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

REPORT NO. 91-015 November 30, 1990

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (SHIPBUILDING AND LOGISTICS)

SUBJECT: Final Report on the Audit of Architect-Engineer Contracting at the Officer in Charge of Construction, Naval Facilities Engineering Command Contracts, Mediterranean, Madrid, Spain (Project No. 9CD-0032.03)

Introduction

This is our final report on the audit of Architect-Engineer Contracting for the Officer in Charge of Construction, Naval Facilities Engineering Command Contracts, Mediterranean, for your information and use. This is the fourth in a series of reports issued as part of the audit of architect-engineer (A-E) contracting. The Contract Management Directorate made the audit from August 1989 through July 1990. When we expanded the audit scope to include Navy A-E contracting procedures in Europe, the audit objectives were limited to evaluating the system for awarding architect-engineer contracts through reviewing the internal controls. In fiscal years 1987 and 1988, 368 DoD activities reported 21,770 architect-engineer contracts (valued at over $25,000 each) totaling $4.8 billion. The Officer in Charge of Construction, Mediterranean (OICC-MED) reports through the Atlantic Division, Naval Facilities Engineering Command (NAVFAC). There were 48 direct A-E contracts at OICC-MED, which excludes "indirect contracts" (those contracts issued through the host nation governments), valued at over $25,000 each, totaling $6,976,000.

Discussion

The audit did not identify any problem areas or internal control weaknesses related to the system for awarding and administering A-E contracts at OICC-MED. Internal control weaknesses related to the award and administration of A-E contracts in fiscal years 1987 and 1988 were corrected prior to the audit. We commend OICC-MED for a good job on strengthening and implementing internal controls in the A-E contract award and administration process.

In October 1987, the Navy issued an updated NAVFAC P-68, Contracting Manual, and subsequent changes. OICC-MED also issued

its "Yellow Book," OICC MED Instruction 4330.7A, "Contracting Deskguide for OICC MED." As a result of these manuals, OICC-MED has implemented procedures to provide for separation of duties so that one or two individuals could not control the entire process. For example, slate/selection board members are selected from a list of individuals who have met certain established qualifications. Also, Boards of Negotiations have at least three members for all A-E contracts over $25,000 and two members for all A-E contract modifications over $25,000. Further, we found sufficient documentation to follow the events of the process, and the records of negotiations were sufficiently detailed to adequately explain the events.

Scope of Audit

At OICC-MED, we randomly selected for review, 15 of 48 direct A-E contracts that had FY 1987 or 1988 actions valued at over $25,000. Three of the fifteen contracts were later excluded because they were miscoded as A-E contracts. The remaining 12 basic contracts totaled $1,035,000. We also reviewed 18 modifications or orders, related to these 12 basic contracts, greater than $25,000 each that totaled $979,000; 26 modifications or orders for less than $25,000 each that totaled $14,000 in contract reductions; and 13 administrative modifications with no dollar value. The total value reviewed for FY's 1987 and 1988 was $2,000,000. Enclosure 1 lists the contracts and actions reviewed for our initial sample.

In addition to the 12 contracts and related actions identified above, we also reviewed a sample of FY's 1989 and 1990 A-E contracts. As a followup, we evaluated new procedures implemented by OICC-MED prior to the completion of our audit and subsequent to our initial sample. We reviewed 8 of 10 FY 1989 contracts and all 4 of the new FY 1990 contracts to date, which had at least 1 action valued at greater than $25,000. In addition, we also reviewed one FY 1989 contract, which only had actions less than $25,000. These 13 basic contracts totaled $1,248,000. In addition, we reviewed 22 modifications and orders greater than $25,000 that totaled $2,401,000; 32 modifications and orders less than $25,000 that totaled $309,000; and 8 administrative modifications with no dollar value. The 13 basic contracts and 62 related actions reviewed totaled $3,958,000. Enclosure 2 lists the contracts reviewed for the FY's 1989 and 1990 sample. The activities visited during the audit are listed in Enclosure 3.

The economy and efficiency audit was made at the Officer in Charge of Construction, Naval Facilities Engineering Command Contracts, Mediterranean, from August 1989 through July 1990 and was conducted in accordance with auditing standards issued by the

Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary.

Internal Controls

We evaluated the internal controls used by OICC-MED for A-E contracts. The evaluation included a review of A-E contract files, Architect-Engineer Contract Administration Support System (ACASS) data, procurement management reviews, and compliance with Federal, DoD and Navy Acquisition regulations. We also interviewed contract and investigative personnel to further evaluate internal controls.

