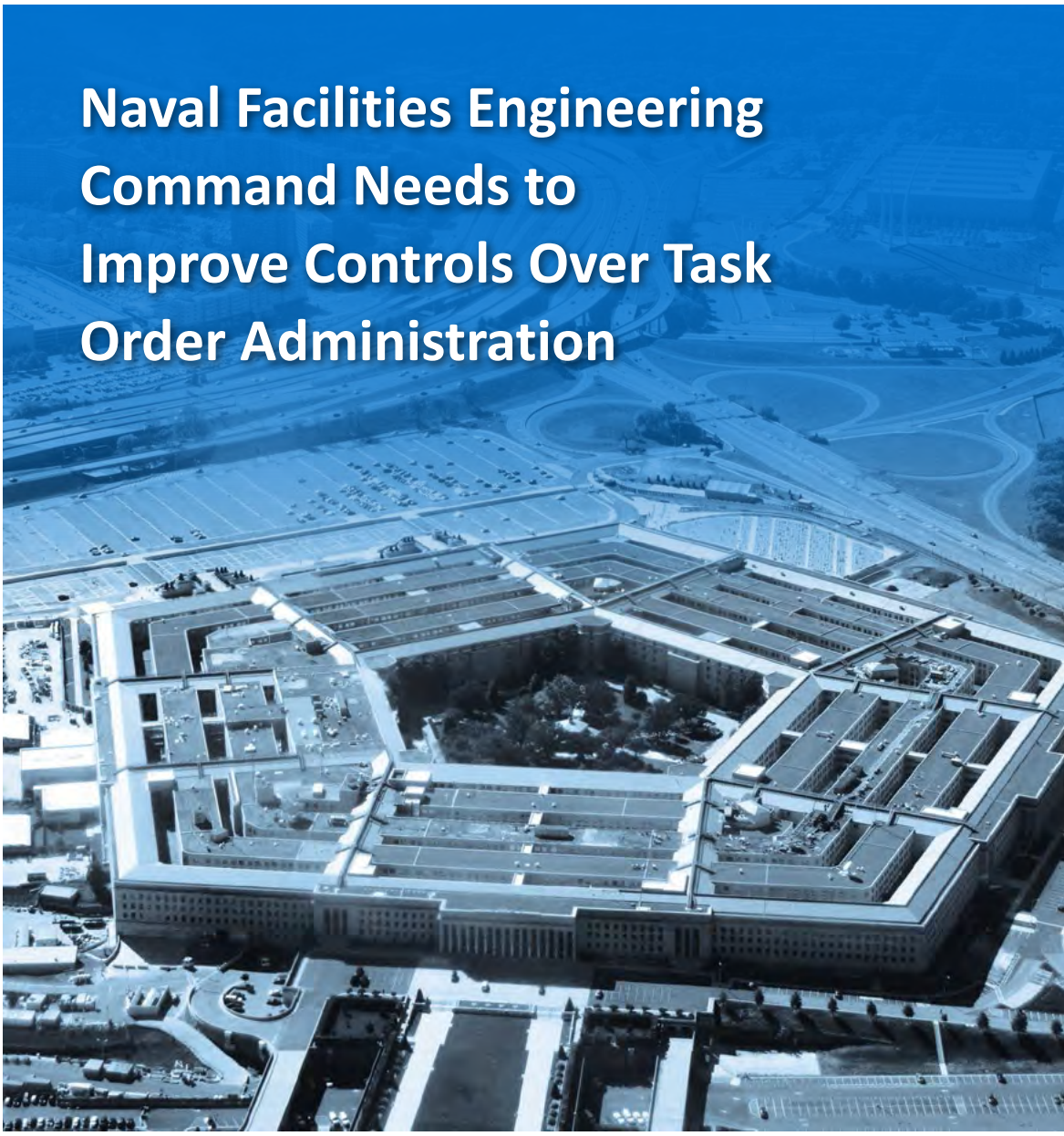
Report No. DODIG-2015-141

INSPECTOR GENERAL

U.S. Department of Defense

JULY 2, 2015

Naval Facilities Engineering Command Needs to Improve Controls Over Task Order Administration



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Results in Brief

Naval Facilities Engineering Command Needs to Improve Controls Over Task Order Administration

July 2, 2015

Objective

Our objective was to determine whether Naval Facilities Engineering Command (NAVFAC) Pacific and Marianas contracting officials were properly administering task orders and payments for the Guam Design-Build Multiple Award Construction Contract (Guam MACC). Of the 11 Guam MACC task orders executed and administered in Guam, we nonstatistically selected task order N62742-10-D-1308-0001 for review.

