DEPARTMENT OF DEFENSE

AUDIT REPORT

DEFENSE NUCLEAR AGENCY ACTIVITIES AT JOHNSTON ATOLL

No. 90-020

December 15, 1989

Office of the Inspector General

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

December 15, 1989

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
ASSISTANT TO THE SECRETARY OF DEFENSE (ATOMIC ENERGY)
DIRECTOR, DEFENSE NUCLEAR AGENCY

SUBJECT: Final Report on the Audit of the Defense Nuclear Agency Activities at Johnston Atoll (Report No. 90-020)

This is our final report on the Audit of the Defense Nuclear Agency (DNA) Activities at Johnston Atoll for your information and use. The management comments we received on a draft of this report were considered in preparing this final report. We made the audit from December 1988 through August 1989. The objectives of the audit were to evaluate the overall management and the economy and efficiency of the standby atmospheric testing mission and operations at Johnston Atoll. We also evaluated the base operating services and support (BOS) provided to the DNA and DoD tenant activities and examined the related internal controls. The DNA is the host agency at Johnston Atoll and provides overall administration and oversight of tenant activities at the Atoll. The BOS are provided under a cost-plus-award-fee contract, which was awarded by the Department of Energy (DoE). There are about 1,000 military, Government civilian, and contractor personnel on Johnston Atoll. These personnel are assigned a variety of tasks and functions in support of the Government agency missions and the BOS. The contract cost of the BOS was about $39 million in FY 1988.

The audit showed that the DNA has provided effective overall administration and oversight of Johnston Atoll. The audit did not identify any internal control weaknesses related to the overall administration of Johnston Atoll. However, the audit revealed that the BOS could have been delivered more economically and efficiently if the services had been procured under a fixed-price contract and awarded through full and open competition. The results of the audit are summarized in the following paragraphs, and the details, audit recommendations, and management comments are in Part II of this report.

The DoE awarded a cost-plus-award-fee contract in behalf of the DNA to procure BOS at Johnston Atoll. The DoE awarded the contract using a sole-source procurement method rather than choosing a fixed-price contract and using full and open competitive procurement methods, which are sanctioned by the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement for procurements such as BOS. Consequently, DoE chose an inappropriate contract and did not use competitive procurement procedures, resulting in DNA paying higher cost for the BOS contract. We recommended that the Director, Defense Nuclear Agency rescind the memorandum of agreement with the Department of Energy, which granted the Department of Energy exclusive authority to award, administer, and audit the contract for base operating services and support at Johnston Atoll. Additionally, we recommended that the Director, Defense Nuclear Agency develop the necessary cost data and prepare a sufficiently detailed statement of work to solicit and award a contract, preferably fixed-price, through full and open competition at Johnston Atoll (page 5).

The management comments on a draft of this report did not fully comply with the requirements of DoD Directive 7650.3. The Director, Defense Nuclear Agency concurred in the finding and the recommendations, but did not provide the estimated dates for completion of planned actions. Therefore, we ask that the Director, Defense Nuclear Agency provide estimated completion dates in responding to the final report. The Director, Defense Nuclear Agency should provide final positions on the finding and recommendations, and the estimated completion dates within 60 days of the date of this report. The complete text of management's comments is in Appendix A.

This report identifies no potential monetary benefits because we could not quantify savings. However, implementation of our recommendations on awarding a fixed-price contract through full and open competition should result in monetary benefits.

The courtesies extended to the audit staff are appreciated. A list of the audit team members is in Appendix C. If you have any questions on this audit, please contact Mr. Shelton R. Young at 202-694-6221 (AUTOVON 224-6221) or Mr. Julian E. Swittenberg at 202-693-0355 (AUTOVON 223-0355).

Copies of the final report will be distributed to the activities listed in Appendix D.