The internal controls applicable to the system for awarding and administering A-E contracts at OICC-MED were considered effective. No material internal control weaknesses were disclosed by the audit.

Background

"The Brooks Architect-Engineers Act," (the Brooks Act) Public Law 92-582, dated October 27, 1972, sets forth the basic statutory framework for Federal agencies to use when contracting for architectural and engineering services. The Brooks Act defines architectural and engineering services as including ". . . those professional services of an architectural or engineering nature as well as incidental services that members of these professions and those in their employ may logically or justifiably perform."

The Federal Acquisition Regulation (FAR) establishes the primary policies and procedures for all acquisitions by executive agencies. The Defense Federal Acquisition Regulation Supplement (DFARS) contains the guidance that DoD contracting personnel should use when they award and administer DoD contracts. The DFARS implements the FAR and provides supplementary policies and procedures, unique to DoD. The Military Departments, the Army Corps of Engineers, and NAVFAC further supplement the FAR and DFARS with their own acquisition regulations. The NAVFAC Contracting Manual (P-68) also establishes NAVFAC uniform policies and procedures for the acquisition of construction, A-E, utilities, services, and supplies.

Prior Audit Coverage

This report is the fourth in a series of reports on architect-engineer contracting in Europe that the Inspector General, DoD, has issued. One draft report and two final reports have been issued for three other European DoD sites.

The Inspector General, DoD, issued a draft report titled "Architect-Engineer Contracting at U.S. Army Engineer Division, Europe" dated July 12, 1990. One of the final reports, Report No. 90-084, "Report on the Audit of Architect-Engineer Contracting at Ramstein Air Base," June 14, 1990, showed that A-E contracts were awarded to firms selected by collusive procedures between the successful firm and local national employees of the U.S. Government who also served as subcontractors to the successful firm. The report recommended establishing additional internal controls to provide for separation of duties, to preclude duplication of personnel in key processes, to provide for rotation of assignments, to increase supervisory review, and to establish more complete documentation. A recommendation was also made to comply with the provisions already established in the FAR. The Air Force has concurred with our recommendations and has initiated corrective actions.

The other final report, Report No. 91-001, "Architect-Engineer Contracting at Detachment 1, Space Combat Support Operations, Copenhagen, Denmark, October 4, 1990, disclosed internal control weaknesses in the A-E contract award procedures at Detachment 1. These weaknesses were corrected by the Air Force prior to the issuance of the final report.

The Office of the Inspector General, DoD, issued Report No. 87-219 "Military Specifications for Commercial Type Construction Items," August 12, 1987. Finding B. of that report identified problems in the use of advisory audits, the acquisition of certified cost or pricing data, and the inclusion of statements of reliance on certified cost or pricing data in negotiations. The report recommended that the FAR be fully implemented and that a greater number of A-E contracts be incorporated into annual postaward auditing plans. Management concurred with the recommendation, and action was considered responsive. The Defense Contract Audit Agency (DCAA) performed additional defective pricing reviews to determine the risk involved. As a result of these reviews, DCAA stated that the risk on A-E contracts was no greater than the risk on other DoD contracts and elected not to include any additional audits beyond their normal scheduled reviews.

Report Staffing

We provided a draft of this report to the addressees on September 28, 1990. Because there were no recommendations, no comments were required of management, and none were received. Since there are no unresolved issues, written comments to this report are not required.

We appreciate the courtesies and cooperation extended to the audit staff. The audit team members are listed in Enclosure 4. Copies of the final report will be distributed to the activities listed in Enclosure 5. If you desire to discuss this final report, please contact Mr. Paul J. Granetto, Program Director, at (703) 693-0573, (AUTOVON 223-0573) or Mr. Wayne K. Million, Project Manager, at (703) 693-0593, (AUTOVON 223-0593).

