,452	5,808
AMITS engineering management workstation	5	1,273	124	55	1,452	7,260
Portable AMITS workstation	50	1,273	124	0	1,397	69,850
Ethernet hub	50	1,273	124	0	1,397	69,850
Remote access port	4	1,273	27	0	1,300	5,200
Modem, external	15	1,273	27	0	1,300	19,500
Printer, B&W	150	1,273	124	0	1,397	209,550
Printer, color	8	1,273	27	0	1,300	10,400
Scanner, color	8	1,273	55	0	1,328	10,624
Subtotal						**$1,244,092**
Total						**$3,563,186**

[1]Total labor unit cost is included in item unit price in JIL proposal.
[2]Aviation Maintenance Interactive Training System.
[3]Black and white.

Appendix E. Summary of Pricing Comparison-JIL Proposal

Item Description	Quantity	Average JIL Unit Price	JIL Extended Price[1]	Vendor Unit Price			Low Vendor Extended Unit Price	Difference Between JIL and Low Vendor Extended Price	Difference (percent)
				Vendor A	Vendor B	Vendor C			
AMITS[2] workstation	2,000	$ 2,738	$ 5,476,000	$ 2,500	$ 2,492	$ 2,562	$ 4,984,000	$ 492,000	(8.98)
AMITS instructor workstation	200	2,951	590,200	2,500	2,655	2,586	500,000	90,200	(15.28)
AMITS server workstation	100	8,668	866,800	7,600	4,816	5,760	481,600	385,200	(44.44)
Portable AMITS workstation	200	4,647	929,400	5,600	4,661	4,550	910,000	19,400	(2.09)
Subtotal AMITS Workstations		**$19,004**	**$ 7,862,400**	**$18,200**	**$ 14,624**	**$15,458**	**$ 6,875,600**	**$ 986,800**	**(12.55)**
				Vendor A	Vendor B	Vendor C			
Ethernet hub	200	$ 1,822	$ 364,400	$ 1,800	$ 1,407	no bid[3]	$ 281,400	$ 83,000	(22.78)
Printer, black and white	600	2,428	1,456,800	3,900	1,882	no bid	1,129,200	327,600	(22.49)
External CD-ROM[4] tower	100	7,315	731,500	9,500	7,436	no bid	743,600	(12,100)	1.65
External RAID[5] unit	100	10,519	1,051,900	9,900	9,078	no bid	907,800	144,100	(13.70)
Subtotal Peripheral and Training Support Equipment		**$22,084**	**$ 3,604,600**	**$25,100**	**$19,803**	**no quote**	**$ 3,062,000**	**$ 542,600**	**(15.05)**
				Vendor C	Vendor D	Vendor E			
Rear screen projector	245	$28,540	$ 6,992,300	$22,207	N/A[6]	N/A	$ 5,440,715	$1,551,585	(22.19)
Desk, right handed	1,020	745	759,900	N/A	$ 477	$ 507	486,540	273,360	(35.97)
Subtotal Other Items		**$29,285**	**$ 7,752,200**	**$22,207**	**$ 477**	**$ 507**	**$ 5,927,255**	**$1,824,945**	**(23.54)**
Total			**$19,219,200**				**$15,864,855**	**$3,354,345**	**(17.45)**

[1]Average JIL Unit Price does not include, where applicable, Oklahoma City Labor Costs, and AMITS assembly and test costs.
[2]Aviation Maintenance Interactive Training Systems.
[3]Vendor chose not to bid for this item.
[4]Compact Disc - Read Only Memory.
[5]Redundant Array Integration Device.
[6]Not applicable. Vendor was not solicited to bid for this item.

