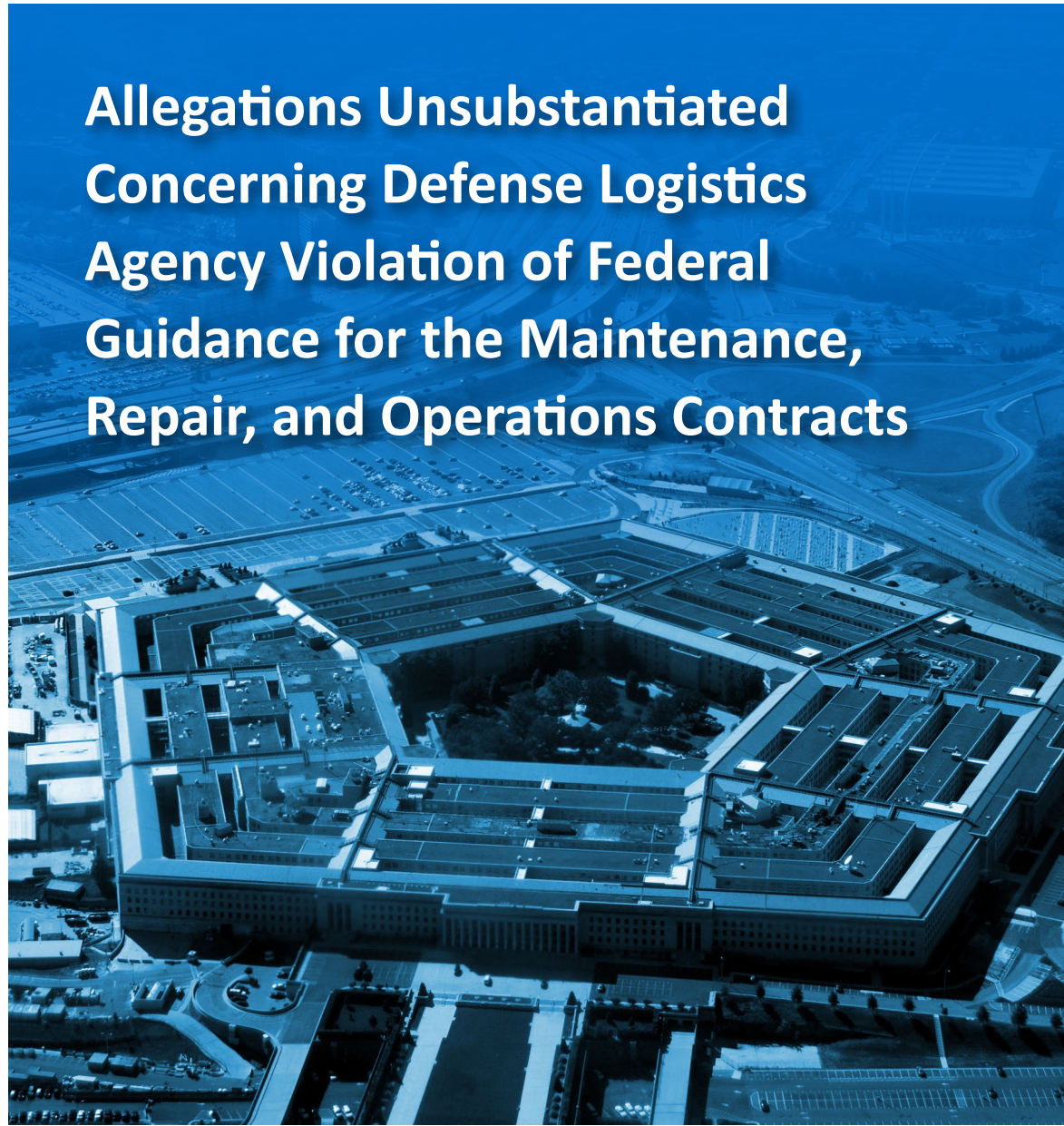




INSPECTOR GENERAL

U.S. Department of Defense

SEPTEMBER 30, 2013



Allegations Unsubstantiated Concerning Defense Logistics Agency Violation of Federal Guidance for the Maintenance, Repair, and Operations Contracts

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Results in Brief

Allegations Unsubstantiated Concerning Defense Logistics Agency Violation of Federal Guidance for the Maintenance, Repair, and Operations Contracts

September 30, 2013

What We Did

We performed this audit in response to a complaint that the Government Accountability Office forwarded to the Department of Defense Office of Inspector General on February 3, 2011. Our objective was to determine whether the Defense Logistics Agency (DLA) Troop Support violated Federal laws and regulations cited in the allegation forwarded to the Defense Hotline. Also, we evaluated whether DLA Troop Support allowed the contractor to perform inherently governmental functions for the six Maintenance, Repair, and Operations contracts, valued at \$3.3 billion, cited in the allegation. Specifically, the complainant alleged DLA Troop Support violated:

- Competition in Contracting Act of 1984 (codified in relevant part at section 2304, title 10, United States Code [2011]);
- Buy American Act (section 8301-8305, title 41, United States Code, "Buy American" [2011]);
- Public Law 112-81, "National Defense Authorization Act for Fiscal Year 2012;"
- Antideficiency Act (sections 1341, 1342, and 1517, title 31, United States Code, "Money and Finance" [2012]); and
- Davis-Bacon Act (section 3141-3148, title 40, United States Code, "Wage Rate Requirements" [2002]).

What We Did Continued

In addition, the complainant alleged DLA Troop Support issued supply contracts that did not have contract administration and allowed the contractor to perform inherently governmental functions.

What We Found

The allegations were not substantiated, and DLA Troop Support personnel did not violate Federal guidance as indicated in the allegations forwarded to the Defense Hotline. Specifically, DLA Troop Support personnel did not violate the Competition in Contracting Act, Buy American Act, National Defense Authorization Act, Antideficiency Act, and the Davis-Bacon Act when awarding and administering six Maintenance, Repair, and Operations contracts. In addition, DLA Troop Support did not allow the contractor to perform inherently governmental functions.

Management Comments

No response to this report was required, and none was received. Therefore, we are publishing this report in final form.



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

September 30, 2013

**MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY
COMMANDER, DEFENSE LOGISTICS AGENCY
TROOP SUPPORT**

**SUBJECT: Allegations Unsubstantiated Concerning Defense Logistics Agency
Violation of Federal Guidance for the Maintenance, Repair, and Operations
Contracts (Report No. DODIG-2013-143)**

We are providing this report for review. We performed this audit in response to a complaint that the Government Accountability Office forwarded to the Department of Defense Office of Inspector General on February 3, 2011. Defense Logistics Agency Troop Support personnel did not violate Federal guidance as indicated in the allegation made to Defense Hotline. In addition, Defense Logistics Agency Troop Support did not allow the contractor to perform inherently governmental functions. We considered management comments on a discussion draft of this report in preparing the final and revised the report as appropriate. No written response to this report was required, and none was received.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8866 (DSN 664-8866). If you desire, we will provide a formal briefing on the results.

A handwritten signature in cursive script, reading "Alice F. Carey", is positioned above the printed name.

Alice F. Carey
Assistant Inspector General
Readiness, Operations, and Support

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Introduction

Objective

Our objective was to determine whether the Defense Logistics Agency (DLA) Troop Support violated Federal laws and regulations cited in the allegation forwarded to the Defense Hotline. Also, we evaluated whether DLA Troop Support allowed the contractor to perform responsibilities that were inherently governmental functions. See Appendix A for a discussion of our scope and methodology as well as prior audit coverage.