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Commander, Naval Facilities Engineering Command

LISTING OF CONTRACTS REVIEWED AT OFFICER IN CHARGE OF CONSTRUCTION, MEDITERRANEAN

Contract Number	Order/ Mod 1/	Contractor	Dollar Amount (000)
N62745-85-C-0141	(Basic)	Jules J. Jordy Associates	$30
N62745-85-C-0141	P00001	Jules J. Jordy Associates	$0
N62745-85-C-0141	P00002	Jules J. Jordy Associates	$2
N62745-85-C-0141	P00003	Jules J. Jordy Associates	$0
N62745-87-D-1065	(Basic)	LGK/LFM, S.A.	N/A 2/
N62745-87-D-1065	0001	LGK/LFM, S.A.	$64
N62745-87-D-1065	0002	LGK/LFM, S.A.	$14
N62745-87-D-1065	0003	LGK/LFM, S.A.	$41
N62745-87-D-1065	0004	LGK/LFM, S.A.	$62
N62745-87-D-1065	000401	LGK/LFM, S.A.	$30
N62745-87-D-1065	0005	LGK/LFM, S.A.	$70
N62745-87-D-1065	0006	LGK/LFM, S.A.	$8
N62745-87-D-1065	0007	LGK/LFM, S.A.	$20
N62745-87-D-1065	0008	LGK/LFM, S.A.	$2
N62745-87-D-1065	0009	LGK/LFM, S.A.	$31
N62745-87-D-1065	0010	LGK/LFM, S.A.	$19
N62745-87-D-1065	0011	LGK/LFM, S.A.	$42
N62745-87-D-1065	0012	LGK/LFM, S.A.	$3
N62745-87-D-1065	0013	LGK/LFM, S.A.	$8
N62745-84-C-0179	(Basic)	Robert M. Houston GmbH	$38
N62745-84-C-0179	P00003	Robert M. Houston GmbH	$26
N62745-84-C-0179	P00004	Robert M. Houston GmbH	$4
N62745-84-C-0179	P00005	Robert M. Houston GmbH	$0
N62745-86-C-1964	(Basic)	Maria Pia Banelli	$65
N62745-86-C-1964	P00001	Maria Pia Banelli	$87
N62745-86-C-1964	P00002	Maria Pia Banelli	$0
N62745-86-C-1964	P00003	Maria Pia Banelli	($17)
N62745-86-C-0211	(Basic)	Clark, Nexsen, Owen, Barbieri and Gibson	$568
N62745-86-D-0207	(Basic)	Law Engineering Iberica, S.A.	$15
N62745-86-D-0207	P00001	Law Engineering Iberica, S.A.	$100
N62745-86-D-0207	P00002	Law Engineering Iberica, S.A.	$38
N62745-86-D-0207	P00003	Law Engineering Iberica, S.A.	$48
N62745-86-D-0207	P00004	Law Engineering Iberica, S.A.	$3
N62745-86-D-0207	P00005	Law Engineering Iberica, S.A.	$98
N62745-86-D-0207	P00006	Law Engineering Iberica, S.A.	$2
N62745-86-D-0207	P00007	Law Engineering Iberica, S.A.	$0

See footnotes on next page.

LISTING OF CONTRACTS REVIEWED AT OFFICER IN CHARGE OF CONSTRUCTION, MEDITERRANEAN (continued)

Contract Number	Order/ Mod 1/	Contractor	Dollar Amount (000)
N62745-86-D-0207	P00008	Law Engineering Iberica, S.A.	$47
N62745-86-D-0207	P00009	Law Engineering Iberica, S.A.	$93
N62745-86-D-0207	P00010	Law Engineering Iberica, S.A.	($126)
N62745-86-D-0207	P00011	Law Engineering Iberica, S.A.	$8
N62745-86-D-0207	P00012	Law Engineering Iberica, S.A.	$0
N62745-86-D-0207	P00013	Law Engineering Iberica, S.A.	$0
N62745-86-D-0207	P00014	Law Engineering Iberica, S.A.	$0
N62745-86-D-0207	P00015	Law Engineering Iberica, S.A.	$0
N62745-86-D-0207	P00016	Law Engineering Iberica, S.A.	$0
N62745-87-C-1085	(Basic)	MMM Design Group	$138
N62745-86-C-1922	(Basic)	Cardarelli & C., S.R.L.	$10
N62745-86-C-1922	P00003	Cardarelli & C., S.R.L.	$30
N62745-86-C-1922	P00004	Cardarelli & C., S.R.L.	$10
N62745-86-C-1922	P00005	Cardarelli & C., S.R.L.	$14
N62745-86-C-1922	P00006	Cardarelli & C., S.R.L.	$9
N62745-86-C-1922	P00007	Cardarelli & C., S.R.L.	$11
N62745-86-C-0127	(Basic)	Apostoleris Associates	$29
N62745-86-C-0127	P00001	Apostoleris Associates	$46
N62745-86-C-0127	P00002	Apostoleris Associates	$24
N62745-86-C-0127	P00003	Apostoleris Associates	$0
N62745-86-C-0127	P00004	Apostoleris Associates	$1
N62745-83-C-0203	(Basic)	Robert M. Houston GmbH	$67
N62745-83-C-0203	P00006	Robert M. Houston GmbH	($39)
N62745-85-C-1203	(Basic)	ING. Benito Rossi	$11
N62745-85-C-1203	P00001	ING. Benito Rossi	$0
N62745-85-C-1203	P00002	ING. Benito Rossi	$2
N62745-85-C-1203	P00003	ING. Benito Rossi	$1
N62745-85-C-1203	P00004	ING. Benito Rossi	$26
N62745-85-C-1203	P00005	ING. Benito Rossi	$1
N62745-85-C-1203	P00006	ING. Benito Rossi	($1)
N62745-86-C-0153	(Basic)	Briel, Rhame, Poynter & Houser	$64
N62745-86-C-0153	P00001	Briel, Rhame, Poynter & Houser	$0
N62745-86-C-0153	P00002	Briel, Rhame, Poynter & Houser	$3