Finding

NAVFAC Marianas contract administration personnel did not effectively administer the Guam MACC task order. Specifically, NAVFAC Marianas personnel did not ensure that:

- construction specifications met Federal and DoD requirements for two of the seven modifications reviewed because NAVFAC guidance did not require that modifications include references to applicable construction standards, and that contract administration personnel confirm that the description of work complied with those standards before modifications were issued,
- Independent Government Estimates (IGEs) were properly prepared and furnished to the contracting officer for the six modifications that required an IGE because NAVFAC lacked adequate implementing guidance that addressed IGE preparation and independent review, and

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Finding (cont'd)

- task order files were properly maintained because NAVFAC Marianas contract administration personnel stored some required documentation on an unapproved electronic filing system.

As a result, DoD did not have a comprehensive record of decisions made on the task order, and expended at least $1.45 million and added 93 days to the construction schedule for facilities that did not meet requirements and required further modification.

As a result of our audit, NAVFAC Marianas personnel started to implement corrective actions on construction specifications, estimates, and contract documentation.

Recommendations

We recommend that the Commander, Naval Facilities Engineering Command establish or revise internal guidance or procedures to ensure that: task order modifications meet criteria; procedures include detailed steps to prepare and review independent government estimates; and contract administration personnel properly maintain all documentation. Additionally, we recommend that the Commander ensure that personnel preparing and reviewing IGEs are adequately trained. We also recommend that the Commander, Naval Facilities Engineering Command, Marianas evaluate the requirements for the helipad and hazardous waste storage for the P-528 project and ensure that they are built to meet applicable standards and guidance.

Management Comments and Our Response

The Commander, NAVFAC, Marianas, responding for the Commander, NAVFAC, fully addressed all specifics of the recommendations, and no further comments are required. Please see the Recommendations Table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No additional Comments Required
Commander, Naval Facilities Engineering Command	None	1.a, 1.b, 1.c, and 1.d
Commander, Naval Facilities Engineering Command, Marianas	None	2

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

July 2, 2015

MEMORANDUM FOR COMMANDER, NAVAL FACILITIES ENGINEERING COMMAND
COMMANDER, NAVAL FACILITIES ENGINEERING COMMAND, MARIANAS

SUBJECT: Naval Facilities Engineering Command Needs to Improve Controls Over Task Order Administration (Report No. DODIG-2015-141)

We are providing this report for your information and use. Naval Facilities Engineering Command's policies and procedures to administer modifications, government estimates, and task order files were not adequate to ensure accuracy and completeness of task order work and contract documentation. We conducted this performance audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. Comments from the Commander, Naval Facilities Engineering Command, Marianas, responding for the Commander, Naval Facilities Engineering Command, addressed all specifics of the recommendations and conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 699-7331 (DSN 499-7331).

Carol N. Gorman
Assistant Inspector General
Readiness and Cyber Operations

Contents

Introduction

Objective

Our audit objective was to determine whether Naval Facilities Engineering Command (NAVFAC) Pacific and Marianas contracting officials were properly administering task orders and payments for the Guam Design-Build Multiple Award Construction Contract (Guam MACC). We did not review the payments process because the Guam MACC is a fixed price contract and none of the task orders were closed out when the audit began. We may address payments in a future audit.

Background

The Defense Policy Review Initiative, initiated by the U.S. Secretaries of State and Defense, along with their Japanese counterparts, serves as the framework for the future of U.S. force structure in Japan and Guam. This includes the relocation of Marine Corps personnel to Guam, the return of selected U.S. military installations and facilities to the government of Japan, and the consolidation of some of the remaining installations and facilities in Japan.

The Guam MACC was awarded on May 10, 2010, to satisfy military construction (MILCON) requirements in Guam related to the Defense Policy Review Initiative and other MILCON requirements. The Guam MACC is a multiple-award, indefinite-delivery indefinite-quantity contract awarded to seven contractors with a maximum value of $4 billion. The seven contractors compete for task orders under the Guam MACC contract, which are awarded by NAVFAC Pacific or its subordinate commands as firm-fixed-price task orders.