Background

We performed this audit in response to a complaint that the Government Accountability Office forwarded to the Department of Defense Office of Inspector General on February 3, 2011. The complainant alleged that DLA Troop Support violated multiple laws and regulations. Specifically, the complainant alleged DLA Troop Support violated the:

- Competition in Contracting Act of 1984 (CICA) (codified in relevant part at section 2304, title 10, United States Code [2011]);
- Buy American Act (section 8301-8305, title 41, United States Code, “Buy American” [2011]);
- National Defense Authorization Act (NDAA) (Public Law 112-81, “National Defense Authorization Act for Fiscal Year 2012”);
- Antideficiency Act (ADA) (sections 1341, 1342, and 1517, title 31, United States Code, “Money and Finance” [2012]); and
- Davis-Bacon Act (section 3141-3148, title 40, United States Code, “Wage Rate and Requirements” [2002]).

In addition, the complainant alleged DLA Troop Support issued supply contracts that did not have contract administration and allowed the contractor to perform inherently governmental functions, such as:

- working with DoD end users to define their requirements,¹

¹ According to DLA Troop Support personnel, end user requirements represent a need-to-order Maintenance, Repair and Operations supplies or related incidental services from the prime vendor.

- training end users on the Military Standard Requisitioning and Issue Procedures (MILSTRIP) system,² and
- soliciting quotes and proposals from other companies and identifying sources of supplies.

The complainant identified six Maintenance, Repair, and Operations (MRO) contracts that DLA Troop Support awarded to a contractor in six regions (Southeast, Pacific, Northeast, Southwest, South Central, and Northwest). See Appendix A for guidance used during the audit.

Program Provided Materiel and Incidental Services to End Users

According to DLA Troop Support personnel, the MRO program started in 1995. The MRO program is a multi-billion dollar Tailored Vendor Relationship Program that DLA Troop Support managed. DLA Troop Support used prime vendor³ long-term sustainment contracts to provide materiel needed to support the MRO of DoD facilities. The primary purpose of the program was to provide regional prime vendor support for public works and facilities-maintenance requirements by providing any item and requested incidental services⁴ necessary to meet their requirements. The program was comprised of customer oriented teams that implement regional prime vendor contracts with integrated suppliers to provide optimal supply support to military or Government installations in worldwide locations. DLA Troop Support contracted with multiple prime vendors to supply a wide range of commercial-off-the-shelf materiel directly to DLA end users on a just-in-time basis. The end users include the Services, Defense suppliers, and Federal agencies located at more than 200 facilities and over 40 countries. The prime vendor program was designed to permit facility maintenance activities to order MRO supplies directly from integrated supply chain contractors.

² MILSTRIP prescribe uniform procedures, data elements and codes, formats, forms, and time standards for the interchange of logistics information relating to requisitioning, supply advice, supply status, materiel issue or receipt, lateral redistribution, and materiel return processes.

³ A prime vendor acts as a distributor who provides a commercial product or item and incidental services to end users in an assigned region or area of responsibility.

⁴ According to DLA Troop Support personnel, incidental service is an installation of a procured item requested by the end user that is of a minor, casual, or subordinate nature that does not exceed 25 percent of the cost of the item.

Contracts Awarded for Facilities-Maintenance Supplies and Services

DLA Troop Support contracting office personnel awarded six regional prime vendor maintenance supply indefinite-delivery indefinite-quantity contracts, valued at \$3.3 billion, to the contractor for MRO supplies and incidental services. DLA Troop Support contracting office personnel awarded the MRO contracts between July 2002 and August 2004 with a 2-year base period and eight options. Table 1 shows the value and the award date for the MRO contracts awarded within the assigned regions.

Table 1. DLA Troop Support MRO Contracts Awarded

Region	Contract	Maximum Contract Value (in billions)	Award Date
Southeast	SPM500-02-D-0121	\$1.1	July 18, 2002
Pacific	SPM500-04-D-BP06	0.5	March 1, 2004
Northeast	SPM500-04-D-BP24	0.5	August 31, 2004
Southwest	SPM500-04-D-BP08	0.6	February 18, 2004
South Central	SPM500-04-D-BP12	0.3	April 30, 2004
Northwest	SPM500-04-D-BP15	0.3	May 19, 2004
Total		\$3.3*	

*Due to rounding, the maximum contract value total differs from the actual contracts value total.

Under these contracts, DLA Troop Support had a contractual relationship with the contractor to supply facilities-maintenance requirements. The contractor was responsible for providing facilities-maintenance supplies for areas, such as heating, ventilation, and air conditioning; refrigeration; lumber; plumbing; electrical; hardware; paint; assorted fixtures; landscape and ground; prefabricated structures; and other commercial supplies. The contractor also provided incidental services related to the procurement of these supplies. To fulfill end users' facilities-maintenance requirements, the contractor explained that they solicited competitive quotes from suppliers through its vendor database⁵ to determine who could satisfy the requirements. Once the contractor fulfilled end user requirements, DLA Troop Support billed or recorded a receivable to the end users, and DLA Troop Support paid the contractor for supplies delivered.

⁵ According to the contractor, the vendor database was comprised of thousands of potential suppliers and sources that the contractor developed.

Ordering Process for Procurement of Supplies and Services

DLA Troop Support established a streamlined ordering process to manage the multibillion-dollar program that provided MRO supplies and incidental services to Federal facilities and agencies. This ordering process supported DLA management effort to verify that checks and balances were in place. The MRO ordering process established procedures for end users to procure MRO supplies and incidental services through the nonstorefront operation. According to the contractor, the storefront operation consisted of predetermined inventory negotiated between DLA Troop Support and the contractor. Conversely, the nonstorefront inventory was not predetermined, instead the contractor negotiated the inventory with suppliers and used prices that the contracting officer determined were fair and reasonable.

The storefront operation consisted of designated contractor-operated stores that allow walk-up and call-in service for MRO onsite end users to acquire facility supplies and materiel. End users stated they submitted their requirements to a MRO liaison who determined and validated, approved, and then submitted the requirement through PurchasePlace.⁶ After receiving the requirements through PurchasePlace, the contractor personnel stated they performed a physical inventory of the storage lockers for end users, then created a pull order and replenished the stock from the store inventory to maintain adequate stock levels. The contractor replenished the stock based on requisitions that the end users issued. See Appendix B for a discussion on the storefront operation.

Regarding the nonstorefront operation, DLA Troop Support personnel stated the end user requests commercial or commercially modified items that fall within the scope of the MRO program with requested incidental services. Similar to the storefront operation, the end user provides all requirements through PurchasePlace. The contractor solicits, at minimum, two quotes and competes to the subcontractor level. The contractor evaluates, ranks the quotes, and then transmits the sources and quotes to the end user before making a final selection. Once the end user accepts the sources and quotes, the end user either submits a Military Interdepartmental Purchase Request (MIPR) to the contracting officer and Finance Office or routes a MILSTRIP document, through the contracting officer to the contractor. For the MIPR, the contracting officer and the Finance Office review the MIPR for completeness to validate whether the requirements are within the scope and pricing of the MRO program. When the Finance Office accepts the MIPR, the end user obligates funding, then the contractor routes the delivery order⁷

⁶ PurchasePlace was the contractor electronic ordering system that allowed end users to input their requirements.

