Audit Report

OFFICE OF THE INSPECTOR GENERAL

CONTRACT FOR NAVY GALLEY, SCULLERY, AND LAUNDRY EQUIPMENT REPAIR

Report No. 94-029 January 14, 1994

Department of Defense

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Acronyms

AST	Advanced Systems Technology, Incorporated
SIC	Standard Industrial Classification

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

January 14, 1994

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)

SUBJECT: Audit Report on the Contract for Navy Galley, Scullery, and Laundry Equipment (Report No. 94-029)

We are providing this audit report for your information and use. Congressman Owen B. Pickett requested that the Inspector General, DoD, review allegations that Advanced Systems Technology, Incorporated, performed improper work on contract N00189-89-D-0373 for Navy galley, scullery, and laundry equipment.

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

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Wayne K. Million, Program Director, at (703) 692-2991 (DSN 222-2991) or Mr. Nicholas E. Como, Project Manager, at (703) 692-2996 (DSN 222-2996). Appendix D lists the distribution of this report. The audit team members are listed in the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 94-029 **January 14, 1994**
(Project No. 3CG-5027)

CONTRACT FOR NAVY GALLEY, SCULLERY, AND LAUNDRY EQUIPMENT REPAIR

EXECUTIVE SUMMARY

Introduction. Congressman Owen B. Pickett requested this audit on behalf of a constituent. The constituent alleged that Advanced Systems Technology, Incorporated, used the incorrect standard industrial classification code to designate the type of work performed in the contract, and charged the Navy exorbitant prices for work performed. The complainant further alleged that the work performed outside the scope of the contract and the use of the incorrect standard industrial classification code forced small businesses in the Norfolk, Virginia, area to close.

Objectives. Our objectives were to determine whether the allegations were substantiated, to examine contract award and contract administration of contract N00189-89-D-0373, as they relate to the Small Business Administration 8(a) program, to compare the contract statement of work to actual contractor performance, and to examine internal controls related to contracting procedures.

Audit Results. The allegations were not substantiated. Advanced Systems Technology, Incorporated, was performing contract N00189-89-D-0373, valued at $6.65 million, within the scope of the statement of work. Further, Advanced Systems Technology, Incorporated, had used the correct standard industrial classification code to designate the type of work performed in the contract and did not charge the Navy exorbitant prices for work performed. Although three of the four small businesses performing similar work in the Norfolk area did experience a decline in Navy work, the complainant's sales to the Navy increased during the period analyzed. Appendix A summarizes the results of the review of the four allegations. Except for one area of contract administration, the Fleet Industrial Supply Center, Norfolk, Virginia, did an excellent job of contracting and administering the contract for Navy galley, scullery, and laundry equipment repair service delivery orders.

The Fleet and Industrial Supply Center contracting and technical personnel did not properly administer contract N00189-89-D-0373 to account for maintenance training for ship force personnel. As a result, the Navy could not validate that its ship force personnel received the maintenance training contracted for, and the Navy may be paying for training that may not have been delivered on the contract. Part II provides additional details.

Internal Controls. The audit did not identify any material internal control weaknesses. The internal controls assessed are discussed in Part I.

Potential Benefits of Audit. Monetary benefits could be realized by implementing internal controls over contract administration procedures; however, we could not quantify the amount. Appendix B describes the potential benefits resulting from implementing the recommendations.

Summary of Recommendations. We recommend that the Contracting Officer, Fleet and Industrial Supply Center, establish contract administration procedures to verify that the Navy received the type and amount of training identified in the statement of work.

Management Comments. The Navy partially concurred with the recommendation to identify personnel training requirements for each ship requiring training, with or without repair of equipment. However, the Navy did not agree to identify personnel by name. The Navy concurred with the recommendations to verify that ship force personnel assigned for training receive training in accordance with the proposed tasking records on the delivery orders. Additionally, the Navy agreed to verify that assigned ship force personnel completed training and to account for the total contractor hours expended for training. A summary of management comments is in Part II and the complete text of management comments is in Part IV of this report.