NAVFAC is a global engineering and acquisition command that supports the Navy, the Marine Corps, and other Federal agencies. It plans, designs, constructs, and sustains facilities for commanders, the warfighter, and their families. NAVFAC has two primary commands—NAVFAC Atlantic in Norfolk, Virginia, and NAVFAC Pacific in Pearl Harbor, Hawaii. NAVFAC Pacific is the construction agent responsible for the design and construction of U.S. military facilities in Guam and has three subordinate commands: NAVFAC Hawaii; NAVFAC Marianas, Guam; and NAVFAC Far East, Japan.

Roles and Responsibilities

In July 2010, NAVFAC Pacific appointed NAVFAC Marianas as the Administrative Contracting Office for the Guam MACC task orders, which gave NAVFAC Marianas authority to perform all contract administration functions such as issuing task order modifications and establishing and maintaining contract files. Key roles and responsibilities include:

- Administrative Contracting Officer:
  - prepares and issues contract actions (including modifications); and
  - provides oversight of the contract file and input on business clearance, contractor performance, and negotiations with the contractor.
- Project Manager:
  - reviews and approves funding requests for modifications.
- Construction Management Engineer:
  - serves as the primary Government liaison with the contractor and clients;
  - ensures contractor compliance with contract requirements; and
  - prepares the Independent Government Estimates (IGEs) for modifications.

Guam MACC Task Orders

Of the 11 Guam MACC task orders executed and administered in Guam, we nonstatistically selected task order N62742-10-D-1308-0001 for review. The task order was awarded on May 10, 2010, for approximately $23.4 million, and modified 22 times. The modifications added approximately $6.7 million to the task order, for a total value of $30.1 million. The task order was for MILCON Projects P-465 and P-528.

Project P-465 provides a consolidated joint use Submarine Learning Center and Submarine Squadron Headquarters facility that:

- includes training space for submarine crews, and
- allows frequent and timely interaction between Headquarters personnel, Submarine Learning Center instructors, and waterfront operations personnel.

Project P-528 provides a Torpedo Exercise Support facility that:

- supports submarine crew training and certification to maintain proficiency;
- supports underwater target acquisition and torpedo firing training events in which helicopters launch targets and retrieve spent torpedoes; and
- houses a torpedo flushing capability, which generates hazardous waste materials that are stored on-site for up to 90 days.

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. We identified internal control weaknesses in NAVFAC's administration of the Guam MACC task orders. Specifically, NAVFAC policies and procedures to issue modifications, calculate IGEs, and maintain task order files were not adequate. We will provide a copy of this report to the senior officials responsible for internal controls.

Finding

Guam Multiple Award Construction Contract Task Order Not Effectively Administered

NAVFAC Marianas contract administration personnel did not effectively administer Guam MACC task order N62742-10-D-1308-001. Specifically, NAVFAC Marianas contracting officials did not ensure that:

- construction specifications met Federal and DoD requirements for two of the seven modifications reviewed because NAVFAC guidance did not require that modifications include references to applicable construction standards and that contract administration personnel confirm that the description of work complied with those standards before modifications were issued,
- IGEs were properly prepared for the six modifications that required an IGE because NAVFAC lacked adequate implementing guidance that addressed IGE preparation and independent review, and
- task order files were properly maintained because NAVFAC Marianas contract administration personnel stored some documentation on an unapproved electronic filing system.

As a result, DoD expended at least $1.45 million and added 93 days to the construction schedule for facilities that did not meet safety and environmental requirements and could not be used without further modification. Furthermore, NAVFAC Marianas contract administration personnel could not support that they paid a fair and reasonable price for task order modifications and DoD could have difficulty supporting contract actions if contract documentation is incomplete.

Modification Construction Specifications Did Not Meet Federal and DoD Requirements

NAVFAC Marianas contract administration personnel did not ensure that construction specifications met Federal and DoD requirements for two of the seven Guam MACC modifications included in our review. Specifically, the:

- helipad modification did not meet Unified Facilities Criteria (UFC) and Navy requirements; and
- hazardous waste storage area modification did not meet Code of Federal Regulations (CFR) or UFC requirements.

This occurred because NAVFAC guidance did not require that modifications include references to applicable construction standards and that contract administration personnel confirm that the description of work complied with those standards before modifications were issued.

Insufficient Helipad Size, Clear Zones, Surface Coating, and Markings

NAVFAC Marianas specifications for an additional helipad at the Torpedo Exercise Support facility did not meet the requirements of UFC and Naval Air Systems guidance.[1] Specifically, modification specifications did not include appropriate:

- size requirements,
- clear zone distances, or
- surface coating and marking specifications.