Appendix F. Comparison of JIL Proposed Prices with FEDSIM Quoted Prices

Item Description	Quantity	Average JIL Unit Price	JIL Extended Price	FEDSIM Unit Price[1]	FEDSIM Extended Price	Difference Between JIL and FEDSIM Extended Price	Difference (percent)
AMITS[2] workstation	2,000	$ 2,738	$ 5,476,000	$ 2,356	$ 4,712,000	$ 764,000	(13.95)
AMITS instructor workstation	200	2,951	590,200	2,356	471,200	119,000	(20.16)
AMITS server workstation	100	8,668	866,800	4,328	432,800	434,000	(50.07)
Portable AMITS workstation	200	4,647	929,400	4,094	818,800	110,600	(11.90)
Subtotal AMITS Workstations			**$ 7,862,400**		**$ 6,434,800**	**$1,427,600**	**(18.16)**
Ethernet hub	200	$ 1,822	$ 364,400	$ 1,479	$ 295,800	$ 68,600	(18.83)
Printer, black and white	600	2,428	1,456,800	2,898	1,738,800	(282,000)	19.36
External CD-ROM[3] tower	100	7,315	731,500	3,497	349,700	381,800	(52.19)
External RAID[4] unit	100	10,519	1,051,900	7,426	742,600	309,300	(29.40)
Subtotal Peripheral and Training Support Equipment			**$ 3,604,600**		**$ 3,126,900**	**$ 477,700**	**(13.25)**
Rear screen projector[5]	245	28,540	6,992,300	28,193	6,907,285	85,015	(1.22)
Total			**$18,459,300**		**$16,468,985**	**$1,990,315**	**(10.78)**

[1]FEDSIM unit costs were based on small lot sizes (30 to 50 items). Larger quantity buys would result in lower unit costs.
[2]Aviation Maintenance Interactive Training Systems.
[3]Compact Disc - Read Only Memory.
[4]Redundant Array Integration Device.
[5]FEDSIM did not provide a price for the right-hand desk (for purposes of comparison to Appendix E data).

Appendix G. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
1.a.	Compliance With Regulations or Laws, Management Controls, and Program Results. Obtains competition on Section 8(a) contracts with anticipated award prices greater than $3 million.	Nonmonetary.
1.b.	Compliance With Regulations or Laws, Program Results, and Management Controls. Improves oversight of intra-agency contracting.	Funds put to better use of $2.0 million in various Navy appropriations for FYs 1996 through 1998.
1.c.	Compliance With Regulations or Laws, Management Controls, and Program Results. Improves oversight of NUWC life-cycle costs and identifies contractor versus Government performance.	Nonmonetary.
1.d.	Program Results and Management Controls. Eliminates staging costs for commercial off-the-shelf FIP resources.	Funds put to better use of $3.6 million in various Navy appropriations for FYs 1996 through 1998.
2.	Program Results and Management Controls. Prevents the award of contracts without acquisition plans that were approved by cognizant contracting offices.	Nonmonetary.
3.	Compliance With Regulations or Laws and Economy and Efficiency. Prevents the award of a $30 million, sole-source, Section 8(a) contract.	Funds put to better use as described for Recommendation 1.b.

Appendix H. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Director, Defense Procurement
Director, Small and Disadvantaged Business Utilization
Assistant to the Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, General Accounting Office
Office of Federal Procurement Policy
Small Business Administration

Non-Defense Federal Organizations (cont'd)

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

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 National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Department of the Navy Comments

THE ASSISTANT SECRETARY OF THE NAVY
(Research, Development and Acquisition)
WASHINGTON, D.C. 20350-1000

NOV 18 1996

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DODIG DRAFT AUDIT REPORT, "INTRA-AGENCY, SOLE SOURCE, SECTION 8(a) CONTRACT FOR THE NAVAL AVIATION TRAINING SYSTEMS PROGRAM OFFICE," 16 AUGUST 1996 (PROJECT NO. 6CF-8009)

Ref : (a) DODIG Memo of 16 August 96

Encl: (1) DON Response to the Subject Draft Audit Report

This is in response to the draft audit report forwarded by reference (a), concerning the procurement of a training system by the Naval Aviation Training Systems Program Office.

The Department of the Navy response is provided at enclosure (1). We generally agree with the draft report findings and recommendations. As outlined in the enclosed comments, the Department has taken action to improve the method of acquisition.

for John W. Douglass

Copy to:
NAVINSGEN
NAVCOMPT (NCB-53)

DEPARTMENT OF THE NAVY RESPONSE
DODIG DRAFT AUDIT REPORT
"INTRA-AGENCY, SOLE SOURCE, SECTION 8(a) CONTRACT
FOR THE NAVAL AVIATION TRAINING SYSTEMS PROGRAM OFFICE"
(PROJECT NO. 6CF-8009)

FINDING 1.a: The Aviation Training Systems Program Office (Program Office) planned to award a $30 million, sole-source, Section 8(a) contract to JIL Information Systems, Incorporated (JIL), through intra-agency acquisition procedures. The sole-source contract was inappropriately planned because the program office used the Naval Undersea Warfare Center (NUWC) Keyport, Washington to prepare the acquisition plan, and the plan was not reviewed by cognizant Naval Air Systems Command (NAVAIR) program offices. Although the Federal Acquisition Regulation (FAR) and NAVAIR requirements for preparing, coordinating, and obtaining appropriate approvals of the acquisition plan were clear for acquisitions within NAVAIR, such clarity did not exist when other Navy organizations were considered in preparing intra-agency plans.

