November 25, 2002

Information Technology

Allegations Regarding the DoD Education Activity's Use of the Standard Procurement System

(D-2003-026)

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Acronyms

DDP	Director, Defense Procurement
DEPO	Department of Defense Dependant Schools Europe Procurement Office
DoDEA	Department of Defense Education Activity
OIG DoD	Office of the Inspector General of the Department of Defense
SPS	Standard Procurement System
PMO	Program Management Office

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

November 25, 2002

MEMORANDUM FOR DIRECTOR, DEFENSE PROCUREMENT
DIRECTOR, DoD EDUCATION ACTIVITY

SUBJECT: Report on Allegations Regarding the DoD Education Activity's Use of the Standard Procurement System (Report No. D-2003-026)

We are providing this report for your information and use. No written response to this report was required, and none was received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Kathryn M. Truex at (703) 604-9139 (DSN 664-9139) or Mr. Scott S. Brittingham at (703) 604-9151 (DSN 664-9151). See Appendix B for the report distribution. The team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General of the Department of Defense

Report No. D-2003-026 **November 25, 2002**
(Project No. D2002FG-0138)

Allegations Regarding the DoD Education Activity's Use of the Standard Procurement System

Executive Summary

Who Should Read This Report and Why? Procurement officials authorized to make decisions regarding their agency's automated procurement systems should read this report. The report discusses the requirements that determine whether an agency should adopt the Standard Procurement System.

Background. We performed this audit in response to a complaint to the Defense Hotline regarding the DoD Education Activity's decision to forgo implementation of the Standard Procurement System in favor of another automated procurement system. The allegation stated that this decision was in direct violation of a July 12, 1996, memorandum from the Director, Defense Procurement that prohibited the acquisition or development of any software that duplicates a function performed by a deployed version of the Standard Procurement System unless the Director approved the intended action. The DoD Education Activity educates the children of DoD families in DoD schools worldwide. The DoD Education Activity's total obligations average $131 million per year. The Standard Procurement System is an automated information system that is designed to support all DoD procurement organizations in procurement functions from receipt of requirements until contract closeout.

Results. The DoD Education Activity upgrade of its legacy procurement system in lieu of the Standard Procurement System was an appropriate decision. The Office of the Director, Defense Procurement leaves the decision of when to implement the Standard Procurement System to individual DoD Components. That decision should be based on a business case analysis. The DoD Education Activity evaluated the costs and functionality of the Standard Procurement System against its legacy procurement system and, in June 2001, determined that delaying Standard Procurement System implementation would be the most cost-effective course of action for the agency. The cost to upgrade the legacy system was $328,958 and the cost to start using the Standard Procurement System was $1.3 million. On January 15, 2002, the Standard Procurement System program was placed in a strategic pause to address customer satisfaction and compliance issues, and to institute new processes for program management. Because the allegations were not substantiated, the report contains no recommendations.

Management Comments. We provided a draft of this report on November 6, 2002. No written response to this report was required, and none was received. Therefore, we are publishing the report in final form.

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Background

We performed this audit in response to allegations made to the Defense Hotline regarding the decision of the DoD Education Activity (DoDEA) to forgo implementation of the Standard Procurement System (SPS) in favor of another automated procurement system.

DoD Education Activity. In 1994, the DoD Dependant Schools and DoD Domestic Elementary and Secondary Schools systems were brought together under the organization of the DoDEA. The mission of DoDEA is to educate the children of DoD families in DoD schools worldwide. DoDEA operates under the authority, direction, and control of the Assistant Secretary of Defense (Force Management and Policy) and serves as the Assistant Secretary's principal staff advisor on all DoD education matters relative to overseas, domestic, and continuing adult and post-secondary education activities and programs. DoDEA operates 224 public schools located in 14 foreign countries, 7 states, Guam, and Puerto Rico, employing approximately 8,800 teachers and serving more than 100,000 students.

DoDEA Procurement Division. The DoDEA Procurement Division buys goods and services for all of DoDEA. These needs are similar to those of most U.S. public school systems, including educational materials, playground equipment, and school bus transportation. DoDEA operates four procurement sites; DoDEA Headquarters in Arlington, Virginia; the DoD Education Supplies Procurement Office in Richmond, Virginia; DoD Dependant Schools Europe Procurement Office (DEPO) in Mainz Kastel, Germany; and the DoD Dependant Schools Pacific Procurement Office in Okinawa, Japan. From FY 1999 to FY 2001, DoDEA obligations for procurement averaged $131 million per year.