1/ Order and Modification Numbers.
2/ N/A equals Not Applicable.

LISTING OF FY 1989 & FY 1990 CONTRACTS REVIEWED AT OFFICER IN CHARGE OF CONSTRUCTION, MEDITERRANEAN

Contract Number	Order/ Mod 1/	Contractor	Dollar Amount (000)
N62745-89-C-0421	(Basic)	Booker Associates, Inc.	$136
N62745-89-C-0421	P00001	Booker Associates, Inc.	$5
N62745-89-C-0421	P00002	Booker Associates, Inc.	$26
N62745-89-C-0421	P00003	Booker Associates, Inc.	$212
N62745-89-C-0421	P00004	Booker Associates, Inc.	$11
N62745-89-C-0421	P00005	Booker Associates, Inc.	$0
N62745-89-C-0421	P00006	Booker Associates, Inc.	$6
N62745-89-C-0421	P00007	Booker Associates, Inc.	$72
N62745-89-C-0421	P00008	Booker Associates, Inc.	$9
N62745-89-C-0421	P00009	Booker Associates, Inc.	$4
N62745-89-C-0421	P00010	Booker Associates, Inc.	$8
N62745-89-C-0421	P00011	Booker Associates, Inc.	$121
N62745-89-C-0421	P00012	Booker Associates, Inc.	($3)
N62745-89-C-0421	P00013	Booker Associates, Inc.	$4
N62745-89-C-0421	P00014	Booker Associates, Inc.	$72
N62745-89-D-0433	(Basic)	Willbros Butler Engineerings, Inc.	N/A 2/
N62745-89-D-0433	0001	Willbros Butler	$32
N62745-89-D-0433	P00001	Willbros Butler	$0
N62745-89-D-0433	0002	Willbros Butler	$99
N62745-89-D-0433	0003	Willbros Butler	$10
N62745-89-D-0433	0004	Willbros Butler	$9
N62745-89-D-0433	0005	Willbros Butler	$17
N62745-89-C-0423	(Basic)	MMM Design Group	$701
N62745-89-C-0423	P00001	MMM Design Group	$43
N62745-89-C-0423	P00002	MMM Design Group	$0
N62745-89-C-0423	P00003	MMM Design Group	$664
N62745-89-C-0423	P00004	MMM Design Group	$61
N62745-89-C-0423	P00005	MMM Design Group	$0
N62745-89-C-0423	P00006	MMM Design Group	$17
N62745-89-C-0423	P00007	MMM Design Group	$21
N62745-89-C-0423	P00008	MMM Design Group	$0
N62745-89-C-0423	P00009	MMM Design Group	$19
N62745-89-C-0423	P00010	MMM Design Group	$0
N62745-89-C-0423	P00011	MMM Design Group	$29
N62745-89-C-0423	P00012	MMM Design Group	$42
N62745-89-C-0423	P00013	MMM Design Group	$66
N62745-89-C-0423	P00014	MMM Design Group	$122
N62745-89-C-0423	P00015	MMM Design Group	$4
N62745-89-C-0423	P00016	MMM Design Group	$4
N62745-89-C-0423	P00017	MMM Design Group	$80
N62745-89-C-0423	P00018	MMM Design Group	$77

See footnotes on last page.