⁷ A delivery order number is assigned to each end user when the order is placed.

into the Contracting Officer Portal (KOP) and the Enterprise Business System (EBS) simultaneously. For MILSTRIP, the end user provides the contractor an obligated MILSTRIP number, then the contractor submits the delivery order to EBS. The KOP and EBS lock the delivery order until the contracting officer makes a fair and reasonable price determination. Once the contracting officers make a fair and reasonable price determination, the contracting officer approves the delivery order in KOP and unlocks EBS. EBS then generates a sales order and purchase order. See Appendix B for a flowchart of the nonstorefront ordering process.

Contract Management Plan

The Defense Logistics Acquisition Directive (DLAD) Subpart 17.95, “Tailored Logistics Support Contracting,” requires the approval of a Contract Management Plan (CMP) before solicitation of tailored logistics support contracts,⁸ such as MRO prime vendor contracts. The CMP describes how DLA Troop Support will manage and administer MRO contracts. Specifically, the CMP addresses the resources and responsibilities for conducting contract oversight. The DLA Troop Support, Construction and Equipment Directorate, is responsible for managing and administering the MRO prime vendor supply contracts using the CMP. The CMP outlines various levels of oversight procedures, such as pre- and post-award reviews, monthly post-award reviews, and quarterly and annual reviews. See Appendix C for the levels of oversight provided.

Review of Internal Controls

DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. DLA Troop Support internal controls over contract administration and management were effective as they applied to the audit objectives. We will provide a copy of the report to the senior official(s) responsible for internal controls in DLA Troop Support.

⁸ Tailored logistics support contracting includes prime vendor, modified prime vendor, and other initiatives that have characteristics of prime vendor arrangements. This program consists, but is not limited to, MRO supplies, Special Operations, and Fire and Emergency.

Unsubstantiated Allegations Concerning Violations of Contract Laws and Regulations

The allegations were not substantiated, and DLA Troop Support personnel did not violate Federal guidance as indicated in the allegations forwarded to the Defense Hotline. Specifically, DLA Troop Support personnel did not violate the CICA, Buy American Act, NDAA, ADA, and Davis-Bacon Act when awarding and administering six MRO contracts. In addition, DLA Troop Support personnel did not allow the contractor to perform inherently governmental functions.

Full and Open Competition Exercised for Contracts

The complainant alleged MRO contracts, as awarded, violated the CICA by precluding full and open competition. This allegation was not substantiated. DLA Troop Support exercised full and open competition for the six MRO contracts. DLA Troop Support competed the six MRO contracts and properly advertised the proposed contract actions in the Commerce Business Daily⁹ or on the Governmentwide Point of Entry in accordance with CICA and Federal Acquisition Regulation (FAR) Part 6, “Competition Requirement.” The purpose of the CICA is to encourage competition when awarding Government contracts. When procuring supplies or services, this Act requires Federal agencies to enter into Government contracts after obtaining full and open competition in accordance with the FAR. To implement this requirement, FAR Part 6 requires contracting officers to promote and provide for full and open competition when soliciting offers and awarding Government contracts through the use of competitive procedures, such as sealed bidding or competitive proposals. Under both competitive procedures, the contracting officer must submit a notice before January 1, 2002, in the Commerce Business Daily and to the Governmentwide Point of Entry effective October 1, 2001, for each proposed contract action expected to exceed \$25,000.

The MRO acquisition plan shows DLA Troop Support planned for full and open competition for the six MRO base contracts. DLA Troop Support issued a solicitation (Standard Form 1449, “Solicitation/Contract/Order for Commercial Items”) and

⁹ Commerce Business Daily means the publication of the Secretary of Commerce used to fulfill statutory requirements to publish certain public notices. Agencies were required to publicize notice of proposed contract action under FAR 5.201 in the Commerce Business Daily until January 1, 2002. As of January 1, 2002, the FAR designates Federal Business Opportunities (“FedBizOpps”) as the single point of universal electronic public access to Governmentwide procurement opportunities (the “GovernmentwidePoint of Entry”).

requested potential offerors to submit competitive proposals for a MRO prime vendor contract to provide supplies and related incidental services to end users in six geographical regions. DLA Troop Support personnel solicited proposals on an unrestricted basis. In addition, DLA Troop Support personnel properly publicized the contract opportunities and proposed contract actions in the Commerce Business Daily or the Governmentwide Point of Entry to prospective contractors. Further, the source selection documentation identified the number of proposals that DLA Troop Support received in response to the solicitations.

DLA Troop Support contracting personnel complied with the FAR by issuing a synopsis for the six proposed contract actions that required a presolicitation notice published in the Commerce Business Daily and to the Governmentwide Point of Entry. FAR Subpart 5.2, "Synopses of Proposed Contract Actions," required publishing the synopsis in the Commerce Business Daily or on www.fedbizopps.gov at least 15 days before issuing a solicitation or proposed contract action that the Government intends to solicit. For commercial items, the contracting officer may establish a shorter period for issuing the solicitation and must establish a response time between issuing the solicitation and receiving proposals that give potential offers a reasonable opportunity to respond. DLA Troop Support published the presolicitation notices (synopses), which showed full and open competition for the six MRO contracts. Each synopsis included the required data elements, such as the date of the synopsis and the closing response date. DLA Troop Support allowed an average response time of 58 days between issuing solicitation and receiving proposals, which provided a reasonable opportunity for responding to the MRO contract actions for the six regions. See Table 2 for the date of the presolicitation notice, solicitation issuance date, and the closing response date.

Table 2. Publicizing MRO Contract Opportunities

Region	Contract	Posted Date of Presolicitation Notice	Solicitation Issuance Date	Closing Response Date
Southeast	SPM500-02-D-0121	March 20, 2001	May 31, 2001	October 29, 2001
Pacific	SPM500-04-D-BP06	August 23, 2002	January 31, 2003	March 19, 2003
Northeast	SPM500-04-D-BP24	January 28, 2003	March 27, 2003	May 8, 2003
Southwest	SPM500-04-D-BP08	January 30, 2003	April 11, 2003	May 16, 2003
South Central	SPM500-04-D-BP12	March 25, 2003	April 28, 2003	June 2, 2003
Northwest	SPM500-04-D-BP15	February 26, 2003	May 14, 2003	June 19, 2003

DLA Troop Support personnel received and evaluated between 5 and 11 competitive proposals and offers that potential contractors submitted for each geographical region. The source selection document for all six contracts contained the results of their evaluation of proposals received in response to the solicitation and the source selection authority final decision on awarding the proposal that was most advantageous to the Government. DLA Troop Support received offers from small and large businesses. Based on their evaluation of proposals, DLA Troop Support contracting officers awarded a contract for each of the regions. Therefore, DLA Troop Support contracting personnel did not preclude competition or award a sole source contract to the contractor. DLA Troop Support contracting personnel promoted full and open competition and communicated the MRO contracting opportunities to potential contractors.

In addition, the complainant stated the contractor may not receive competitive quotes from multiple suppliers to satisfy the purchase of MRO items and services. This allegation was not substantiated. In accordance with the contract, the contractor received multiple quotes for delivery orders in the Northeast region. DLA Troop Support officials stated that the contractor submitted two quotes from potential suppliers and recommended fair and reasonable prices. FAR subpart 15.4, "Contract Pricing" states that price competition is adequate when two or more offers are submitted and the contract is awarded to the best value offeror. Prime vendors must seek competition to the maximum extent practicable for purchases of supplies and services as required by the DLAD. The MRO contract requires the prime vendor to solicit competitive quotes from at least two independent subcontractors for all purchases above the micro-purchase threshold.¹⁰ If two or more suppliers or subcontractors quotes are not available, the prime vendor must provide supporting documentation for its rationale and determination.