Standard Procurement System. The Standard Procurement System has been the subject of recent audit reports issued by the General Accounting Office and the Office of the Inspector General of the Department of Defense. These reports provide coverage of the history of the acquisition of SPS, as well as document issues DoD has encountered since SPS program initiation.

SPS Acquisition History. In November 1994, the Director, Defense Procurement (DDP) initiated the SPS program to acquire and deploy an automated system to perform all DoD procurement functions, including software installation, training, and all steps necessary to gain user acceptance of SPS. Standard procurement functions include acquiring supplies and services by describing requirements; determining the appropriate acquisition method; soliciting sources; and awarding, reporting, modifying, terminating, and closing out contracts. On April 7, 1997, American Management Systems, Inc., was announced as the contractor selected to furnish the procurement software and related services for SPS. The DDP delegated responsibility for SPS to the SPS Program Management Office (PMO) within the Defense Contract Management Agency.

According to the SPS acquisition strategy, SPS would be delivered in increments of functionality with DoD expectations that SPS would be fully

operational at all sites by March 31, 2000. However, the General Accounting Office recently reported that this date had slipped by 3 and 1/2 years and was likely to slip further.[1] Although SPS was expected to serve 43,000 users at 1,100 DoD Sites, SPS had only been deployed to 22,150 users at 777 DoD sites as of January 7, 2002. The program manager recently reported that the program was in breach of its August 2001 acquisition program baseline cost, schedule, and performance parameters; resulting in formal acquisition direction. On January 15, 2002, the Deputy CIO directed the Director, Defense Contract Management Agency to cease work on SPS Version 5.0 and limit development efforts to Version 4.2. The SPS Program is presently in a strategic pause so that the SPS PMO can address customer satisfaction issues, compliance with DoD acquisition policies and principles, and the contracting strategy. In addition, the SPS PMO will institute new processes for program management.

SPS Functionality. Since its inception, the SPS program has experienced functionality issues. In 1996, a report by the Office of the Inspector General of the Department of Defense (OIG DoD) stated that the acquisition and testing strategies increased the risk that SPS would not meet user requirements.[2] In 1999, the OIG DoD reported that the SPS evolutionary software approach did not provide some critical functions to meet user needs or the mission need to replace legacy systems.[3] In March of 2001, the OIG DoD reported that about 26.5 percent of the personnel licensed to use SPS version 4.1 had not used it because SPS either lacked the functionality required for those sites or employees received SPS when it was not needed to perform their job.[4] It was estimated that the SPS PMO had spent up to $2.1 million of the $7.9 million in license costs for users who could not or would not use SPS. The report also stated that user satisfaction needed to be improved because the PMO had prematurely deployed SPS and had not developed performance measures to track whether SPS met the mission objectives and delivered intended benefits.

Comprizon. The DoDEA Procurement Division implemented the Standard Automated Contracting System as its automated contracting system in 1997. In October of 2000, the Standard Automated Contracting System was renamed Comprizon to avoid confusion with the U.S. Army's Standard Army Automated Contracting System.

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[1] General Accounting Office Report No. GAO-01-682, "Continued Investment in the Standard Procurement System Has Not Been Justified," July 31, 2001.

[2] IG DoD Report No. 96-219, "Allegations to the Defense Hotline Concerning the Standard Procurement System," September 5, 1996.

[3] IG DoD Report No. 99-166, "Initial Implementation of the Standard Procurement System," May 26, 1999.

[4] IG DoD Report No. D-2001-075, "Standard Procurement System Use and User Satisfaction," March 13, 2001.

Objective

Our overall audit objective was to review allegations to the Defense Hotline regarding the use of the SPS at the DoDEA. Specifically, the objective was to determine whether management's decision to procure a contract writing system other than the SPS was adequately supported. See Appendix A for a discussion of the audit scope and methodology and prior audit coverage related to the audit objective.

The DoDEA Decision to Upgrade Its Legacy Procurement System

On April 18, 2002, the Defense Hotline received an allegation stating that the decision of DoDEA to delay SPS violated a July 1996 memorandum from the DDP prohibiting the acquisition, development, or deployment of any software that duplicated a function performed by the deployed version of the SPS. The DoDEA upgrade of its legacy procurement system in lieu of SPS was an appropriate decision. The Office of the DDP leaves the decision of when to implement the SPS to individual DoD Components, based on a business case analysis. DoDEA evaluated the costs and functionality of SPS in comparison with its legacy procurement system and, in June 2001, determined that delaying SPS implementation would be the most cost-effective course of action for the agency.