Stephen A. Trodden
Assistant Inspector General
for Auditing

Enclosure

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

REPORT ON THE AUDIT OF THE DEFENSE NUCLEAR AGENCY ACTIVITIES AT JOHNSTON ATOLL

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Prepared by:
Acquisition Management
Directorate
Project No. 9AB-0023

REPORT ON THE AUDIT OF THE DEFENSE NUCLEAR AGENCY ACTIVITIES AT JOHNSTON ATOLL

PART I - INTRODUCTION

Background

Johnston Atoll is a possession of the United States, located approximately 700 miles southwest of the state of Hawaii. Because Johnston Atoll is an isolated and secure location, it is considered strategically important and an ideal base for atmospheric nuclear testing. In 1962, Johnston Atoll provided a base of operations and command and control for several high altitude nuclear tests. Before the United States Senate would ratify the Limited Test Ban Treaty of 1963, the Senate required assurances that the United States could resume atmospheric nuclear testing in an orderly and responsive manner should the Soviet Union abrogate the treaty. The assurances are embodied in the National Nuclear Test Readiness Program of 1963. The part of the National Nuclear Test Readiness Program that provides for the resumption of atmospheric nuclear testing is known as Safeguard C. Johnston Atoll is considered the primary readiness-to-test facility and its main mission is to be ready to fulfill Safeguard C requirements.

The Defense Nuclear Agency (DNA) and the Department of Energy (DoE) are jointly responsible for maintaining Safeguard C requirements. The DoE is responsible for the scientific and technical support and the DNA is responsible for the administration and oversight of Safeguard C capabilities and assets on Johnston Atoll. The DNA is financially responsible to DoE, the procurement agency, for all allowable contractor cost incurred in providing base operating services and support (BOS) at Johnston Atoll. DNA is reimbursed, however, for BOS provided to other Government tenant activities at Johnston Atoll.

The BOS contractor is Holmes & Narver, a sole-source contractor for BOS at Johnston Atoll since about 1962. Holmes & Narver is responsible for all engineering, construction, and BOS at Johnston Atoll. BOS include work functions such as building, vehicle, and road maintenance; groundskeeping; security; fire protection; food and dispensary service; refuse collection; and operating and maintaining utility systems. Holmes & Narver provides the support at Johnston Atoll as part of an umbrella contract that includes services at the DoE's Nevada Underground Test Site and its Pacific operations. The contract value for Johnston Atoll was about $39 million in FY 1988.

The two major missions on Johnston Atoll are the maintenance of a basic capability to resume nuclear testing in the atmosphere and the Army's storage and disposal of chemical munitions and

agents. Other missions at Johnston Atoll include the Coast Guard's long range aid to navigation station and the U.S. Fish and Wildlife Program. Johnston Atoll has about 1,000 Government and contractor personnel, but no native personnel.

Objectives and Scope

The objectives of the audit were to evaluate the:

- overall management and economy and efficiency of the DNA standby atmospheric testing activities at Johnston Atoll,

- contractual support provided to the DNA and DoD tenant activities at Johnston Atoll, and

- applicable internal controls.

The audit was conducted mainly at the Field Command, Defense Nuclear Agency (FCDNA), Albuquerque, New Mexico; and the FCDNA, Detachment 1, Johnston Atoll. We examined DNA's records that related to the management, planning, and funding of Safeguard C requirements from FY 1976 through August 1989. We evaluated BOS contract DE-AC08-86NV10471, the host-tenant agreements, and the related internal controls from FY 1986 through August 1989. We reviewed and evaluated the Navy's and the Air Force's contract policies and procedures for procuring BOS comparable to those provided at Johnston Atoll. Also, we judgmentally selected three special projects that Holmes & Narver had completed. We visually inspected the quality of work and the number of labor hours charged to complete the three projects.

We reviewed records, reports, and documents covering September 1984 through August 1989, applicable to the internal controls of the management, planning, and funding of Safeguard C requirements. The audit disclosed no material internal control deficiencies.

This economy and efficiency audit was made from December 1988 to August 1989 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of internal controls as were considered necessary. The activities visited or contacted during the audit are shown in Appendix B.

Prior Audit Coverage

The Office of the Inspector General, DNA issued an inspection report, "FY 1985 Special General Inspection of Detachment 1, Johnston Atoll," June 14, 1985. The report stated that the BOS contract at Johnston Atoll was convoluted and inefficient. The report concluded that the contract's statement of work (SOW) did not identify specific tasks, did not contain effective quality

assurance procedures, and did not provide contractor incentives for economy of operations. The report recommended that DNA inform DoE and take steps to provide a separate DNA contract. DNA has been working on providing the DoE with a detailed SOW for the next contract and obtaining a commitment from the DoE that will ensure that the next contract will be competitively awarded.