LISTING OF FY 1989 & FY 1990 CONTRACTS REVIEWED AT OFFICER IN CHARGE OF CONSTRUCTION, MEDITERRANEAN (continued)

Contract Number	Order/ Mod 1/	Contractor	Dollar Amount (000)
N62745-88-C-0101	(Basic)	Robert M. Houston	$48
N62745-89-C-0443	(Basic)	Clark, Nexsen, Owen, Barbieri & Gibson	$99
N62745-89-C-0443	P00001	Clark, Nexsen, Owen, Barbieri	$8
N62745-89-C-0443	P00002	Clark, Nexsen, Owen, Barbieri	$8
N62745-89-R-0437	(Basic)	Jerry Light and Associates, S.A.	$40
N62745-89-C-0465	(Basic)	Morales & Shumer, Engineers, Inc.	$30
N62745-89-C-0465	P00001	Morales & Shumer,	$2
N62745-88-D-0057	(Basic)	Willbros Butler Engineerings, Inc.	N/A 2/
N62745-88-D-0057	P00001	Willbros Butler	$0
N62745-88-D-0057	0001	Willbros Butler	$7
N62745-88-D-0057	0002	Willbros Butler	$31
N62745-88-D-0057	0003	Willbros Butler	$8
N62745-88-D-0057	0004	Willbros Butler	$7
N62745-88-D-0057	000401	Willbros Butler	$16
N62745-88-D-0057	000402	Willbros Butler	$7
N62745-88-D-0057	0005	Willbros Butler	$7
N62745-88-D-0057	0006	Willbros Butler	$18
N62745-88-D-0057	0007	Willbros Butler	$51
N62745-88-D-0057	0008	Willbros Butler	$6
N62745-88-D-0057	0009	Willbros Butler	$9
N62745-88-D-0057	0010	Willbros Butler	$8
N62745-88-D-0095	(Basic)	Clark, Nexsen, Owen, Barbieri & Gibson	N/A 2/
N62745-88-D-0095	0001	Clark, Nexsen, Owen, Barbieri	$27
N62745-88-D-0095	000101	Clark, Nexsen, Owen, Barbieri	$76
N62745-88-D-0095	0002	Clark, Nexsen, Owen, Barbieri	$23
N62745-88-D-0095	000201	Clark, Nexsen, Owen, Barbieri	$16
N62745-88-D-0095	000202	Clark, Nexsen, Owen, Barbieri	$66
N62745-88-D-0095	0003	Clark, Nexsen, Owen, Barbieri	$14

See footnotes on last page

LISTING OF FY 1989 & FY 1990 CONTRACTS
REVIEWED AT
OFFICER IN CHARGE OF CONSTRUCTION, MEDITERRANEAN
(continued)

Contract Number	Order/ Mod 1/	Contractor	Dollar Amount (000)
N62745-89-C-0061	(Basic)	Wilbur Smith Associates	$64
N62745-90-C-1143	(Basic)	The OK Design Group	$33
N62745-90-C-1143	P00001	The OK Design Group	$0
N62745-90-C-1155	(Basic)	Cardarelli & C., S.r.l.	$30
N62745-88-C-0093	(Basic)	Clark, Nexsen, Owen, Barbieri & Gibson	$67
N62745-88-C-0093	P00001	Clark, Nexsen, Owen, Barbieri & Gibson	$332

1/ Order and Modification numbers.
2/ N/A equals Not Applicable

ACTIVITIES VISITED OR CONTACTED

Department of the Navy

Atlantic Division, Naval Facilities Engineering Command, Norfolk, VA
Officer in Charge of Construction, Naval Facilities Engineering Command Contracts, Mediterranean, Madrid, Spain

AUDIT TEAM MEMBERS

David K. Steensma, Director, Contract Management Directorate
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Assistant Secretary of the Navy (Financial Management)
Commander, Naval Facilities Engineering Command, Alexandria, VA
Atlantic Division, Naval Facilities Engineering Command, Norfolk, VA
Officer in Charge of Construction, Naval Facilities Engineering Command Contracts, Mediterranean, Madrid, Spain

Other Defense Activities

U.S. Commander In Chief Europe
Office of the Inspector General, Inspector General Regional Office, Europe

Non-Defense Activities

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information Center

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