DON COMMENTS: The Aviation Training Systems Program Office assigned the NUWC Keyport responsibility for the execution of the Integrated Computer Based Training System (ICBTS) program including contracting, management, acquisition, systems integration and testing tasks. NUWC Keyport planned to procure support services, integrated Aviation Maintenance Interactive Training Systems work stations assembled from commercial off-the-shelf (COTS) equipment, and operating systems software from a single directed vendor.

The Program Office did not ensure full NAVAIR headquarters staffing of the ICBTS Acquisition Plan (AP) in accordance with NAVAIR Instruction (NAVAIRINST) 4200.36. Specifically, for this intra-agency procurement, the AP should have been signed by the Program Manager, the Deputy for Acquisition and Operations, the Procuring Contracting Officer at the Fleet Industrial Supply Center (FISC) Detachment, Long Beach, California, and the Head of the Contracting Activity at the Naval Supply Systems Command (NAVSUP), or the designee.

The Program Office's use of NUWC Keyport to draft an AP is considered appropriate and is unrelated to the lack of full review of cognizant NAVAIR offices. Incomplete staffing of the draft AP was an oversight due, as noted in the audit, to the lack of a clear understanding of the staffing requirements for intra-agency acquisition plans, sole-source justifications, and funding documents.

RECOMMENDATION 1: We recommend that Aviation Training Systems Program Manager, Naval Air Systems Command, require that the acquisition manager for the computer-based training systems procurement:

a. Prepare, coordinate, and obtain appropriate approvals of the acquisition plan for Federal Information Processing (FIP) resources from the cognizant Naval Air Systems Command offices.

DON RESPONSE: Concur. The Program Office has transferred the contracting responsibility for the ICBTS to NAVAIR's contracting office. The acquisition plan will be revised and fully staffed in accordance with NAVAIRINST 4200.36, to include the NAVAIR contracting office.

FINDING 1.b: The sole-source contract was inappropriately planned. Further, the contract

was not going to be competitive procurement. The funding documents and sole-source justification for this sole-source procurement were not routed through NAVAIR contracts as required by NAVAIRINST 7300.8C. A comparison of the proposed material prices with competitive quotes showed that the Program Office could reduce costs by at least 11 percent and maybe as much as 17 percent, or $2.0 million to $3.4 million, if the requirements are competed.

DON COMMENTS: Based on the schedule established by the Office of the Chief of Naval Operations and the Quality Management Board for Aviation Computer Based Training, NUWC Keyport determined that the FY-96 program requirements would not be met if the contract were competed. NUWC Keyport further determined that fair market prices could be obtained, and recommended that a directed 8(a) contract be awarded through FISC Long Beach to JIL. The Aviation Training Systems Program Office concurred.

On July 13, 1995, FISC Long Beach, offered a requirement for the ICBTS procurement to the Small Business Administration (SBA) under the 8(a) program. This was based on the requisition from NUWC Keyport for a directed acquisition to JIL, estimated at $25 million over a five year period for a cost plus fixed fee, indefinite quantity indefinite delivery contract with a minimum guarantee of $50,000. This minimum guarantee was within the sole-source threshold for the 8(a) program.

Additionally, the Naval Information Systems Management Center provided a Delegation of Procurement Authority (DPA) to NAVSUP for the acquisition of FIP resources including hardware, software, and support services, for a directed source 8(a) contract. Both the SBA acceptance and the DPA were granted before August 7, 1995, the effective date of the SBA change which required that the competition threshold be based on the Government estimate including options, rather than the funded minimums.

RECOMMENDATION 1.b: Forward funding documents and sole-source justifications to the cognizant Naval Air Systems Command contracts division when intra-agency contracting is used in noncompetitive contracts greater $1 million.

DON RESPONSE: Concur. Sole-source justification and funding documents will be forwarded for review in accordance with NAVAIRINST 7300.8C, whenever applicable.

Further, the program office has sent its procurement request to NAVAIR contracting which plans to procure the ICBTS hardware and attendant services competitively. Currently, contract award is projected for early 1997.