Efforts to Deploy SPS

In November of 1999, DoDEA began deploying SPS at its European procurement office, DEPO. However, SPS was not deployed to the DoDEA procurement site in Richmond, Virginia, because a site survey had indicated that the site was not yet suitable for the deployment of SPS. Also, although attempts were made to make the procurement site in Japan suitable for deployment, and personnel from that site received SPS training paid for by the SPS Program Management Office; SPS was never fully implemented at that site. Once deployed at DEPO, DoDEA found that SPS did not meet the functional needs of the site, and SPS proved to be more expensive to maintain than anticipated. For example, DEPO was notified after deployment that it would need to purchase additional support services from American Management Systems, Inc., at a cost of $68,000.

Faced with these functional issues and unexpected costs, DoDEA ordered an analysis be performed to determine the costs associated with getting SPS performing to the level of functionality that existed with the DoDEA legacy system. The cost analysis performed by the DoDEA Procurement Division indicated that it would be more cost-effective for DoDEA to upgrade its legacy procurement system, Comprizon, DoDEA-wide. DoDEA also inquired about the need for a waiver from SPS implementation requirements, but was informed by the SPS PMO that one would not be necessary. DoDEA decided to delay implementation of SPS and, in June 2001, elected to upgrade Comprizon at all procurement sites. According to the Chief of Procurement, DoDEA the agency would continue to evaluate SPS for future implementation. Personnel from DoDEA added that the agency planned to review SPS in FY 2003.

Criteria

On August 9, 1995, the DDP issued a memorandum requiring Components to notify the DDP when an amount in excess of $1 million would be spent on the

development, modernization, or annual operating costs for a procurement system. However, the memorandum did not prohibit spending money on the development or modernization of a procurement system, and the amount DoDEA needed to spend on the modernization fell under the $1 million reporting threshold. In a second DDP memorandum, "Contracting Policy Guidance," July 12, 1996, the DDP stated that once SPS is deployed at a contracting or contracting administration office, legacy systems at that office must be discontinued unless they performed a function not yet deployed in SPS. The memorandum also prohibited the acquisition, development, or deployment of any software that duplicated a function performed by the deployed version of the SPS unless the DDP approved the intended action.

When we contacted the Deputy DDP, she did not agree with the interpretation of the July 1996 memorandum in the allegation. The Deputy DDP stated that Defense Procurement could not dictate when a DoD Component should implement SPS or when it should upgrade to another version of SPS, but that each agency's decision should be based on a business case analysis. The Deputy Director stated that implementing SPS at an agency before that organization was ready could be costly. Considering the spiral development of SPS, with each new release adding functionality to the previous one, each agency should decide when to implement SPS. The DoDEA liaison at the SPS PMO concurred with the Deputy DDP that, ultimately, the decision of when to implement SPS was one DoDEA must make.

Also, according to DoD Directive 5025.1, "DoD Directives Systems," July 27, 2000, a directive-type memorandum should be converted into a DoD issuance within 180 days from the date of the signature. Neither of these directive-type memorandums was ever codified, and the continued intent was not transparent. However, DoDEA used due diligence in an attempt to determine the position of the SPS PMO before deciding to upgrade the legacy procurement system.

The DoDEA Decision Making Process

DoDEA made the decision to modernize its legacy system and delay SPS implementation because it determined that it was the most cost-effective course of action for DoDEA to take at that time. Concerned about the lack of functionality of the basic SPS installation available at that time, and the costs of maintaining and upgrading SPS, DoDEA evaluated the costs of alternative actions before deciding to upgrade Comprizon. DoDEA also contacted the SPS PMO to determine if a waiver would be required for their course of action.

Functional Issues. Following the installation of SPS at the DEPO site in Germany, users reported several functional issues. For example, DoDEA made the determination that SPS would not recognize foreign currency or addresses, and SPS could not be used for acquisitions above the simple acquisition threshold. Because of these issues, DEPO users employed other means to process acquisitions, and the other procurement sites were reluctant to adopt SPS. Although the SPS PMO provides the funding for the basic SPS installation and

associated training, DoDEA was told that it would have to pay for any additional modules or upgrades. Therefore, DoDEA began to analyze the costs associated with getting SPS to perform at the same level of functionality as the Comprizon system in use at the other DoDEA procurement sites.