After the modification work was complete, a February 2014 site survey conducted by Helicopter Sea Combat Squadron 25 (helicopter squadron) determined the helipad was not the safest or most efficient option to launch and recover torpedoes and did not recommend using the helipad until additional improvements were made. As of April 2015, DoD expended approximately $572,000 for the helipads and the surrounding area that would require at least $321,000 of additional work to be functional. Specifically, NAVFAC personnel drafted a work request in September 2014 to address the Helicopter Specifically, NAVFAC personnel drafted a work request in September 2014 to address the helicopter squadron's logistical requirements. As written, the request does not address the coating and marking deficiencies identified in this report. As of the report date, a contract had not been issued.

Size Requirements

Contract administration personnel did not reference or meet UFC size requirements when developing the specifications for the helipad modification. According to the UFC, the Navy-required helipad size is 100 feet by 100 feet (10,000 square feet). The modification required the contractor to build a "50 feet by 50 feet (2,500 square feet) epoxy-coated concrete helipad." In addition to not meeting the UFC requirements, the modification specifications did not meet mission requirements as the smaller helipad cannot accommodate the helicopter and all of the equipment required to conduct efficient operations.

[1] UFC 3-260-01, "Airfield and Heliport Planning and Design," November 2008 and Naval Air Systems Command Technical Manual 51-50AAA-2, "General Requirements for Shorebased Airfield Marking and Lighting," September 2009.

Clear Zone Distances

Contract administration personnel did not ensure the modification established the appropriate "clear zone" required by the UFC. According to the UFC, a clear zone of 425 feet (north/south) by 150 feet (east/west), is required from the edge of the helipad. The clear zone is required to be "free of obstructions" with a maximum grade (slope) of 5 percent. However, the modification specifications did not adequately define these clear-zone requirements and at approximately 100 feet from the north edge of the helipad, the vegetation was approximately 7 to 10 feet tall. Further, there was a second line of trees approximately 30 to 40 feet tall located approximately 150 feet from the helipad (Figure 1). Consequently, the helicopter squadron could not safely launch the helicopter and torpedo equipment.

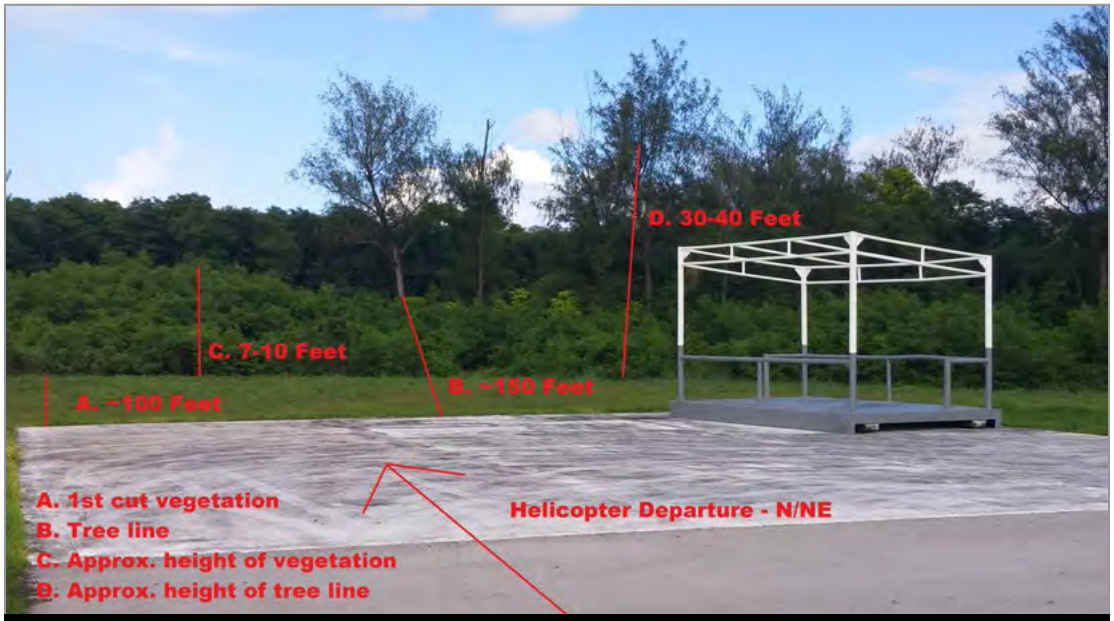


Figure 1. Overgrown Vegetation Located in Area Designated as a Clear Zone. Note the platform in the picture is removable but was stored on the helipad since the helipad was not in use.
Source: DoD OIG

Surface Coatings and Markings

Contract administration personnel did not include surface coating specifications from the original task order, or perimeter and identification markings required by Naval Air Systems Command, in the helipad modification. Task order specifications[2] state that floor finishes, including the helipad, shall be "non-slip." However, the surface of the helipad was slippery and traction was limited. The helipad surface also lacked the identification and perimeter markings for landing and takeoff during daytime operations as required by Naval Air Systems Command.