Audit Response. As a result of management comments, we revised one recommendation, deleting the requirement for the Navy to identify ship force personnel requiring training by name. We find the Navy comments to be completely responsive; therefore, no additional comments are required.

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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate (703) 614-6303 (DSN 224-6303).

Part I - Introduction

Background

The Inspector General, DoD, received a series of allegations addressing contracting practices for ship maintenance and repair at the Fleet and Industrial Supply Center, Norfolk, Virginia, from Congressman Owen B. Pickett, Virginia. The complainant submitted four letters to Congressman Pickett between March and June 1993. The allegations address contract N00189-89-D-0373 with Advanced Systems Technology, Incorporated (AST), and the Fleet and Industrial Supply Center. AST is a contractor qualified to participate in the Small Business Administration 8(a) program, that is, section 8(a) of the Small Business Act as amended by United States Code, title 15, section 637(a). The complainant alleged that AST was performing work outside of the scope of the statement of work, charging excessive labor hours, and using the incorrect standard industrial classification code to designate contractor performance. The complainant further alleged that the work AST performed outside the scope of the statement of work and the use of the incorrect standard industrial classification code forced small businesses in the Norfolk area to close.

Objectives

Our objectives were to review the allegations, to examine contract award and contract administration procedures as they relate to the 8(a) program, to compare the contract statement of work to actual contractor performance, and to examine internal controls related to contracting procedures. A summary of each allegation and the results of our review is in Appendix A.

Scope and Methodology

We examined data at the Contracting Office, Fleet and Industrial Supply Center, pertinent to the allegations. For contract N00189-89-D-0373, valued at $6.65 million, we examined in detail a sample of 30 delivery orders, valued at $86,199, of the 290 completed delivery orders valued at $1,075,581, specifically related to galley, scullery, and laundry equipment repairs for FYs 1992 and 1993. We also examined in detail a judgemental sample of 30 of the complainant's FY 1993 delivery orders, valued at $109,483. We compiled annual sales data for AST for galley, scullery, and laundry equipment repairs ($730,718 for FY 1992 and $885,192 for the first 10 months of FY 1993) and the complainant's business ($88,086 for FY 1992 and $120,720 for the first 10 months of FY 1993). We also compiled annual sales data for three similar businesses contracting with the Navy ($365,491 for FY 1992 and $121,886 for the first 10 months of FY 1993). We interviewed the complainant,

representatives of AST and the Small Business Administration, and contracting and technical personnel at the Fleet and Industrial Supply Center and the Naval Surface Force Atlantic Readiness Support Group, Norfolk, Virginia.

This economy and efficiency audit was made from July through September 1993, in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of internal controls as were considered necessary. We did not rely on computer-processed data to conduct this review. Appendix C lists the organizations visited or contacted during the audit.

Internal Controls

We reviewed internal controls involving contract administration procedures of contract N00189-89-D-0373 as they related to the allegations presented by the complainant. We specifically reviewed internal control procedures employed by the Fleet and Industrial Supply Center to ensure that the contract was properly awarded according to the requirements specified by the Small Business Administration 8(a) program. We also reviewed procedures that required the contractor to conduct maintenance tasks in accordance with the statement of work specified in the contract and according to the designated standard industrial classification code.

The Fleet and Industrial Supply Center conducted a vulnerability assessment of the Small Business program in January, 1993. The overall risk of the Small Business program was ranked low. The Fleet and Industrial Supply Center is developing an Internal Management Control program for the Small Business program that will be included in the 1993-1997 Management Control Plan.

This review was performed in accordance with the Federal Manager's Financial Integrity Act as implemented by the Office of Management and Budget Circular A-123. Internal controls at the contracting office, Fleet and Industrial Supply Center, were effective and the audit disclosed no material internal control weaknesses.

Prior Audits and Other Reviews

No prior audits were performed that specifically included contract N00189-89-D-0373 at the Fleet and Industrial Supply Center.