If the contractor did not provide two competitive quotes, DLA Troop Support contracting personnel stated that they would request additional supporting price documentation and the rationale for not obtaining two competitive quotes. In addition, contractor personnel stated that they received a minimum of two quotes from responsible suppliers that responded to the request for quotes. For 20 delivery orders in the Northeast, DLA Troop Support provided documentation to show the delivery orders were supported by two or more price quotes and the majority was awarded to the supplier with the lowest price for line items with a value exceeding \$2,500. Also,

¹⁰ The MRO contracts were awarded during the period when the micro-purchase threshold for the acquisition of supplies or services was \$2,500. On September 28, 2006, Section 807 of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) increased the micro-purchase threshold from \$2,500 to \$3,000.

none of the delivery orders was a sole source award for line items with a value exceeding \$2,500. We did not evaluate whether the contractor price quotes were higher than the market prices for items and services procured for the delivery orders; however, the contractor solicited and received competitive quotes from different suppliers or subcontractors to fill orders for end users.

Appropriate Clause Included to Procure Commercial-off-the-Shelf Items

The complainant alleged DLA Troop Support personnel possibly violated the Buy American Act by not including the clause in MRO contracts. This allegation was not substantiated. The complainant did not identify specific items in the allegation, but we reviewed applicable criteria in the FAR and the Defense Federal Acquisition Regulation Supplement to determine if the correct clause was included in the contracts. DLA Troop Support personnel did not include the Buy American Act clause in five of the six base contracts awarded. Instead, DLA Troop Support personnel included the Defense Federal Acquisition Regulation clause 252.225-7021, “Trade Agreements” October 2002, which allows DLA to procure commercial-off-the-shelf items that are U.S.-made or from a designated or qualifying country. Subsequently, on August 6, 2007, the remaining contract was modified to include the Trade Agreements Act.

Defense Federal Acquisition Regulation Supplement Subpart 225.11, “Solicitation Provisions and Contract Clauses,” December 20, 2002, requires using clause 252.225-7021 if the acquisition was subject to the Trade Agreements Act (Congress approved the Agreement on Government Procurement in the Trade Agreements Act of 1979 [title 19, United States Code, section 2501, et seq.], and as amended by the Uruguay Round Agreements Act [Pub. L. 103-465]). The Trade Agreements Act waives the Buy American Act for some foreign supplies and construction materials from certain countries. Under the Trade Agreements Act, only U.S.-made end products or eligible products may be acquired. The value of the acquisition is a determining factor when applying the Trade Agreements Act. When DLA Troop Support personnel awarded the MRO contracts, the Trade Agreements Act applied to an acquisition for supplies or services if the estimated value of the acquisition was \$169,000 or more. Therefore, it was acceptable for DLA Troop Support personnel to include the Trade Agreements Act clause in the MRO contracts.

In addition, DLA Troop Support personnel stated that they did not include the Buy American Act clause in MRO contracts because the end users requested unique items that the United States does not always produce or manufacture. The DLA Troop Support CMP, change 7, requires contracting officers to manage and administer MRO contracts to ensure compliance with the Trade Agreements Act and all applicable Appropriations Act restrictions. The contracting officers included the applicable contract clauses in the Northeast contract, but DLA Troop Support personnel stated the contractor was also contractually responsible for verifying all materiel compliance with the clauses. According to contractor personnel, this function was performed by conducting market research analysis. Additionally, the contractor included a statement and the applicable clause in potential suppliers' responses to the request for quotes. While it was determined that the contractor took actions to comply with the applicable contract clauses, we did not assess whether the supplies that the end users requested were actually U.S.-made or from a designated or qualifying country.

Acquired Items and Services Complied With Federal Guidance

The complainant alleged DLA Troop Support violated the NDAA by procuring items that were not for national Defense purposes. This allegation was not substantiated based on our review of one of the six MRO supply contracts awarded. The purpose of the NDAA is to authorize appropriations for each fiscal year for DoD military activities and military construction. DLA Troop Support is not responsible for acquiring funds to procure requirements generated by the end users; the end user's Command acquires its funds through the Defense appropriation process.

The complainant identified items (for example, a granite counter top, wood cabinets, or a hardwood cherry cover base) from a promotional brochure that the contractor presented to potential end users of the MRO program. Based on our review of the contractor's usage data from 2010 through 2012, we did not find procurements in the Northeast of the specific nonstorefront items the complainant identified in the promotional brochure.

DLA Troop Support personnel stated, and end users in the Northeast agreed, that all items ordered by the end users were in support of their respective base operations, and therefore, were for national Defense purposes. Further, documentation supported the Northeast end users procurement of MRO items, such as 90-ton chillers installed in various buildings on base, packing supplies used to properly package

items used on aircraft carriers, and equipment needed by a battalion to accomplish its mission. The documentation showed the items ordered supported base operations and did not violate the NDAA.

Purchase of Warranty Does Not Violate Federal Guidance

The complainant alleged that DLA Troop Support personnel violated the ADA because the contractor performed 5-year maintenance on a Cummins Model generator under a nonmultiyear contract. Specifically, the complainant stated according to the promotional brochure, it appeared that DLA Troop Support might use 1-year Operations and Maintenance funds to procure multiyear arrangements. This allegation was not substantiated. The Defense Financial Management Regulation 7000.14-R, volume 14, Chapter 2, “Antideficiency Act Violations,” defines an ADA violation, in part, as an obligation of funds in advance of its availability. The Regulation states, “agreeing to pay for, or obligating the funds, for a 2-year equipment maintenance agreement using 1-year authority funds would constitute an ADA violation.” The contractor’s usage data identified generators purchased in all regions from companies with the name Cummins. However, none of the purchases included a 5-year maintenance agreement as alleged, but instead included warranties for the items.

Supporting documentation for the Northeast contract proved end users could include a maintenance warranty when acquiring substantial¹¹ items through the MRO program, but DLA Troop Support personnel stated the warranty has to be paid with the initial cost if the item does not come with a standard warranty. Our results did not identify any warranty, other than standard warranty, that end users requested. There were 29 generators or generator-related items from the usage data that end users procured for the Northeast. Two of the 29 generators procured included a standard warranty with one of the two procurements awarded to Cummins Power Systems. The justification report for delivery orders KU99 and 07QW showed the generators included a standard warranty with the requirement, not a multiyear maintenance agreement. In addition, the accounts receivable report showed the cost matched the amount in the justification report for generators procured with a standard warranty.

¹¹ FAR Subpart 22.402, “Applicability,” states that substantial relates to the type and quantity of construction work to be performed and not merely to the total value of construction work as compared to the total value of the contract. For example, installing heavy generators or large refrigerator systems or plant modification or rearrangement is a substantial and segregable amount of construction.

DLA Troop Support officials and Northeast end users stated that when procuring items with incidental services, the end users, at their discretion, have the option to include a warranty with the item. However, one end user stated that when incidental services are required (for example, installing chillers), a 1-year warranty comes standard with the start-up package. Therefore, DLA Troop Support did not violate the ADA since maintenance agreements were not performed, but rather the end users purchased substantial items with a standard warranty.