The Office of the Inspector General, DoD issued an investigation memorandum report, "Review of Defense Nuclear Agency Activities in the Pacific," December 8, 1986. The report stated that DoE had not conducted audits to determine the authenticity of the costs that the BOS contractor had billed to the DNA, and that DoE had refused to allow DoD audit agencies to participate in audit and oversight of the BOS contract. The DoE responded to this report by contracting a certified public accounting firm to perform an audit of Holmes & Narver's cost accounting and billing systems. According to DoE, the accounting firm did not find any problems with Holmes & Narver's cost accounting and billing systems applicable to the BOS contract.

The FCDNA, issued an internal management report, "Johnston Atoll Base Operating Service Contract," December 29, 1986. The report stated that the BOS contract at Johnston Atoll was deficient because the contract had been awarded sole source since 1965. FCDNA has been working on obtaining a commitment from the DoE that will ensure that the next contract will be competitively awarded.

The Office of the Inspector General, DoD issued an inspection report, "Inspection of Defense Nuclear Agency," September 28, 1987. The report stated that the BOS contract did not provide sufficient detailed cost data to verify and audit the billings received. In FY 1989, Holmes & Narver established a new billing system that provides the tenants with more detailed cost data.

PART II - FINDING AND RECOMMENDATIONS

Contract Selection and Contract Award

FINDING

The Department of Energy (DoE) chose a cost-plus-award-fee contract for base operating services and support (BOS) at Johnston Atoll and awarded the contract using sole-source procurement procedures. This occurred because the Defense Nuclear Agency (DNA) and DoE signed a memorandum of agreement that granted DoE exclusive authority to procure, administer, and audit the BOS contract for Johnston Atoll. The Competition in Contracting Act, Public Law 98-369, July 18, 1984; the Federal Acquisition Regulation (FAR), April 1, 1984; and the Defense Federal Acquisition Regulation Supplement (DFARS), January 6, 1986, require the use of full and open competition in Government contracting, whenever practical, and the use of fixed-price contracts to procure routine and predictable services. Consequently, DoE chose an inappropriate contract and did not use competitive procurement procedures, resulting in DNA paying higher cost for the BOS contract.

DISCUSSION OF DETAILS

Background. The FAR is the primary regulation that all Federal Executive agencies use in their acquisition of supplies and services with appropriated funds. The FAR provides broad and specific guidance, such as the appropriate use of competition and proper contract selection, to meet the agency's acquisition objectives. The FAR sanctions full and open competition in Federal procurement of supplies and services, and it provides specific guidance on the proper selection of contracts to procure certain supplies and services. Also, the FAR classifies Government contracts into two broad categories, fixed-price contracts and cost reimbursement contracts. The two categories have many variations and offer advantages and disadvantages depending on the procurement objectives. The contract types vary according to the responsibility and risk that the contractor assumes for performance and the profit incentive offered the contractor to achieve or exceed specified standards or goals. The FAR 16.101(b) states that:

> The specific contract types range from firm-fixed price, in which the contractor has full responsibility for the performance costs and resulting profit (or loss), to cost-plus fixed-fee, in which the contractor has minimal responsibility for the performance costs and the resulting fee (profit) is fixed. In between are the various incentive contracts, in which the contractor's

> responsibility for the performance costs and profit or fee incentives offered are tailored to the uncertainties involved in contract performance.

The FAR and DFARS provide the following guidance on contract type and award.

- FAR 16.103(a) states that the procurement "objective is to negotiate a contract type and price that will result in reasonable contractor risk and provide the contractor with the greatest incentive for efficient and economical performance."

- FAR 16.103(b) states "a firm-fixed-price contract, which best utilizes the basic profit motive of business enterprise, shall be used when the risk involved is minimal or can be predicted with an acceptable degree of certainty."

- DFARS 16.404-2 states that the "cost-plus-award-fee contract is suitable for level of effort contracts . . . where . . . measurement of achievement must be made by subjective evaluation rather than by objective measurement . . . ."

- DFARS 16.101 states that "when award is based on effective price competition, there is reasonable assurance that the contract price represents a realistic pricing standard . . . ."