Part II - Finding and Recommendations

Contract Administration

The Fleet and Industrial Supply Center contracting staff did not properly administer contract N00189-89-D-0373 to account for maintenance training for Navy ship force personnel. Further, the Fleet and Industrial Supply Center contracting staff did not establish a plan to identify and schedule training requirements before issuing delivery orders, verify the amount and type of training received by Navy personnel, or confirm that Navy personnel completed training. The improper contract administration occurred because the contracting staff did not follow established contract administration procedures. As a result, the Navy could not validate that its ship force personnel received the maintenance training contracted for, and the Navy may be paying for training that may not have been delivered on the contract.

Background

Regulations. Federal Acquisition Regulation part 16, "Types of Contracts," states that an indefinite-quantity contract provides for the procurement of specific supplies or services to be furnished during a fixed period within stated limits, with scheduled deliveries to be made by placing orders with the contractor. Federal Acquisition Regulation part 16 further states that an indefinite-quantity contract may be used when the Government cannot predetermine, above a specified minimum, the amount of goods or services to be procured, and advises that the Government commit itself to more than a minimum quantity.

Federal Acquisition Regulation part 16 also suggests that time-and-materials contracts may be used for acquiring supplies or services based on direct labor hours at fixed hourly rates that include wages, overhead, general and administrative expenses, profit, and materials at cost. The regulation further requires appropriate Government surveillance of contractor performance in time-and-material contracts to provide for a reasonable assurance that efficient work methods and effective cost controls are used.

The contracting officer is responsible for monitoring contractor performance. The contracting officer's technical representative is responsible for providing technical direction and for monitoring the progress and quality of contractor performance.

Contract Type and Requirements. Contract N00189-89-D-0373 is an indefinite-quantity, time-and-materials contract performed under the Small Business Administration 8(a) program. The contract was awarded on July 1, 1989, by the Fleet and Industrial Supply Center (formerly the Naval Supply Center). The contract award value, including modifications, was $6,650,595.

The contractor was required to provide repair assistance and instruction relating to maintenance, overhaul, and repair of Naval galley, scullery, and laundry equipment. The contractor was required to provide technical assistance and advice to ship force personnel pertinent on the operation, overhaul, and repair of specific items of equipment. In addition, the contractor is required to conduct brief, concentrated classroom instructions and shipboard "hands-on" instruction through application of maintenance techniques and practices on actual equipment.

Contracting Office Responsibilities

Contracting personnel are responsible for taking all necessary and prudent action to ensure that contracting specifications are satisfactorily accomplished. However, Fleet and Industrial Supply Center contracting and technical personnel for contract N00189-89-D-0373 did not:

o establish a plan to integrate training into the maintenance contract upon the receipt of a delivery order,

o verify the amount and type of training received by Naval personnel by equipment type and confirm that Naval personnel completed training, or

o verify that training costs were accurate.

Training Plan. The Navy contracting personnel did not have an effective procedure to establish a training plan when maintenance requests were received or to identify specific personnel for training and document that the training was actually completed.

Maintenance Request Procedures. The Navy contracting personnel did not follow established contract administration procedures by establishing a training plan when related maintenance was requested. Immediate unit commanders of Naval ships initiate contractual actions by requesting maintenance from the Naval Surface Force Atlantic Readiness Support Group on the OPNAV Form 4790/2K, "Ship Maintenance Action Form." The Naval Surface Force Atlantic Readiness Support Group prepares a DD Form 1149, "Requisition and Invoice/Shipping Document," which outlines the requested maintenance, estimated hours, materials, and costs to complete the maintenance. The Requisition and Invoice/Shipping Document is submitted to the contracting officer who prepares the delivery order and attaches a proposed tasking record. The proposed tasking record requires training of ship force personnel associated with the maintenance prescribed in the delivery order. The contracting officer then submits the delivery order and the proposed tasking record to AST to begin maintenance.

Training Scheduling Procedures and Documentation. The Navy did not have procedures to identify and schedule ship force personnel for training when requesting and scheduling maintenance from AST on contract N00189-89-D-0373. Immediate unit commanders did not identify or schedule ship force personnel requiring training. Instead, ship force personnel were randomly assigned to training when the contractor began the maintenance effort. In addition, the contracting officer's technical representative could not determine whether ship force personnel were merely observing contractor personnel performing the work or actually receiving training. Furthermore, the Navy did not have documentation to indicate how much training was received.