Clause Included Was Appropriate for Supply Contracts With Construction-Related Work

The complainant stated it was doubtful that a DLA supply contract would have the Davis-Bacon Act labor law clause since supply contracts typically do not include this clause. Although the MRO contracts are supply contracts, FAR Subpart 2.101, “Definitions,” permits DLA Troop Support to include incidental services, and therefore, would require compliance with the Davis-Bacon Act labor law clause. This allegation was not substantiated.

The Davis-Bacon Act of 1931 (title 40, United States Code, section 3141, et. seq.) applies to Federal contracts in excess of \$2,000 for construction, alteration, or repair performed in the United States on a public building or public works, shall contain a Davis-Bacon Act labor law clause. FAR Subpart 22.402, “Applicability,” requires the application of the Davis-Bacon Act clause in certain non-construction contracts that involve some construction work when a substantial and segregable amount of construction, alteration, or repair is required, such as installing large generators. The incidental services that the contractors performed on the MRO contracts were considered construction-related work because they included the installation or alteration at a public building that were substantial and segregable.

The Northeast MRO contract identifies delivery orders that included substantial and segregable construction work, such as purchasing and installing heavy generators and chillers. From 2010 through 2012, end users in the Northeast ordered 29 generators or generator-related items, and 6 of the items included substantial and segregable construction work. In addition, another end user purchased a chiller that included the performance of construction work. Therefore, it was acceptable for DLA Troop Support to include the Davis-Bacon Act labor law clause in the Northeast MRO contract since it included a substantial and segregable amount of construction work.

Contractor Did Not Perform Inherently Governmental Functions

In four of the nine allegations, the complainant alleged DLA Troop Support issued supply contracts that allowed the contractor to perform inherently governmental functions by assisting DoD end users with defining requirements and not performing contract administration over the items delivered and services performed for the requirements. The complainant also alleged the contractor trained end users on the MILSTRIP system. Further, the complainant alleged DLA Troop Support personnel allowed the contractor to solicit quotes and proposals from other companies and identify sources of supply. The complainant based this allegation solely on viewing a promotional brochure that the contractor presented to potential end users. The allegations were not substantiated based on our review of the Northeast MRO contract.

End Users Defined MRO Requirements Without Assistance

The end users defined their requirements without assistance from the contractor. The contractor must supply facilities-maintenance requirements according to the Northeast MRO supply contract, and not define end user requirements. Also, the contract allowed the contractor to provide technical support and assistance to the end users, if requested. DLA Troop Support officials and contractor personnel stated that end users are responsible for defining their own requirements because they know their mission needs and budget. Additionally, Northeast end users stated that the contractor did not assist them with defining their requirements. We reviewed the “Request for Supplies,” (a document to request MRO items and services) and determined the end users generated their requirements.

However, if end user requirements were not specific, the contractor would request additional clarification. For example, Northeast end users and the contractor personnel explained that if requirements submitted to the contractor were vague or not brand specific, the contractor personnel would request clarification. Contractor personnel stated that occasionally they would coordinate site visits with the end users to allow the subcontractor to verify measurements and obtain additional information for an accurate proposed estimate. FAR Subpart 7.503(c), “Policy,” provides examples of functions considered as inherently governmental functions or must be treated as such. According to the contract and examples that the contractor and the end users provided, request for clarifications are not considered an inherently governmental function.

In addition to the request for supplies, we reviewed purchase requests, delivery orders, MIPR approvals, and price justification reports from contractor personnel to determine their involvement with defining requirements. Requirements on the request for supplies matched the requirements on the purchase requests, delivery orders, and MIPR approval document. Further, the contractor's price justification reports showed the end user received quotes for those requirements.

End Users Performed Contract Administration of Items and Services

Northeast end users performed contract administration of items the suppliers delivered and services the contractor performed. DLA Troop Support personnel stated that they are not responsible for administering items and services that the end users ordered. Instead, end users verify whether the contractor delivered items and performed services to their satisfaction. However, DLA Troop Support personnel occasionally conducted in-process reviews and surveys to achieve end user satisfaction. DLA Troop Support discontinued the reviews, at the request of the end users, because there were no issues.

According to the Northeast MRO supply contract, the contractor must tender for acceptance those items that conform to contract requirements, and the Government reserves the right to inspect or test any supplies or services that have been tendered for acceptance, which takes place at destination. For example, an end user at Naval Facilities Engineering Command Mid-Atlantic ordered a chiller with the incidental service and provided documentation indicating that the contractor completed the services to the end user satisfaction by informing the contractor through an e-mail. Additionally, end users at Letterkenny Army Depot ordered items and provided documentation indicating that a Government official signed and received the items that the contractor delivered.

Contractor Did Not Train End Users on MILSTRIP System

The contractor did not train the end users on the MILSTRIP system. Specifically, the complainant stated according to the promotional brochure, it appeared that the contractor trained end users on the MILSTRIP system. However, the contractor used the brochure as a marketing tool and DLA Troop Support personnel allowed the contractor to market the program to all eligible installations. DLA Troop Support tasked the contractor with developing, publishing, and distributing appropriate publications or marketing material to inform eligible installations about the operation of the MRO prime vendor program. MRO contracts state that the contractor must provide

the end users with adequate training on contractor electronic ordering entry system, which is PurchasePlace. Although MRO contracts do not provide specific guidance on the MILSTRIP, DLA Troop Support personnel stated that MILSTRIP is a Government system and the end users' Commands are responsible for training, not the contractor.

Further, we selected six Northeast end users to determine who provided MILSTRIP training for the MRO program. One Naval Supply Systems Command end user stated that the Command provided on-the-job training. The remaining five end users stated that they did not receive MILSTRIP training from the contractor, but the contractor trained them on the PurchasePlace. Therefore, the contractor did not train end users on MILSTRIP.

Contractor Did Not Improperly Solicit Quotes and Proposals or Identify Sources of Supplies

Under the terms of the MRO contract, the contractor did solicit quotes and proposals from other companies and identify sources of supply for products and related services ordered by end users, which are not inherently governmental functions. Additionally, DLA Troop Support contracting officers made the required determinations that prices proposed by the MRO contractor were fair and reasonable, and the DLA Troop Support Compliance Division (the Compliance Division) and Headquarters Center of Excellence for Pricing (COEP) provided the required oversight.

The contractor was responsible for soliciting competitive quotes from multiple suppliers to fulfill end user requirements for MRO items and related incidental services. Contractor personnel stated they conducted market research analysis¹² to identify potential suppliers who could fulfill the requirements for end users. For each requirement, the contractor sent between 5 and 10 request for quotes to potential suppliers who were identified from its market research analysis. Upon receipt of the responses from suppliers, the contractor performed a price comparison of the quotes to determine whether the quotes were reasonable. After the price analysis, the contractor provided DLA Troop Support contracting officers with two or more price quotes, based on responses from potential suppliers, that the contractor determined were reasonable.¹³ The MRO contract requires the contractor to maintain supporting

¹² The contractor used multiple ways to identify potential suppliers to fulfill end user requirements. For example, the contractor consulting with its procurement team and performing a query of its vendor database of more than 8,000 suppliers.

¹³ Price quotes submitted by the MRO contractor to DLA Troop Support generally consisted of two components: 1. the proposed invoice price the MRO contractor would pay to the manufacturer or supplier of the product, and 2. a fixed "distribution price" representing the typical expenses associated with the MRO contractor's function and anticipated profit.

documentation of price quotes for a period of 3 years after the final payment. The contracting officer conducted a review of the quotes and determined whether the price quotes were fair and reasonable.