Cost Analysis. The DoDEA Procurement Division ordered a cost-benefit analysis to determine the cost of getting SPS to perform at all four procurement sites at the level that Comprizon was already performing. Apart from the cost associated with purchasing the additional SPS modules, DoDEA would be responsible for additional costs associated with deploying SPS, such as data conversion costs and hardware upgrades to enable all the sites to run SPS. A May 1, 2001, cost analysis prepared by the DoDEA Procurement Division estimated the SPS initial startup cost at approximately $1.3 million. DoDEA prepared cost estimates to determine the cost of upgrading all four DoDEA procurement sites to a web-enabled version of the legacy system already installed at the other DoDEA sites. The DoDEA Procurement Division estimated the total cost of the upgrade to be approximately $328,958.

Once DoDEA concluded that it would be more cost-effective to continue using its legacy procurement system than to deploy SPS, DoDEA contacted the SPS PMO. DoDEA inquired whether the use of SPS was mandatory and, if it was, whether DoDEA would need to pursue a waiver from deploying SPS. The SPS PMO responded that a waiver would not be necessary and reiterated that SPS was only mandated if it met the procurement site's functional requirements.

Conclusion

The allegations made to the Defense Hotline regarding the DoDEA decision to delay implementation of SPS were unsupported. The Office of the DDP does not dictate when a DoD Component is required to implement SPS. Instead, the DDP leaves that decision up to the individual Component, which should base its decision on a business case analysis. DoDEA evaluated the costs of installing and upgrading SPS at all its procurement sites, but determined that delaying implementation of SPS and modernizing Comprizon would be cost-effective and address immediate user requirements. Therefore, this report contains no recommendations.

Appendix A. Scope and Methodology

We evaluated the validity of the allegations made against DoDEA. We also reviewed criteria relating to DoDEA, SPS, and automated procurement systems, such as DoD Directive 1342.20 and DoD Directive 5025.1, as well as directive-type memorandums issued by the DDP. We reviewed e-mail communications between the DoDEA Procurement Division and the SPS PMO. We reviewed records originated during the period between September 1998 and September 2001 documenting the DoDEA implementation of SPS. However, we did not obtain or validate the supporting documentation for the cost estimates. In addition, we relied on assertions made by DoDEA and SPS PMO personnel with regards to the chronology of events. We reviewed various cost estimates prepared by the DoDEA procurement division and AMS, the results of site surveys performed by the SPS PMO, and e-mail communications between DoDEA headquarters and the other procurement sites. However, we were unable to obtain the actual site surveys. In addition we reviewed previous audit reports and related testimony to determine the history of the SPS program. The previous audit reports and related testimony are the basis for the SPS background coverage in the audit report. Also, we interviewed personnel from the Office of the DDP, the SPS PMO, and DoDEA.

We performed this audit from May through October 2002 in accordance with generally accepted government auditing standards. We did not review the management control program as it relates to the objectives of the audit, as this audit was limited to a response to allegations made to the Defense Hotline.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Systems Modernization (DoD SYS MOD) high-risk area.

Prior Coverage

During the last 5 years, the General Accounting Office and the Office of the Inspector General of the Department of Defense have issued 4 reports discussing the Standard Procurement System. Unrestricted General Accounting Office reports can be accessed over the Internet at http://www.gao.gov. Unrestricted Inspector General of the Department of Defense reports can be accessed at http://www.dodig.osd.mil/audit/reports.

General Accounting Office

General Accounting Office Report No. GAO-01-682 (OSD Case No. 310211), "Continued Investment in the Standard Procurement System Has Not Been Justified," July 31, 2001

Inspector General of the Department of Defense (IG DoD)

IG DoD Report No. D-2002-108, "Standard Procurement System Certification and Accreditation Process," June 19, 2002

IG DoD Report No. D-2001-075, "Standard Procurement System Use and User Satisfaction," March 13, 2001

IG DoD Report No. 99-166, "Initial Implementation of the Standard Procurement System," May 26, 1999

Appendix B. Report Distribution

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Team Members

The Defense Financial Auditing Service Directorate, Office of the Assistant Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

Paul J. Granetto
Richard B. Bird
Kathryn M. Truex
Scott S. Brittingham
W. Ryan Pusey
Catherine Bird