In referring to cost reimbursement contracts, the General Accounting Office said in a report, "Procurement: Opportunities to Use More Preferred Practices for Base Support Contracts," February 13, 1987:

> These contracts have three significant drawbacks with regard to cost: (1) They place maximum risk on the government and minimum risk on the contractor, (2) they give the contractor little incentive to control cost, and (3) they place a large administrative burden on both the government and the contractor to oversee, control, and identify reasonable and necessary contract costs.

In summary, contract types vary in the degree to which they help control costs. Firm-fixed-price contracts provide the most control because the contract price is already set.

Memorandum of Agreement. The DoE and DNA signed Memorandum of Agreement No. DE-AI08-85NV10454, April 3, 1985, which grants DoE exclusive authority to award, administer, and audit the contract for BOS at Johnston Atoll. DNA and other DoD agencies (when other DoD agencies were in control of the Atoll) have renewed this agreement with DoE about every 5 years since 1965, in spite of the fact that DoE has used sole-source, noncompetitive procurements for the BOS at the Atoll and has

disallowed the DNA Inspector General and other DoD audit agencies any role in auditing or participating in audit resolutions concerning the BOS contractor at Johnston Atoll. The memorandum of agreement may be terminated by mutual consent at any time or by either party after it gives an advance notice of at least 180 days.

Contract Selection. DoE selected a cost-plus-award-fee procurement for BOS at Johnston Atoll; however, the FAR states, in essence, that this type contract is to be used only when the work cannot be defined and measured. As previously stated, when risk of contract performance is minimal or can be predicted with an acceptable degree of certainty, a firm-fixed-price contract is preferred. Conversely, the FAR 16.301-2 says that cost reimbursement contracts should be used only "when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract." BOS are ordinary, routine, and predictable, and performance of services can be measured. For BOS on Johnston Atoll, the FAR clearly indicates that a fixed-price contract should be used because work load is definable, predictable, and measurable; and it is more economical and efficient than a cost reimbursement contract.

The FAR 16.103(c) states that "in particular, contracting officers should avoid protracted use of cost reimbursement or time and material contracts after experience provides a basis for firmer pricing." The DoE has had over 20 years of experience with contracting for BOS on Johnston Atoll, but continues to award this contract on a cost reimbursement basis.

The cost reimbursement contract at Johnston Atoll provides the Government with:

- all financial risks for ordinary, routine, and predictable services;
- little incentive for the contractor to operate economically and efficiently;
- no standards to measure the contractor against; and
- no penalties for not meeting standards.

Our observations while at Johnston Atoll and interviews of key personnel indicated that the contractor was meeting the basic mission of providing BOS; however, the services provided have been inefficient. We reviewed Contractor Performance Award Fee Evaluations and found examples of contractor inefficiencies. For example, the August 31, 1988, Contractor Performance Award Fee Evaluation stated:

> With the increase in personnel and funding, there appears to be no increase in maintenance activities, simply more people on the payroll. Of particular note is that management is not seeking more modern and efficient methods of doing work, the prevailing attitude being that, this has always worked why change?
>
> Another area of concern is at the first line supervisor level. On numerous job sites and projects that are visited, there is no firm evidence of control or direction. The workers are not being properly supervised, i.e. [that is], there appears to be no one in charge, the project either happens or doesn't happen.

Additionally, we judgmentally selected three special projects that Holmes & Narver had completed and found that their labor hours were excessive. The contractor estimated that five apartments in building 695 would require 200 labor hours to lay carpet in the living room, dining room, and hallway; and it would require 160 labor hours to replace floor tile in the kitchen and bath. The Corps of Engineers at Johnston Atoll estimated that the carpet installation should take 32 labor hours while the tile replacement should take 27 labor hours. This represents a difference of 525 percent and 493 percent, respectively. The records we reviewed indicated that the actual labor hours equaled or were close to the contractor's estimated labor hours. The third example was the construction of a sidewalk. The contractor expended 558 labor hours on this project while the Corps of Engineers estimated that it should have taken no more than 232 labor hours. This represents a difference of 141 percent.

We interviewed officials responsible for setting policy on BOS from the Office of the Assistant Secretary of the Army (Research, Development and Acquisition), the Naval Facilities Engineering Command, and the Office of the Assistant Secretary of the Air Force (Acquisition). They stated that fixed-price contracts were feasible and were the preferred method of contracting for BOS.

