

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**PLANNED COMPETITIVE PROCUREMENT OF THE
LANDSAT 7 SPACE SEGMENT**

Report Number 93-044

January 25, 1993

Department of Defense



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



January 25, 1993

REPORT
NO. 93-044

MEMORANDUM FOR DIRECTOR, DEFENSE SUPPORT PROJECT OFFICE

SUBJECT: Audit Report on the Planned Competitive Procurement of
the LANDSAT 7 Space Segment (Project No. 2RC-0028.01)

Introduction

This is our final report on the planned competitive procurement of the LANDSAT 7 space segment for your information and use. The review was made in response to congressional direction in Conference Report 102-328, November 18, 1991, "Making Appropriations for the Department of Defense for the Fiscal Year Ending September 30, 1992." LANDSAT is a U.S. remote sensing satellite system that provides a comprehensive view of the Earth and produces data in support of environmental and agricultural studies, oceanography, geology, forestry, and cartography. The data have both civilian and military applications. Our objective was to determine whether the planned procurement of the LANDSAT 7 Space Segment was in accordance with requirements in the Federal Acquisition Regulation (FAR) and Air Force guidance concerning competitive source selection.

Results of Review

At the time of our review, the proposed procurement of the LANDSAT 7 was being conducted in accordance with the FAR and Air Force guidance on competitive source selection. The effectiveness of the competition could potentially be diminished due to a requirement in National Space Policy Directive 5 for a system that is at least equivalent in performance to the LANDSAT 6. That requirement could give the current contractor an advantage in a competitive procurement. However, the LANDSAT Program Manager has aggressively pursued fair and open competition.

Scope of Audit

This review was conducted at the LANDSAT Program Office, Defense Support Project Office. To determine whether the planned procurement of the LANDSAT 7 space segment was competitive, we reviewed program documentation that covered the period January to May 1992 and interviewed cognizant officials from the LANDSAT Program Office. We reviewed the solicitation, source selection

criteria, acquisition strategy, and other related documents to determine whether they complied with the applicable provisions of the FAR and Air Force guidance.

This compliance review was made in May 1992 in accordance with standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, our review included such tests of internal controls as were deemed necessary.

Internal Controls

We reviewed LANDSAT Program Office compliance with internal controls applicable to the source selection process. Specific internal controls reviewed are contained in FAR subpart 15.6, "Source Selection," and Air Force Regulation 70-15, "Formal Source Selection for Major Acquisitions." The internal controls were deemed to be effective in that no material deficiencies were disclosed.

Prior Audits and Other Reviews

There have been no prior audits or reviews addressing the competitiveness of source selection procedures for the LANDSAT 7.

Discussion

Background. Under Public Law 98-365, the commercial sector operated the LANDSAT system from its inception in 1984 until February 1992. On February 5, 1992, the President of the United States issued National Space Policy Directive 5. The Directive transferred responsibility for operation of the LANDSAT system from the commercial sector to the National Aeronautics and Space Administration (NASA) and the DoD. NASA was given responsibility for the development and operation of the LANDSAT 7 ground system, including data processing, archiving, distribution, user support, and mission operations management. DoD was given responsibility to procure the LANDSAT 7 space and launch segments and for end-to-end system engineering and integration.

In Conference Report 102-328, "Making Appropriations for the Department of Defense for the Fiscal Year Ending September 30, 1992, and for Other Purposes," November 18, 1991, the congressional conferees stated:

...increasing the U.S. capability to search large areas with imagery in support of tactical battlefield commanders is a high national priority.

The conferees, concerned that a sole-source acquisition was being planned for LANDSAT 7, also stated:

...the proper acquisition strategy must not be targeted toward a particular system, but must foster competition....

The conferees directed that the Inspector General, DoD, certify that the sole-source acquisition of additional LANDSAT satellites would meet the requirements at a lower cost than would be incurred through an industry-wide competition.

In January 1992, we visited the LANDSAT Program Office and held preliminary discussions with the LANDSAT Program Manager. The Program Manager informed us that he had planned for an industry-wide competition of LANDSAT 7 and that a sole-source acquisition was never contemplated. We then met with staff of the House Subcommittee on Defense, Committee on Appropriations, to discuss the LANDSAT Program Manager's intent. Based on this discussion, the Subcommittee staff agreed that the certification requirement in Conference Report 102-328 was no longer valid. The Subcommittee staff informed us that its major concern was that the LANDSAT 7 acquisition might be slanted to EOSAT, the current LANDSAT 6 contractor. Therefore, the staff asked us to review the solicitation to determine whether fair competition would occur. Our review disclosed that the proposed procurement of LANDSAT 7 was being conducted in accordance with the FAR and Air Force guidance on competitive source selection. Accordingly, letters were provided to the U.S. Senate Committee on Appropriations and the U.S. House of Representatives Committee on Appropriations on June 26, 1992, informing them of the results of our review.

Regulatory Guidance. FAR subpart 6.401(b), "Competitive Proposals," allows for the use of competitive proposals if sealed bids are not appropriate. FAR subpart 15.6, "Source Selection," describes the policies and procedures for the selection of a source in competitive negotiated acquisitions. Air Force Regulation 70-15, "Formal Source Selection for Major Acquisitions," April 27, 1988, which implements FAR subpart 15.6, sets policy, assigns authority and responsibilities, and prescribes implementing procedures for soliciting and evaluating offerers' proposals for major acquisitions.

Since the FAR and Air Force Regulation 70-15 describe the specific steps that must be performed to ensure a competitive source selection, we used them as the basis for performing a compliance review of the LANDSAT 7 source selection process from its inception through May 7, 1992. The draft solicitation, final solicitation, source selection plan, source selection criteria, and other relevant documents showed no instance of noncompliance with the guidance.