FAR 15.404-1, "Proposal Analysis Techniques," requires contracting officers to evaluate the reasonableness of an offered price, with adequate price competition normally establishing fair and reasonable prices. The DLA Troop Support contracting officer based the fair and reasonable price determination on the contractor providing two or more quotes that were adequately competed. DLA Troop Support contracting officers considered the suppliers' quotes as fair and reasonable if the quotes were within 25 percent of each other. Contractor personnel stated the price analysis was restricted to this criterion, which ensures the request for quotes fall within the definition of adequate competition. On November 15, 2012, the contractor confirmed they assisted the DLA Troop Support contracting officer with the fair and reasonable price determination.

The contractor provided DLA Troop Support personnel with supporting documentation to assist with determining whether the quotes were fair and reasonable. Specifically, the contractor provided a justification report that showed the price quotes received for end user requirements and the contractor's selection of the supplier, which normally was the lowest bid. DLA Troop Support personnel verified that the contractor obtained adequate competition for end user requirements and confirmed those price quotes that the contractor provided were fair and reasonable.

Oversight Provided for Fair and Reasonable Price Determination

Compliance Division and COEP personnel provided appropriate oversight for the fair and reasonable price support. As required by DLAD Subpart 17.9507, "Post-Award Actions and Management Oversight," May 11, 2000, Compliance Division and DLA COEP personnel provided oversight of the contractor functions through:

- DLA Troop Support contracting officer pre- and post-award analysis and reviews;
- MRO Program Manager Monthly Post-Award Verification Audit; and
- Compliance Division and COEP quarterly, semiannual, and annual prime vendor reviews or audits.

DLA Troop Support contracting officers performed daily reviews of quotes that contractor personnel provided. The purpose of the reviews was to verify that quotes the contractor provided were fair and reasonable and MRO items were based on adequate competition. The daily reviews validated that contracting officers analyzed justification reports. For example, we validated the results of the contracting officer reviews of 23 delivery orders performed from 2010 through 2012. For each review, contracting officers made a fair and reasonable price determination based on adequate competition between two or more independent suppliers.

The Chief, Integrated Support Team (IST), performed a monthly post-award pricing review of the delivery orders that the contracting officer approved. This oversight represented a higher-level review and approval of the contracting officer's fair and reasonable price determination of the contractor's quotes received for line items within a given delivery order. After the completion of the post-award audit, the Chief, IST, prepared a report indicating the number of line items reviewed and a summary of the findings. The report categorized the results of the fair and reasonable price determinations as properly documented, unsupported, and lacked appropriate manager review. Then, the Chief, IST, identified recommendations to improve the findings. We evaluated the results of the Chief's review of the 23 delivery orders that consisted of 96 line items, valued at approximately \$359,000. For these 23 delivery orders, the Chief, IST, performed a review of a sample of line items as part of the monthly post-award review and reported that the contracting officers' fair and reasonable price determinations were properly documented.

Compliance Division and COEP personnel performed quarterly and annual reviews to examine the sufficiency of the contracting officers' price documentation, the contractor's adherence to the pricing methodology, and whether the contractor had a process in place to ensure that prices received from supply sources were fair and reasonable. Based on quarterly and annual reviews, Compliance Division and COEP personnel provided oversight of those functions the contractor performed. For nine quarterly, six annual and two semiannual reports that the Compliance Division and COEP performed from FY 2006 through FY 2011, they determined that the contractor and the contracting officers' methodology used to determine whether quotes were fair and reasonable was consistent with requirements in the CMP. Additionally, they validated that the contracting officers' and contractor decisions

for determining fair and reasonableness were sufficiently supported. The outcome of those reports showed the contractor was in compliance for 9 of the 17 reviews performed. Compliance Division and COEP personnel made recommendations to correct and improve the MRO program weaknesses when noncompliance occurred.

Summary

DLA Troop Support did not violate Federal laws and regulations cited in the allegation forwarded to Defense Hotline. Also, DLA Troop Support did not allow the contractor to perform responsibilities that were inherently governmental.

Appendix A

Scope and Methodology

We conducted this performance audit from June 2012 through September 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We reviewed the allegations concerning six MRO supply prime vendor contracts awarded to the contractor. Specifically, we determined whether DLA Troop Support violated Federal laws and regulations. In addition, we evaluated whether DLA Troop Support personnel allowed the contractor to perform responsibilities that are inherently governmental functions. This audit was a focused review, based on the allegations concerning the MRO contracts. Specifically, we focused on those provisions of law and regulation that were most relevant to the allegations raised.

We worked with the DoD Office of Inspector General, Quantitative Methods Division (QMD) to perform queries of the prime vendor monthly usage data that contained more than a million line items to identify a region with the highest dollar value and products and services ordered through storefront and nonstorefront operations. Once we selected a region, QMD performed another query to identify end users by Department of Defense Activity Address Codes that would provide the best representation of dollar value, products, incidental services, and location that has a storefront depot. The results of the queries showed that the Pacific and Southeast ranked the highest in dollar values with a storefront depot in each region. However, the Northwest ranked the lowest of all six regions with no storefront depot. Although the complaint was made in the Northwest, the complainant allegations specifically targeted all six regions based on the similarity of the contracts. Also, the complainant allegations were based on the review of a contractor brochure, which discussed the MRO program as a whole and not a specific region. We selected the Northeast because it was a higher risk considering it included a storefront location. The storefront locations accounted for more than 50 percent of total line items processed and total dollar value. The Northeast also represented a balanced view in terms of proximity, budget, representation of military services, products, incidental services, storefront depot, and line items processed. We selected six Department of Defense Activity Address Codes that represented ordering activities with the highest dollar

value for products and services. We also selected nine end users in the Northeast to assess allegations, such as the contractor assisting end users with identifying requirements, training end users on the MILSTRIP system, and determine whether DLA Troop Support provided oversight for services performed by contractors.

We conducted site visits to DLA Troop Support in Philadelphia, Pennsylvania; Naval Facilities Engineering Command Mid-Atlantic in Virginia Beach, Virginia; and Naval Amphibious Base Little Creek in Norfolk, Virginia. We conducted telephone interviews with MRO officials at the Letterkenny Army Depot in Chambersburg, Pennsylvania. To assess the allegations, we interviewed end users and local DLA and contractor representatives at the locations above to discuss their roles and responsibilities. We conducted discussions with MRO management and contracting officials at DLA Troop Support in Philadelphia, Pennsylvania, to gain an understanding of their roles and responsibilities in managing and administering the program. We also interviewed personnel located at the contractor's headquarters in New Jersey.

To validate the accuracy of the allegations, we obtained and reviewed documentation from 2010 through 2012 that we received from DLA Troop Support, the contractor, and end users from the Northeast contract. In addition, we interviewed the complainant to obtain clarification and to discuss the results of the allegation.

We reviewed and analyzed documentation between July 2002 and July 2012. The documentation included:

- three revised CMP for contract administration and oversight;
- promotional brochures that the complainant based the allegation on;
- six MRO contracts mentioned in the allegations;
- modifications, technical proposals, request for supplies the end users used to request items and services;
- contractor's justification reports, purchase requests, and MIPR acceptances for funding;
- pre- and post-award reviews, quarterly assessments that COEP conducted, annual assessments conducted by the Compliance Division; and
- applicable regulations.