Training Verification. The Navy did not have procedures to verify training received. We selected 30 delivery orders, valued at $86,199, out of 290 delivery orders, valued at $1,075,581, specifically related to galley, scullery, and laundry equipment repairs for which final invoices were received for FYs 1992 and 1993. The final invoice of each delivery order is followed by a completion report prepared by ship force personnel. The completion report should identify the actions taken to accomplish the task described in the delivery order and the proposed tasking record. We examined the 30 sampled delivery orders and completion reports to determine how the Navy accounted for maintenance training for ship force personnel. Training was not reported in 26 of 30 completion reports for task orders that included training. In addition, the contracting officer's technical representative did not verify the type of training received or whether the training was completed in a satisfactory manner for the 30 sampled delivery orders and completion reports.

Without proper control to account for training, the Navy could not confirm that its ship force personnel were trained in accordance with contract N00189-89-D-0373.

Training Costs. The Navy maintained no records that would account for the type and amount of training conducted in the contract; therefore, the Navy had no assurance that labor costs incurred for training were accurate. We could not identify which portion of the total labor costs incurred in the 30 delivery orders included training. Because we could not identify labor hours and costs incurred for training, we are not recommending that the Navy attempt to identify and recoup any training costs for delivery orders in which training could not be confirmed.

Follow-on Training Contract

Contract N00189-89-D-0373 expired on May 31, 1993. The Navy is contemplating awarding a follow-on contract to N00189-89-D-0373, which will also be an indefinite-quantity, time-and-materials contract. Our recommendations for corrective actions apply to the follow-on contract.

Recommendations, Management Comments, and Audit Response

We recommend that the Contracting Officer, Fleet and Industrial Supply Center, establish procedures for the follow-on contract to N00189-89-D-0373 to specify that:

1. Requestors for ship maintenance identify those ship force personnel who require training and commit to the ship force personnel's availability when the maintenance work begins.

2. The contracting officer's technical representative will:

a. Verify that ship force personnel assigned for training receive training in accordance with the proposed tasking record on the delivery order.

b. Verify that assigned ship force personnel have completed training, and account for total contractor hours expended for training.

Navy Comments. The Navy partially concurred and stated that in future contracts the requestors for ship maintenance will identify personnel training requirements for each ship requiring training with or without repair of equipment. However, identifying personnel by name is impractical because of the nature of ship operations. The Navy stated that verification of training will be accomplished in a manner prescribed by the delivery order. The Navy further stated that the training conducted will be documented as required, and that the hours spent in training will be accounted for.

Audit Response. The Navy comments meet the intent of our recommendation. We agree that identification of specific names in advance may be impractical in some instances. Accordingly, we have deleted that portion of the draft recommendation.

Part III - Additional Information

Appendix A. Review of Allegations

Congressman Owen B. Pickett requested the Inspector General, DoD, to review four allegations relating to AST contract N00189-89-D-0373. The allegations concerned the contract statement of work, the standard industrial classification (SIC) code, the pricing, and the AST contract impact on similar businesses in the Norfolk area.

Allegation 1. Statement of Work

AST violated contract N00189-89-D-0373 with the Navy by using an alternate interpretation of the statement of work. The contract statement of work only included technical assistance and training. Also, the statement of work contained no wording that authorized complete repairs. Repairs that did not include technical assistance were not within the scope of the contract statement of work.

Audit Results. The allegation was unsubstantiated. AST completed delivery orders issued by the Fleet and Industrial Supply Center that included both repairs and technical assistance for ship force personnel. Repairs without technical assistance are permitted by the AST contract statement of work with the Navy.

Background. FAR part 7, "Acquisition Planning," states that the statement of work must accurately reflect the actual Government requirement. The statement of work is the portion of the contract that clearly states the agreement between the contractor and the Government. The statement of work must be clear, precise, and complete. The contracting officer is responsible for ensuring that the contractor stays within the statement of work.