Further, we reviewed contracts that were similar in scope with work being performed at Johnston Atoll and found that they were fixed-price contracts. For example, Diego Garcia Atoll; Midway Island; Wake Island; and Naval Submarine Base, Bangor, Bremerton, Washington are all using fixed-price contracts for BOS.

Contract Award. DoE awarded a sole-source contract for BOS at Johnston Atoll, contrary to the FAR requirement that full and open competition be used whenever practical. DoE procured a single multilocation contract covering a broad range of services (known as an umbrella contract) for its Nevada operations,

Pacific operations, and DNA Johnston Atoll operations rather than breaking out and awarding a separate contract for Johnston Atoll. Umbrella contracts allow a multitude of services to be offered under a single contract. These services may be provided at one location or several locations. For example, the Diego Garcia Atoll contract has 27 services with each service having its own individual statement of work (SOW). The General Accounting Office has criticized umbrella contracts as being restrictive to competition. The unique requirements of the Nevada Underground Nuclear Test Site prevent companies from competing for Johnston Atoll's routine and ordinary BOS work.

Although DoE and DNA are jointly responsible for Safeguard C, we found no compelling reason why Johnston Atoll should continue to be included with the DoE's Nevada and Pacific operations. DNA officials stated that DoE officials justified the sole-source contract with Holmes & Narver because the contractor is the only contractor experienced in conducting atmospheric and underground nuclear testing. Also, transitioning from underground testing to atmospheric testing would be less time-consuming if Holmes & Narver was responsible for underground testing and Safeguard C.

Because BOS is a separate and distinct function from testing, it can be contracted separately. For example, to obtain increased competition, the Arnold Engineering Development Center (Arnold), an on going testing facility located in Tullahoma, Tennessee, split its single contract into two testing contracts and a BOS contract. Personnel from Arnold stated that they are highly satisfied with the results because increased competition resulted in greater contractor responsiveness. Additionally, with advanced planning, DNA and DoE could agree to an arrangement under which technical personnel (such as scientists, engineers, and technicians) from Holmes & Narver would switch from underground testing to atmospheric testing. For example, DoE could make this a contingency on its cost reimbursement underground test contract and the BOS contractor would support Holmes & Narver's technical staff in the same manner that it is supporting the Johnston Atoll work force.

A Competitive Environment Exists. As previously stated in the prior audit coverage section, the Field Command, Defense Nuclear Agency (FCDNA) report recognized the potential savings resulting from competition and recommended that DNA obtain a commitment from the DoE to compete the next Johnston Atoll BOS contract, beginning in fiscal year 1991. At the time of the audit, FCDNA officials remained convinced that a competitive environment still existed. Additionally, officials from the U.S. Army Western Command, a major tenant at Johnston Atoll, stated that they are confident that many firms in the state of Hawaii would compete for a BOS contract at Johnston Atoll, and competition would reduce contract cost.

FCDNA officials stated that DoE does plan to award the new BOS contract competitively in FY 1991, but the contract will remain cost-plus-award-fee. Moreover, Johnston Atoll BOS will not be contracted separately from DoE's contract for the Nevada and Pacific operations and support. This will restrict competition because many firms that could compete for Johnston Atoll's routine and ordinary BOS will not be able to compete when the unique technical requirements of the Nevada test site are added.

Competition Can Reduce Contract Costs. The Inspector General, Department of Defense Report No. 88-084, "Real Property Maintenance Performed By Contractors," showed that in FY 1985, reduced competition (less than four bidders) cost DoD a projected $39 million and as much as $173 million could have been saved if there were eight or more bidders. The report showed an inverse relationship between the number of competitors and contract value in relationship to Government estimates. As the number of competitors increased, the contract value decreased in relationship to Government estimates.

Officials from the Office of the Assistant Secretary of the Army (Research, Development and Acquisition); Naval Facilities Engineering Command; and Office of the Assistant Secretary of the Air Force (Acquisition) responsible for setting policy on BOS stated that BOS contracts should be competitively awarded. These officials stated that the FAR clearly recognizes that competition produces savings.

In summary, increased competition and savings should result by breaking out and awarding a separate BOS contract for Johnston Atoll.