We also reviewed 20 delivery orders to assess whether the contractor worked with the end users to define requirements and obtained adequate price competition. Further, we reviewed the contractor's justification reports for the delivery orders to verify adequate competition, ensure the MIPR funding amount was accurate and approved, and whether the end user requirements matched the quotes. Additionally, we selected 29 delivery orders to verify whether the end users paid for warranty items at the same time of purchase and procured incidental services that were substantial and segregable construction-related work. Lastly, we requested the end users provide documentation for supplies ordered that were for national defense purposes. Then, we reviewed the six MRO contracts awarded to substantiate the allegations regarding the violations of contracts laws.

We also reviewed the following guidance:

- FAR, Subpart 7.5, "Inherently Governmental Functions," March 2005;
- Defense Federal Acquisition Regulation Supplement, Subpart 207.5, "Inherently Governmental Functions," January 10, 2008;
- Office of Management and Budget (OMB), Office of Federal Procurement Policy (OFPP) Policy Letter 11-01, "Performance of Inherently Governmental and Critical Functions," September 12, 2011;
- Defense Logistics Acquisition Directive, Subpart 17.9507, "Post Award Actions & Management Oversight," May 11, 2000 (revised December 4, 2012);
- Section 3142, title 40, United States Code;
- Section 2304, title 10, United States Code;
- Section 8302, title 41, United States Code;
- Section 1517(a), title 31, United States Code; and
- Public Law 112-81.

Use of Computer-Processed Data

We relied on computer-processed data from the DoD Electronic Document Access system, KOP, contractor's PurchasePlace, and the monthly usage data DLA Troop Support provided.

The DoD Electronic Document Access is a Web-based system that provides secure online access, storage and retrieval of contracts and contract modifications to authorized users throughout the DoD. We retrieved the six MRO contracts, contract modifications, and delivery orders from the DoD Electronic Document Access system.

The KOP is a database that DLA Troop Support contracting officials uses for Electronic Data Interchange (EDI) processing of acquisitions for the MRO Program. The KOP is a one-stop shop for reviewing, awarding, approving all delivery orders, conducting post-award reviews and audits, and maintaining a core list of items that are typically procured. We retrieved the contracting officers' fair and reasonable price determination, managers' reviews of Categories 3 and 4 orders, and managers' post-award reviews and audits of the contracting officers' fair and reasonable price determination. See Appendix C for a discussion on the contracting officer's manager review of the categories.

PurchasePlace is the contractor's electronic ordering system where end users are assigned a level based on their purchasing authority to input their requirements and the contractor supplies the items and requested incidental services by using a searchable electronic catalog tailored to the end users. For the Northeast, we retrieved the justification reports to match the end user requirements with the quotes that the contractor solicited to fulfill the requirements and to determine whether the contractor exercised adequate competition. In addition, we used the monthly usage data from 2010 through 2012, which DLA Troop Support provided, to perform queries to identify ordering activities with the highest dollar values, line items processed, and whether a storefront depot exists.

We also obtained contract documentation (for example, MRO contracts, modifications, justification reports, and pre- and post-award reviews) from audit sites, which we compared to the information retrieved from Electronic Document Access, KOP, and PurchasePlace with statements and documents we received during audit fieldwork to verify the accuracy of the Electronic Document Access contract values.

We concluded that data collected from DoD Electronic Document Access, KOP, and PurchasePlace were sufficiently reliable for the purpose of our analysis.

Use of Technical Assistance

We conducted discussions with personnel from QMD. We did not consult with QMD to obtain a statistical or nonstatistical sample selection regarding the allegations. Instead, we consulted with QMD to obtain recommended audit sites to validate the accuracy for some of the allegations. In addition, we consulted with DoD OIG, Office of General Counsel to interpret applicable guidance.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the Department of Defense Office of Inspector General (DoD IG) issued four reports on DLA Troop Support MRO program. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

GAO

GAO Report No. GAO-08-360, "Army Case Study Delineates Concerns With Use of Contractors as Contract Specialists," March 26, 2008

DoD IG

DoD IG Report No. DODIG-2012-098, "Controls Governing the Procurement Automated Contract Evaluation System Need Improvement," June 5, 2012

DoD IG Report No. D-2011-077, "Improved Management Can Reduce Costs of the Maintenance, Repair, and Operations Prime Vendor Contract for the Republic of Korea," June 24, 2011

DoD IG Report No. D-2011-047, "Improvements Needed in Contract Administration of the Subsistence Prime Vendor Contract for Afghanistan," March 2, 2011

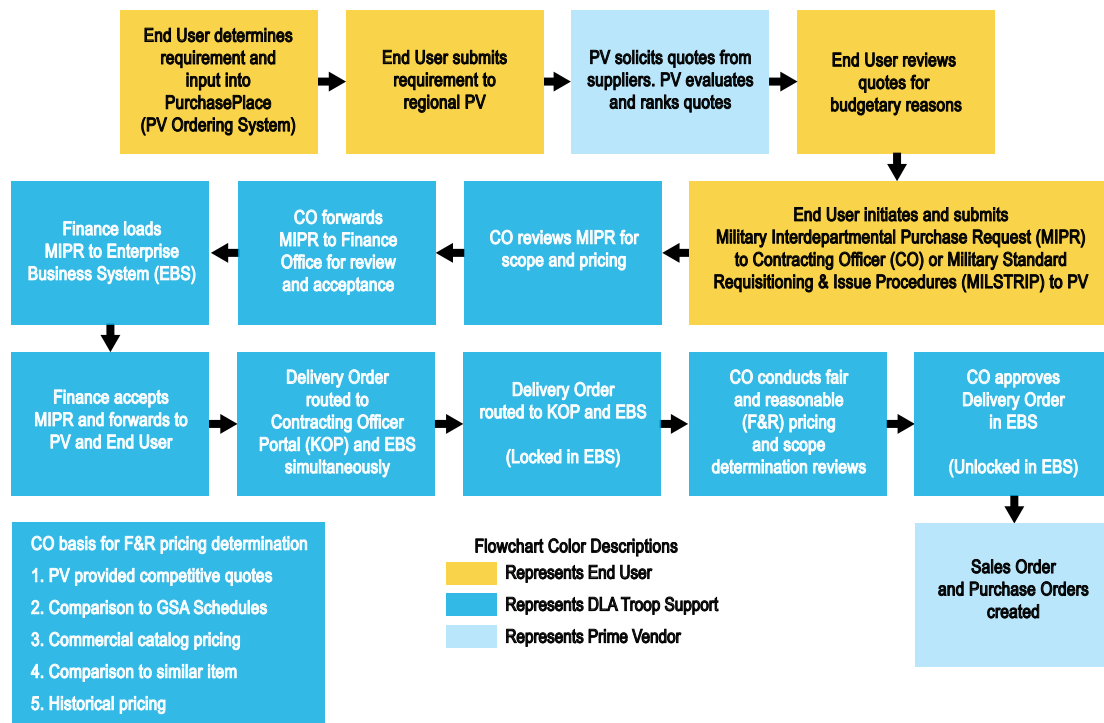
Appendix B

Storefront and Nonstorefront Operations

DLA Troop Support contracting officers issued contract modifications for three storefront locations: Anniston Army Depot (Southeast), Letterkenny Army Depot (Northeast), and the Pentagon Washington Headquarters Services (Northeast). DLA Troop Support also had a contract modification for a storefront location in Hawaii (Pacific) that was closed and removed from the contract effective June 29, 2012. Collectively, the three storefront locations processed more line items than the nonstorefront locations. At the Letterkenny Army Depot, the contractor provided inventory management, control, and distribution services for a specific list of MRO goods identified and agreed upon between DLA Troop Support, the contractor, and Letterkenny Army Depot.