Statement of Work. Contract N00189-89-D-0373 statement of work allows the contractor to perform actual fault identification and physical repair at the organizational and intermediate maintenance level for certain Navy equipment. Specifically, the contract requires the contractor to perform maintenance on the following ship equipment: main and diesel engines; steam and gas turbines; refrigeration systems; combat systems support equipment; mechanical and electrical support systems such as firefighting, deck machinery, galley equipment, and laundry equipment; and other equipment found on Navy vessels.

Delivery Orders. We selected and reviewed a sample of 30 AST delivery orders, valued at $86,199, for FYs 1992 and 1993. Our sample of the AST delivery orders was limited to repairs to galley, scullery, and laundry equipment, the types of repairs covered in the allegation. The 30 sampled delivery orders involved engineering and technical services appropriate for organizational and intermediate level maintenance.

Allegation 2. Standard Industrial Classification Code

AST was performing tasks outside the SIC code assigned to contract N00189-89-D-0373. The Navy and AST completely disregarded the type of work to be conducted under the SIC code.

Audit Results. The allegation was unsubstantiated. SIC code 8711, engineering services, assigned to AST in contract N00189-89-D-0373, was correct. The SIC code did not exclude the contractor from performing complete repairs.

Background. Companies are assigned SIC codes on the basis of their primary activity as determined by principal product or group of products produced or distributed and services rendered. United States Code, title 13, sections 121.1102(c) and 124.308(b), assign the responsibility for selecting the appropriate SIC code for a procurement to the contracting officer, as long as the work that the contractor is performing is included in the description of the SIC code.

The Contracting Officer, Fleet and Industrial Supply Center, determined that SIC code 8711 was appropriate for the AST contract. The Small Business Administration confirmed with the Deputy for Small Business, Small Business Office, Fleet and Industrial Supply Center, that AST was approved for SIC code 8711.

SIC Code 8711. Office of Management and Budget designated SIC code 8711 for the performance of professional engineering services. Companies whose work is designated as SIC code 8711 primarily provide engineering-type services and support. The SIC Manual lists a range of engineering services including industrial, civil, electrical, mechanical, petroleum, marine, and design. However, the SIC Manual does not specify which functions are to be included in SIC code 8711.

Delivery Orders. Our sample of 30 AST delivery orders for FYs 1992 and 1993 was comparable to the type of work performed by the complainant. The work descriptions included mechanical repairs of galley, scullery, and laundry equipment, plus technical assistance to ship force personnel repairing galley, scullery, and laundry equipment. Based on the description in the SIC Manual, the repairs provided by AST are mechanical in nature and are part of the description of engineering services.

Allegation 3. Exorbitant Prices Charged by AST

The Navy paid exorbitant prices for the work performed under AST contract N00189-89-D-0373. Additionally, AST charged the Navy excessive labor hours for repairs under this contract.

Audit Results. The allegation was unsubstantiated. AST charged an average of 81 percent more labor hours than the complainant for the audit sample; however, the complainant charged 40 percent more for the combined cost of materials and labor. All factors considered, AST charged the lowest overall cost to the Government, 40 percent lower than the complainant.

Background. United States Code, title 13, section 124.315, "Fair Market Price for 8(a) Awards," stipulates that a "fair market price" shall be determined by the agency offering the procurement requirement to the Small Business Administration. Additionally, the regulation states that "The estimate of a current fair market price for a procurement requirement that has a satisfactory procurement history shall be based on recent award prices adjusted to ensure comparability."

The Navy estimated the costs for materials and labor for AST contract N00189-89-D-0373 based on the actual costs of the predecessor of the AST contract, American Systems Engineering Corporation, contract N00189-86-D-0108. Based upon the Navy cost analysis, labor hour usage, and projected force budget cuts, the Fleet and Industrial Supply Center negotiated a 13 percent lower number of labor hours than AST proposed. Additionally, the Navy compared AST labor rates to those of contract N00189-86-D-0108. The comparison demonstrated that, although the labor rates offered by AST were somewhat higher than the rates paid under the previous contract, AST offered a fair and reasonable price.