Contract Administration and Oversight. The DoE is responsible only for the administration and oversight of the contract for BOS at Johnston Atoll, although the work load and funding is generated almost exclusively by the DoD. The DoE provides no direct funding for BOS and has only one permanent position at Johnston Atoll. Conversely, the DNA provides all direct funding while other DoD agencies provide most of the reimbursable funding for BOS at Johnston Atoll. For example, in FY 1988 DoD funded approximately 99 percent of the total operations at Johnston Atoll. Further, the two predominant missions at the Atoll belong to the DNA and the Department of the Army. Of the approximate 1,000 personnel assigned to Johnston Atoll, all but 13 are directly related to these two missions.

Because most of the work load and 99 percent of the funding originates within the DoD, DNA should make the important decisions such as contract type and contract administration. For example, DoE rather than DNA determines which costs are reasonable, allowable, and allocable under the contract; negotiates wage rates; and decides on the amount of the award fee

to be provided to the contractor. To assume a larger role in the contracting area, DNA wrote a detailed SOW to be included in the request for proposal for the new contract beginning in fiscal year 1991. However, DNA officials stated that DoE will not include the SOW in the request for proposal. If DNA were responsible for contract award and administration, it could implement its policies and strategies without having to first seek and obtain the approval of the DoE.

Additionally, DNA has no contractual ties with the contractor, creating an unwieldy four-party arrangement among tenants, DNA, DoE, and the contractor. All tenants sign an Interagency Support Agreement (ISA) with the DNA. The ISA documents the support to be provided and the costs that the tenant will pay. The DoE, which has no work load on the Atoll, in reality, is an additional layer between tenants, DNA, and the contractor. For example, when tenants have problems that involve the contractor, they must notify the DNA. DNA must then go to DoE, which, in turn, resolves the issues with the contractor. This was the process used in FY's 1986 to 1988 when the tenants were trying to obtain details and backup documentation for their billings. This situation was resolved after years of negotiation among tenants, DNA, DoE, and the contractor. The contractor's monthly billing system also illustrates the additional layer that DoE represents in the process. The contractor sends the bills and backup documentation to the DoE. The DoE bills the DNA, which, in turn, bills the tenants.

The DoE is solely responsible for auditing the contract and has not allowed DoD access to the contractor's books and records. The DNA may request that specific audits be performed; however, DoE is under no obligation to perform any requested audits. A DNA contract would allow the DoD to administer and audit the BOS contract at Johnston Atoll. More importantly, a DNA contract would allow DNA more controls and flexibility in managing the BOS being provided to Johnston Atoll.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Director, Defense Nuclear Agency rescind the memorandum of agreement with the Department of Energy that provides the Department of Energy exclusive right to award, administer, and audit the contract for base operating services and support at Johnston Atoll.

2. We recommend that the Director, Defense Nuclear Agency develop the necessary cost data and prepare a sufficiently detailed statement of work to solicit and award a contract, preferably fixed-price, through full and open competition for base operating services and support at Johnston Atoll.

MANAGEMENT COMMENTS

Management concurred with the finding and recommendations.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

We accept the Director, Defense Nuclear Agency's response to the draft report; however, we request that DNA provide estimated completion dates for the planned actions in its response to the final report.

Defense Nuclear Agency
6801 Telegraph Road
Alexandria, Virginia 22310-3398

14 November 1989

Final Repo
Page Numbe

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING

SUBJECT: Defense Nuclear Agency Comments on "Draft Report on the Audit of the Defense Nuclear Agency Activities at Johnston Atoll" (9AB-0023), dated 5 September 1989

1. As requested in your "Draft Report on the Audit of the Defense Nuclear Agency Activities at Johnston Atoll" (9AB-0023), I am providing the following comments.

2. Overall, I concur with the report. I do, however, have comments on the findings on page 13 and 14 concerning Holmes and Narver projects; and on the wording for recommendation 2 on page 21. 8 11

3. Concerning the Holmes and Narver projects, the DoDIG looked at three special projects and determined that labor hours were excessive. Field Command (FCDNA) requested a DOE audit of the special projects and the detailed DOE audit report is enclosed for your information and use as appropriate. The DOE review of your findings indicates there is significant disagreement on the factual situation upon which your report is based and we recommend this be clarified with the DOE before release of your report. To illustrate, the DOE auditor states that eight apartments were refurbished in Building 695 instead of the five upon which your report is based. The DOE auditor maintains that "... the work was performed by Holmes and Narver, Inc. (H&N) in an efficient and effective manner as directed by the Government." Notwithstanding the disposition of the conflicting audit conclusions, FCDNA has implemented management controls and oversight that have resulted in significant improvements in the quality of service provided by Holmes and Narver and the efficiency of their operations on Johnston Atoll.