DLA Troop Support provided a method for end users to order MRO items through a nonstorefront operation. The figure below shows the nonstorefront ordering.

Figure. Nonstorefront Ordering Process



*PV represents Prime Vendor
Source: DoD Office of Inspector General

According to DLA Troop Support personnel, an end user ordering through the nonstorefront operation must first determine mission needs and obtain approval from the base command. Once the end user determine mission needs as essential, DLA Troop Support personnel stated the end user inputs requirements in PurchasePlace, which is transferred to the contractor. The contractor explained that it sends a request for quote to potential subcontractors and receives two or more quotes in an effort to fulfill the end user requirements. The contractor stated and DLA Troop Support agreed that once the contractor received the quotes, it evaluates and ranks the quotes based on either the lowest priced or the quote that the prime vendor believed would provide the best value to the Government. Then, DLA Troop Support personnel stated the contractor recommends the quotes to the end user for acceptance. DLA Troop Support personnel also stated the end user reviews the recommended quote and evaluates the projected cost of items for budgetary reasons.

If the quotes are acceptable, the end user initiates and submits the MIPR to the contracting officer. The contracting officer reviews the MIPR to validate whether the end user requirements are within scope and pricing of the MRO program, and then transmits the requirements to the Finance Office for review. The Finance Office will review the MIPR for completeness (line of accounting, specificity, and point of contacts) and load the MIPR into the EBS. The EBS assigns a six digit alpha-numeric code to the MIPR, in which the Finance Office accepts and assigns the MIPR code to the end user and the vendor. If the end users use MILSTRIP, an obligated MILSTRIP document number is provided to the prime vendor.

Whether the end user uses MIPR or MILSTRIP, once the MIPR code or obligated MILSTRIP document number has been provided, the end user obligates funds and the contractor routes or submits the delivery order to the KOP and to EBS simultaneously. The EBS blocks the delivery order until the contracting officer conducts a fair and reasonable price determination. Once the contracting officer makes a fair and reasonable price determination, the delivery order is approved in KOP and unblocked in EBS, then a sales order and purchase order is generated.

The purchase order obligates DLA Troop Support's Defense Working Capital Funds for MIPR and MILSTRIP. When the contractor delivers the items, a receipt is posted to the purchase order. For MIPRs, DLA Troop Support will pay the vendor and record a receivable for the end user. For MILSTRIP, DLA Troop Support will pay the vendor and bill the end user. DLA Troop Support bills the end users against the MILSTRIP document and receives payment.

Appendix C

CMP Oversight Procedures

The contracting officers performs pre- and post-award reviews, such as determining the fair and reasonableness of the prime vendor prices and ensuring MRO items are based on adequate competition. The extent and timing of the contracting officers' reviews are based on the dollar value of line items. Specifically, the CMP described procedures for the following four categories of which fair and reasonable prices and adequate competition are determined:

- Category 1 consists of line items with an extended value of less than \$2,500;
- Category 2 consists of line items with an extended value of \$2,500 to \$24,999;
- Category 3 consists of all line items with an extended value of \$25,000 and greater; and
- Category 4 consists of line items with incidental services.

All Category 1 line items are auto-awarded through the KOP with a statistical sampling of line items that the contracting officers review on a monthly post-award basis. For Category 2 line items, contracting officers conduct a 100 percent review to determine whether prices were fair and reasonable. The 100 percent review includes a 30 percent pre-award review and 70 percent post-award review. Additionally, 100 percent of the line items in Categories 3 and 4 are also reviewed to determine the prices are fair and reasonable before orders being processed. However, the KOP locks Category 4 line items until a manager reviews the items.

After the contracting officer's fair and reasonable price determination of MRO line items prices, the Chief, IST, performs a higher-level review and approval of line items the contracting officer approved. The responsibilities for the Chief, IST, or division chief include performing post-award price verification audits on a monthly basis. The audit consists of reviewing 100 percent of orders the contracting officer approved to ensure that the file contains an adequate fair and reasonable price determination. Afterward, the division chief will prepare a report indicating the number of files reviewed, compliant, challenged, and unsupported. The division chief will summarize the findings by category of all files in the audit sample that have been challenged or unsupported and provide recommendations for improvement. The Director of Supplier Operation will review the report, and the report is subject to potential additional audit sampling of the files reviewed. In addition, the KOP

will forward all orders that include incidental services (Category 4) directly to a manager for 100 percent review to determine whether the prices were fair and reasonable before processing the orders. Further, the contracting officer will forward all line items with a fair and reasonable price determination, based on other than adequate price competition for that same item, to the Chief, IST, or division chief for higher-level approval.

The contractor's MRO contracts are subject to continuous oversight through the pricing reviews and audits that the Compliance Division and COEP conducted quarterly, semiannually, and annually. The DLAD, revision 5, May 11, 2000, replaces revision 4 and requires DLA Troop Support's supply chain Contract Administration and Compliance Division or Contract Review and Pricing Division to perform quarterly contract audits. Specifically, DLAD subpart 17.9507 states that the audit should examine the sufficiency of the contracting officer's price documentation, the vendor's adherence to the pricing methodology, and the vendor's compliance with nonpricing terms. Following DLA Troop Support's review, personnel furnish a copy of the report to DLA COEP no later than 45 days after the end of the quarter. To comply with this requirement, DLA Troop Support completed its reviews for FYs 2007 and 2008. However, in mid-2008, the DLA Senior Procurement Executive directed a headquarters team instead of DLA Troop Support to perform the pricing portion of the annual reviews. DLAD subpart 17.9507 was updated shortly thereafter to reflect this change in review ownership, which was effective beginning with the FY 2009 assessment cycle. Therefore, the Compliance Division does not perform the annual reviews. The Compliance Division transferred its responsibility to DLA Headquarters COEP, and DLA COEP personnel conducted the reviews in FYs 2009, 2010, and 2012.

DLA COEP personnel did not complete a review in FY 2011 because during the FY 2010 review, DLA COEP found that the contractor had a DCMA approved purchasing system and determined that a review for FY 2011 was not necessary. Further, since DLA COEP found the contractor to be compliant during the FY 2010 review and the contractor had a DCMA approved purchasing system, the Compliance Division considered these factors during the risk assessment for the FY 2011 assessment plan. Additionally, DLA COEP personnel performed quarterly reports, which began in the third quarter of FY 2008. Since the third quarter FY 2010, DLA COEP personnel performed reviews for the prime vendor program on a semiannual basis and examined the sufficiency of the contracting officers' price documentation and the vendor's adherence to the pricing methodology as required by the contract terms, the contract management plan, and the approved prime vendor pricing model.

Acronyms and Abbreviations

ADA	Antideficiency Act
CICA	Competition in Contracting Act
CMP	Contract Management Plan
COEP	Headquarters Center of Excellence for Pricing
DLA	Defense Logistics Agency
DLAD	Defense Logistics Acquisition Directive
EBS	Enterprise Business System
FAR	Federal Acquisition Regulation
IST	Integrated Support Team
KOP	Contracting Officer Portal
MIPR	Military Interdepartmental Purchase Request
MILSTRIP	Military Standard Requisitioning and Issue Procedures
MRO	Maintenance, Repair, and Operations
NDAA	National Defense Authorization Act

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

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For more information about DoD IG reports or activities, please contact us:

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