Labor Skill Levels. AST used seven labor skill levels, including a program manager, for its work force on contract N00189-89-D-0373. However, the company did not charge any program manager labor hours to any of the 30 delivery orders in our audit sample. AST charged an average labor cost of $23.06 per labor hour for the sampled delivery orders. The complainant, however, used one skill level for all repair work and charged $35 per labor hour.

Labor Costs. The AST average labor cost for the sampled delivery orders was $2,484 or 81 percent greater than the complainant's $1,370 average labor cost per sampled purchase order. The additional AST labor hours may be partially attributed to the training provided to ship personnel that accounted for approximately 25 percent of the labor hours on those delivery orders with training. Furthermore, the AST average cost for labor plus materials was only $2,873 compared to $4,012 for the complainant. Therefore, the complainant's average cost for labor plus materials was 40 percent greater than the AST average cost per delivery order for comparable repairs.

To support his contention that AST was overcharging the Navy, the complainant cited AST delivery order 1122 to demonstrate excessive AST labor hour charges under contract N00189-89-D-0373. Delivery order 1122 had an estimated cost of $4,197, and an estimated requirement of 180 labor hours. The complainant maintained that AST charged 181 [sic] labor hours to perform repairs on three laundry presses, while the complainant had given the Navy an estimate of 16 labor hours to repair three laundry presses.

AST actually used 26 labor hours on the delivery order and the final invoiced labor cost was $635. The complainant estimated repair costs based on 16 labor hours at $35 per hour equated to $560. Additionally, the complainant estimated the total cost for the repairs at $1,801 compared to the AST actual total cost of $904.

AST contract N00189-89-D-0373 provides that:

> In the performance of tasks ordered under this contract, the contractor is authorized to deviate from the quantities shown in the delivery order by a plus or minus 40% variation for each line item of Labor Category provided . . . . The variation shall not exceed the total ceiling amount of labor for the delivery order.

For the 290 AST closed delivery orders during FYs 1992 and 1993 pertaining to galley, scullery, and laundry equipment repairs, only 77.5 percent of the estimated labor cost was incurred and paid. At the time of this allegation, the complainant was not aware that the AST labor hours were estimates subject to contractually authorized variations. The complainant purchase orders, however, were firm-fixed priced. When the Navy accepted the complainant's estimates and issued purchase orders, the agreed-upon labor hours were binding.

Allegation 4. Adverse Impact of AST Contract

AST contract N00189-89-D-0373 has caused the average annual sales of the complainant's company to decline so that the company is on the verge of bankruptcy. The AST contract has had a similar negative effect on business growth for other small businesses performing equivalent functions for the Navy in the Norfolk area. Additionally, the Small Business Administration did not conduct an impact study to analyze the effects that AST contract N00189-89-D-0373 has had on the complainant's small business and other similar small businesses.

Audit Results. The complainant was correct in stating that the AST 8(a) program contract has had a negative effect on small businesses performing galley, scullery, and laundry equipment repairs for the Navy in the Norfolk area. Three of the four small contractors performing those types of repairs in the Norfolk area had declining Navy business activity from FY 1992 through the first 10 months of FY 1993, while AST revenues increased. However, in FY 1993, the complainant had an increase in revenue from Navy equipment repairs. Therefore, while the complainant was correct in his allegation that revenue from Navy equipment repairs declined for three small businesses in the Norfolk area, he was incorrect in his allegation that his business declined in FY 1993.

The Small Business Administration was not required to analyze the effects of the AST contract on other small businesses. Additionally, AST performed its repairs under an existing 8(a) program contract not subject to the United States Code, title 13, section 124.309, "Barriers to Acceptance." The Small Business

Administration had previously determined that the "adverse impact" provision in United States Code, title 13, was not applicable.