Program Office Initiatives. Since the Program Office could initiate actions that are consistent with regulatory guidance but that could inappropriately limit competition, we looked for indications that the Program Office was not committed to a fair

and open competition. Our review of relevant Program Office documents disclosed no indications of actions that would limit competition. All documentation indicated that the Program Office supported fair and equitable competition. For example, the Request For Proposal delineated a performance specification, rather than a "build to print" specification. A "build to print" specification would have favored EOSAT. The solicitation also encouraged potential bidders to propose upgrades to the basic capabilities of the LANDSAT 6 system. The upgrades were fully described in the solicitation and were ranked in terms of importance. According to the source selection criteria, the upgrades will be an important consideration in source selection. The solicitation's provision for system upgrades not only provided an opportunity to obtain needed system improvements, but also gave potential bidders a better chance to compete with the current contractor. A list of the proposed upgrades is in Enclosure 1.

National Requirements. A possible limitation to the planned competitive acquisition is a provision in National Space Policy Directive 5 that establishes a requirement to "develop and launch a LANDSAT 7 satellite of at least equivalent performance to replace LANDSAT 6" and maintain data continuity with the LANDSAT system. In their comments on the draft solicitation, several potential bidders expressed concerns that the requirement for a system that is at least equivalent in performance to LANDSAT 6 would provide the current contractor a big advantage in any competitive procurement. We discussed this issue with the LANDSAT Program Manager. Although he agreed that the concerns were legitimate, he indicated that his ability to change the situation was limited.

The Program Office is addressing potential bidder concerns. The solicitation's provision for system upgrades provides for limited expansion beyond the LANDSAT 6 requirement. Also, at the time of the review, the Program Office was attempting to delete the requirement for the thermal band (Band 6) of the Thematic Mapper Sensor. The Department of the Interior had stated that there is no legitimate requirement for Band 6, and the Program Office concurred. Eliminating the requirement would allow potential bidders more flexibility in their proposals. Also, the Program Office is considering revealing the funding limitations for LANDSAT 7 to all potential bidders. Releasing that information would enhance competitive balance. Considering the national requirement and funding constraints, we concluded that the Program Office has diligently enhanced competitive balance by taking appropriate action to provide fair and open competition, within the constraints imposed from outside the DoD.

Management Comments and Audit Response

A draft of this report was provided to the addressee on November 6, 1992. Although the report did not contain recommendations, written comments were requested, but not

required. Comments (Enclosure 2) were received from the Director, Defense Support Project Office, December 1, 1992. The Director indicated that our report no longer required a special warning addressing unauthorized disclosure of source selection information and that the desired LANDSAT 7 upgrades in Enclosure 1 of the draft report had been revised. Accordingly, appropriate changes have been made in this final report. Since there are no unresolved issues, written comments on this report are not required.

The courtesies extended to our staff are appreciated. If you have any questions on this audit report, please contact Mr. Charles Santoni at (703) 692-3390 (DSN 222-3390) or Mr. Sean Mitchell at (703) 692-2857 (DSN 222-2857). This report will be distributed to the organizations listed in Enclosure 3.



Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

cc:

Assistant Secretary of Defense (Command, Control,
Communications and Intelligence)
Comptroller of the Department of Defense
Assistant Secretary of the Air Force (Financial
Management and Comptroller)

DESIRED UPGRADES TO LANDSAT 7 SATELLITE

High-Priority Options

Improved Spatial Resolution (Priority 1)
Improved Absolute Calibration (Priority 2)
Stereo Mapping Capability (Priority 3)

Lower Priority Options*

Additional VNIR/SWIR/MWIR/LWIR Bands
Cross-track Pointing
Improved Radiometric Sensitivity
Improved Line of Sight Accuracy

* All of equal value



DEFENSE SUPPORT PROJECT OFFICE
WASHINGTON DC 20330-1000

OFFICE OF THE DIRECTOR

December 1, 1992

MEMORANDUM FOR DIRECTOR, READINESS AND OPERATIONAL SUPPORT,
OFFICE OF THE INSPECTOR GENERAL, DOD

SUBJECT: Comments on Draft Audit Report (Project No.2RC-0028.01)

We appreciate the opportunity to comment on your draft report, and offer the following two points:

- the material in the report no longer warrants protection as source selection sensitive,

- the chart in Encl 1, provided to you by the LANDSAT SPO, was a draft. The version that was actually released in the RFP deleted the third high-priority option (Improved Thermal Imaging Capability), moving the fourth (Stereo Mapping Capability) to Priority 3.

Thank you for your efforts in this Congressionally-directed review and certification process, and your ability to focus on the intent of the committee staff's concerns rather than the specific language of your tasking.

A handwritten signature in black ink, appearing to read "D. P. March", with a long horizontal line extending to the right.

D. P. MARCH
Rear Admiral, USN
Deputy Director

ENCLOSURE 2

REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Assistant Secretary of Defense (Command, Control,
Communications and Intelligence)
Assistant Secretary of Defense (Public Affairs)
Comptroller of the Department of Defense
Assistant to the Secretary of Defense (Intelligence
Oversight)

Other Defense Activities

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, Defense Support Project Office
LANDSAT Program Officer
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange
Director, Central Imagery Office

Non-DoD Activities

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

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

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on
Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Select Committee on Intelligence
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
House Permanent Select Committee on Intelligence
House Subcommittee on Oversight and Evaluation, House
Permanent Select Committee on Intelligence

AUDIT TEAM MEMBERS

William F. Thomas	Director, Readiness and Operational Support Directorate
Charles M. Santoni	Program Director
Sean Mitchell	Project Manager
James D. Katzenberger	Audit Team Leader
Lamar Anderson	Auditor
Lisa L. Earp	Auditor