4. As concerns the wording of recommendation 2, it reads that DNA should "...solicit and award a fixed-price contract through full and open competition...". This wording does not completely support the DoDIG conclusion on page 19 that "... DNA should decide important decisions such as contract type and contract administration." The recommendation should be rewritten to recognize DNA's capability to determine the appropriate type of contract within current FAR and DoD guidelines. It should read "...solicit and award a contract, preferably fixed price, through full and open competition...". 10

SUBJECT: Defense Nuclear Agency Comments on "Draft Report on the Audit of the Defense Nuclear Agency Activities at Johnston Atoll" (9AB-0023), dated 5 September 1989

5. To summarize and respond to the requirements of DoD Directive 7650.3, the following is provided:

a. Finding - Contract Selection and Contract Award. Concur.

b. Recommendation 1: "that the Director, DNA rescind the MOU with the DOE that provides the DOE exclusive right to award, administer, and audit the contract for base operating services and support at Johnston Atoll." Concur. Because this action is not entirely within DNA's control, it is not possible to forecast specifically when this recommendation can be implemented.

c. Recommendation 2: Concur as caveated in paragraph 4 above. Again, it is not possible to comply with the requirements of DoDD 7650.3 regarding an anticipated completion date; achieving Recommendation 2 is dependent upon the resolution of Recommendation 1.

6. It should be noted that action is underway that could lead to a transfer of JA management responsibility to the Army.

Enclosure:
as stated

GERALD G. WATSON
Major General, USA
Director

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant to the Secretary of Defense (Atomic Energy), Washington, DC

Department of the Army

Assistant Secretary of the Army (Research, Development and Acquisition), Washington, DC
Army Corps of Engineers, Washington, DC
Army Corps of Engineers, Pacific Ocean Division, Fort Shafter, HI
Army Corps of Engineers, Johnston Atoll
U.S. Army Western Command, Fort Shafter, HI
U.S. Army Chemical Activity Western Command, Johnston Atoll

Department of the Navy

Naval Facilities Engineering Command, Alexandria, VA

Department of the Air Force

Directorate of Contracting and Manufacturing Policy, Washington, DC
Arnold Engineering Development Center, Tullahoma, TN

Other Defense Agencies

Defense Nuclear Agency, Alexandria, VA
Field Command, Defense Nuclear Agency, Albuquerque, NM
Field Command, Defense Nuclear Agency, Detachment 1, Johnston Atoll
Defense Intelligence Agency, Washington, DC

Other Government Agencies

Inspector General, Department of Energy, Washington, DC
U.S. Coast Guard, Johnston Atoll
U.S. Fish and Wildlife Service, Johnston Atoll

AUDIT TEAM MEMBERS

David A. Brinkman, Director, Acquisition Management Directorate
Shelton R. Young, Program Director
Julian E. Swittenberg, Project Manager
Jerel Silver, Team Leader

FINAL REPORT DISTRIBUTION

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Comptroller of the Department of Defense
Assistant Secretary of Defense (Public Affairs)
Assistant to the Secretary of Defense (Atomic Energy)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Assistant Secretary of the Army (Research, Development and Acquisition)
Commander, Army Corps of Engineers
Deputy Assistant Inspector General of the Army Public Affairs
U.S. Army Western Command
U.S. Army Chemical Activity Western Command
Army Corps of Engineers, Chemical Demilitarization Resident Office

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(Continued)

Non-DoD Activities

Office of Management and Budget

Department of Energy

General Accounting Office

Congressional Committees:
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- Senate Ranking Minority Member, Committee on Armed Services
- House Committee on Appropriations
- House Subcommittee on Defense, Committee on Appropriations
- House Ranking Minority Member, Committee on Appropriations
- House Committee on Armed Services
- House Committee on Government Operations
- House Subcommittee on Legislation and National Security, Committee on Government Operations