Background. The Small Business Administration Capital Ownership Development Program and the award of contracts pursuant to the 8(a) program are used to foster business ownership by socially and economically disadvantaged individuals and to promote the competitive viability of such firms by providing contract, financial, technical, and managerial assistance as necessary.

United States Code, title 13, section 124.309, provides constraints to the Small Business Administration acceptance of proposed procurements for an 8(a) program award. The regulation stipulates that the Small Business Administration shall not accept proposed procurements as 8(a) program contracts, if the:

> Small Business Administration has made a written determination that acceptance of the procurement for 8(a) program award would have an adverse impact on other small business programs or on an individual small business, whether or not the affected small business is in the 8(a) program.

Before March 1992, the Navy extensively used competitive purchase orders for the procurement of repairs for galley, scullery, and laundry equipment aboard Norfolk-based Navy ships. The Navy used the services of four small businesses, including the complainant's, to perform those types of repairs in the Norfolk area. In March 1992, however, the Navy determined that AST contract N00189-89-D-0373, existing since July 1989, was an appropriate and more expeditious contracting mechanism for meeting Navy requirements for galley, scullery, and laundry equipment repairs.

Impact of AST Contract. The purchase orders from the Fleet and Industrial Supply Center for three of the four small businesses for the repair of Navy ship equipment decreased from 322 in FY 1992 to 128 for the first 10 months of FY 1993. As a result, the three contractors' combined earnings related to the purchase orders declined from $365,491 to $121,886 for the same period. The complainant's purchase orders decreased from 76 in FY 1992 to 40 for the first 10 months of FY 1993, but revenues increased from $88,086 to $120,720 for the same period.

The completed delivery orders of AST for galley, scullery, and laundry equipment repairs decreased from 201 in FY 1992 to 89 for the first 10 months of FY 1993. Associated revenue decreased from $730,718 to $344,863 for the same period. The 96 open delivery orders for galley, scullery, and laundry equipment repairs for FY 1993 contained an obligated value of $697,199. Based on our analysis of closed delivery orders for FYs 1992 and 1993, 77.5 percent, or $540,329 of the obligated value of these AST open delivery orders, was expended. The total number of AST open and closed delivery orders for galley, scullery, and laundry equipment repairs decreased from 201 in FY 1992 to 185 in FY 1993. However, the total associated revenue increased from $730,718 in FY 1992 to $885,192 for the first 10 months of FY 1993.

Small Business Administration Determination. On June 25, 1993, the Small Business Administration advised the Navy that an adverse impact analysis was not required under their regulations based on the circumstances of this case. Additionally, the Navy was informed by the Small Business Administration of its determination that awarding an 8(a) program follow-on contract to AST was appropriate.

Appendix B. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Internal Controls. Properly identifies and schedules ship force personnel for training when scheduling maintenance.	Nonmonetary.
2.	Internal Controls. Verifies that ship force personnel assigned for training receive and complete training.	Undeterminable.*

*The number of ship force personnel requiring training as well as the number of additional orders and related costs for this training are unknown.

Appendix C. Organizations Visited or Contacted

Department of the Navy

Assistant Secretary of the Navy (Financial Management), Washington DC
Under Secretary of the Navy (Small and Disadvantaged Business Utilization), Washington, DC
Naval Supply Systems Command, Arlington, VA
Fleet and Industrial Supply Center, Norfolk, VA
Naval Surface Force Atlantic Readiness Support Group, Norfolk, VA

Non-Defense Federal Organization

Small Business Administration, Atlanta, GA

Non-Government Organization

Advanced Systems Technology, Incorporated, Arlington, VA

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Director of Defense Procurement
Comptroller of the Department of Defense

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Under Secretary of the Navy (Small and Disadvantaged Business Utilization)
Comptroller of the Navy
Commander, Naval Supply Systems Command
  Commander, Fleet and Industrial Supply Center
Commanding Officer, Naval Surface Force Atlantic Readiness Support Group

Non-Defense Federal Organizations and Individuals

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

Chairman and Ranking Minority Member of Each of the Following Congressional Committees:

  Senate Committee on Appropriations
  Senate Subcommittee on Defense, Committee on Appropriations
  Senate Committee on Armed Services
  Senate Committee on Governmental Affairs
  House Committee on Appropriations
  House Subcommittee on Defense, Committee on Appropriations
  House Committee on Armed Services
  House Committee on Government Operations
  House Subcommittee on Legislation and National Security, Committee on Government Operations

Senator Charles S. Robb, U.S. Senate
Senator John W. Warner, U.S. Senate
Congressman Owen B. Pickett, U.S. House of Representatives

Part IV - Management Comments

Department of the Navy Comments

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

DEC 23 1993

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT AUDIT REPORT ON CONTRACT N00189-89-D-0373 (PROJECT NO. 3CG-5027) - ACTION MEMORANDUM

Ref: (a) Department of Defense Inspector General memo of 22 October 1993, subject as above

Encl: (1) Department of Navy Response to Draft Audit Report

I am responding to the draft audit report forwarded by reference (a) concerning contract N00189-89-D-0373.

The Department of the Navy response is provided as enclosure (1). We partially concur with the draft report finding and recommendation. As outlined in the enclosed comments, the Department is planning to take specific actions to ensure better management controls in future procurements.

Nora Slatkin

Copy to:
NAVINSGEN
NAVCOMPT (NCB-53)

Final Report Reference

DEPARTMENT OF THE NAVY RESPONSE
TO
DEPARTMENT OF DEFENSE INSPECTOR GENERAL
DRAFT REPORT OF OCTOBER 22, 1993
ON
CONTRACT N00189-89-D-0373
(PROJECT NO. 3CG-5027)

I. Contract Administration

Finding:

The Fleet and Industrial Supply Center Norfolk contracting staff did not properly administer contract N00189-89-D-0373 to account for maintenance training for Navy ship's force personnel. Further, the Fleet and Industrial Supply Center contracting staff did not establish a plan to identify and schedule training requirements before issuing delivery orders, verify the amount and type of training received by Navy personnel, or confirm that Navy personnel completed training. The improper contract administration occurred because the contracting staff did not follow established contract administration procedures. As a result, the Navy could not confirm that its ship's force personnel were trained in accordance with the intent of the contract, and the Navy may have paid for training not received.

Department of the Navy Position:

Partially concur. The existing contract administration procedures for establishing delivery of training were followed and are considered sufficient. However, it is recognized that these procedures did not provide training documentation considered necessary by the Inspector General team. Expanded procedures will permit detailed verification of contract training requirements.

Recommendation:

We recommend that the contracting officer, Fleet and Industrial Supply Center, establish procedures for the follow-on contract to N00189-89-D-0373 to specify that:

1. Requestors for ship maintenance identify those ship's force personnel, by name, who require training and commit to their availability when the maintenance work begins. Revised

2. The contracting officer's representative:

a. Verify that ship's force personnel assigned for training receive training in accordance with the proposed tasking record on the delivery order.

ENCLOSURE(1)

DEPARTMENT OF THE NAVY COMMENTS ON DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT AUDIT REPORT NO. 3CG-5027 "AUDIT REPORT ON CONTRACT N00189-89-D-0373," OCTOBER 22, 1993

b. Verify that assigned ship's force personnel have completed training and account for total contractor hours expended for training.

Department of the Navy Position:

Partially concur. In future contracts, each ship requiring training, with or without repair of equipment, will identify personnel training requirements. However, we believe that the identification of personnel by name is impractical because of the nature of ship operations.

This information will be included in the request for a delivery order that is sent to the contracting officer at Fleet and Industrial Supply Center Norfolk for actual tasking of the contractor. Verification of training will be accomplished by comparing the contractor's report of training conducted (in the manner prescribed by the delivery order), and the invoice submitted by the contractor for that delivery order, with the completion report submitted by ship's force personnel. This will verify that the training was conducted and documented as required, and that the hours being invoiced match the hours spent in training. Any discrepancies in the type of training held, hours billed, or personnel trained, will be resolved by the contracting officer's representative or submitted to the contracting officer for assistance prior to processing the invoice for payment.

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