Monetary Benefits: Some cost savings are anticipated as a result of the planned competition. The exact amount will be determined after the completion of the competitive strategy that NAVAIR is now pursuing. The Navy estimated the cost of the total procurement including options at $25 million versus $30 million, as stated in the draft audit, based on the amount of JIL's original proposal.

FINDING 1.c: Neither the role and associated costs of NUWC Keyport, nor the costs for the contractor to stage (assemble and test) the commercial off-the-shelf (COTS) hardware being procured were adequately defined and justified. As a result, the Government has no assurance that it would receive the best value for the least amount of money.

DON COMMENT: Concur.

RECOMMENDATION 1.c: Specify Naval Undersea Warfare Center Keyport life-cycle costs in the acquisition plan, and the contractor versus Government performance issues.

DON RESPONSE: Concur. Additional detail will be included in the amended acquisition plan. Technical support for systems integration and testing will remain at NUWC Keyport.

FINDING 1.d: There was no need to stage (assemble and test) the COTS hardware being procured. As these were COTS components, testing is not usually appropriate. Additionally, the task book showed NUWC Keyport providing about $1.2 million of support in FY 96 including system integration engineering and system acquisition support, which seemed to overlap the staging, to be to performed by JIL. A comparison of the proposed material prices indicates that costs could be reduced by an additional $3.6 million if proposed staging costs are eliminated.

DON COMMENTS: The audit findings do not take into account the acquisition strategy which calls for procurement and integration of COTS components and related operating systems software into the ICTBS, and support services from a single vendor to ensure compatibility. We do not agree that staging could be eliminated entirely. The staging allows for integration, assembly, and testing of the COTS components and operating system software, and verification that the ICBTS is compatible and inter-operable with the maintenance training course software. The support provided by NUWC Keyport integrates and tests the additional software which individualizes the ICBTS for specific aircraft training, such as the F-14, E-2C and F/A-18C/D.

RECOMMENDATION 1.d: Eliminate the proposed staging costs from the purchase of commercial off-the-shelf Federal Information Processing resources.

DON RESPONSE: Partially concur. As discussed above under the finding section, staging is necessary. We will screen the tasks to ensure there is no overlap and address this in the acquisition plan.

Monetary Benefit: Partially concur. Staging is a requirement for this procurement and can not be deleted for the reasons addressed in our comments under the finding. We disagree that costs could be reduced $3.6 for this element of the procurement. We cannot yet assess the amount of savings for staging after the screening in a revised competitive procurement.

FINDING 2. The Program Office assigned NUWC Keyport responsibility for the execution of the ICBTS program including contracting, management, acquisition, systems integration and testing tasks. The acquisition plan was not coordinated with the NAVAIR contracting office. The Program Office did not ensure full Naval Air Systems Command (NAVAIR) headquarters staffing of the ICBTS AP.

DON COMMENTS: The Navy Acquisition Planning Guide (APG) indicates that the Commander Naval Supply Systems Command (NAVSUP) or designee, as the head of the contracting activity (HCA) is the approval authority for APs prepared by a NAVSUP field contracting activity. This guidance is considered appropriate since the procurement was to be conducted using NAVSUP's contracting authority. Each Navy system command operates under the same Federal, Department of Defense and Navy regulations, and is responsible to ensure all procurements are conducted in accordance with those regulations. The current guidance is sufficient, as it appropriately places ultimate responsibility for compliance with acquisition regulations and statutes upon the HCA.

RECOMMENDATION 2: We recommend that the Assistant Secretary of the Navy (Research, Development, and Acquisition) revise guidance in the APG to state that contracts for acquisitions that require acquisition plans not be awarded by other Navy organizations unless an acquisition plan is approved by the contracting office of the organization with acquisition responsibility.

DON RESPONSE: Non-Concur. We concur with the premise underlying this recommendation that the Navy activity which generates the requirement is closer to the acquisition and thus may be in a better position to execute it. However, as stated in our comments above the APG places responsibility for the contracting aspects of an acquisition with the Navy activity that will execute the contract. Therefore, it is appropriate for the HCA of the contracting activity to be in the AP approval process for contracts to be executed within that Command.

RECOMMENDATION 3: We recommend that the Commander, NAVSUP notify FISC Detachment, Long Beach contracting officer that the $30 million, sole-source, Section 8 (a) contract, JIL proposal 95-079, not be awarded under the FISC, Long Beach solicitation N00244-95-R-0432.

DON RESPONSE: Concur. As stated above the competitive procurement will be conducted at NAVAIR.

Audit Team Members

This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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