[2] Task Order N62742-10-D-1308 #0001, Part 3.3, Section 6.

Navy guidance[3] states, "any paved surface designated for use for landing and takeoff of helicopters shall be provided with painted identification and perimeter markings."

Hazardous Waste Storage Area Not Properly Constructed

NAVFAC Marianas specifications for the Torpedo Exercise Support facility's hazardous waste storage area did not meet requirements in the CFR or UFC.[4] Specifically, NAVFAC Marianas issued a task order modification that did not adequately communicate requirements for:

- hazardous waste storage area enclosure,
- appropriate floor slope, or
- collection trench size.

The task order modification cost about $879,000 and extended the completion date 93 days, but did not provide a usable space to the customer. Additional work will be required to ensure the storage area is usable.

Hazardous Waste Storage Area Enclosure

NAVFAC Marianas contract administration personnel did not ensure the hazardous waste storage area was properly enclosed. The CFR requires hazardous waste storage areas be enclosed to prevent exposure and to contain managed wastes. However, a visible gap existed under the hazardous waste storage room exit door that could allow hazardous liquid material to flow into the surrounding environment.

Additionally, storage area walls were constructed entirely of louvers[5] (Figure 2) which would not be sufficient to contain a spill. Also, rain-water was in the collection trench, which likely entered the room through the gap or louvers. The trench was covered with a metal grate as shown in Figure 2 (left).

[3] Naval Air Systems Command Technical Manual 51-50AAA-2, "General Requirements for Shorebased Airfield Marking and Lighting," September 2009.

[4] Title 40 CFR, Section 265.1101 "Design and Operating Standards," July 2009 and UFC 4-451-10N, "Design: Hazardous Waste Storage," January 2004.

[5] As depicted in Figure 2, louvers are basically metal storm shutters with horizontal slats that open and close.

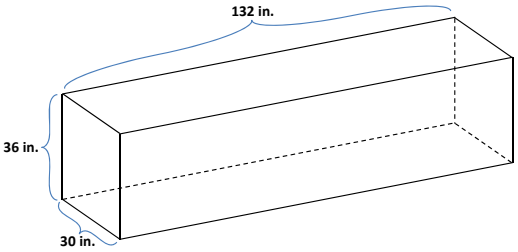
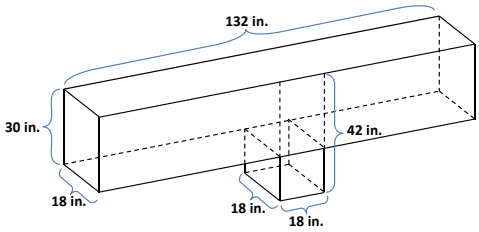
Figure 2. Visible Gap Under Hazardous Waste Storage Room Door. Exterior View Shows Close Proximity to Surrounding Environment.
Source: DoD OIG

Appropriate Floor Slope

NAVFAC Marianas contract administration personnel also did not ensure the floor slope in the hazardous waste storage area was adequate to ensure liquids drained into the collection trench as required by the CFR. While an exact floor slope was not defined in the guidance, the floor was not visibly sloped toward the trench. Further, the facility's site manager stated he had observed water pooling on the areas around the trench rather than draining into it as required.

Collection Trench Size

Finally, NAVFAC Marianas contract administration personnel did not ensure the collection trench built in the hazardous waste storage area could contain sufficient volume to meet customer needs. In the modification request for proposal, NAVFAC Marianas officials stated the collection trench should hold approximately 617 gallons, which would be sufficient to contain a spill from the customer's 550-gallon hazardous material container. However, the collection trench capacity was approximately 325 gallons (See Figure 3).

Per Modification, Request for Proposal	As-Built (Measured by DODIG)
	
132 in x 36 in x 30 in = 142,560 in^3 142,560 in^3 = 617.14 Gallons	Cube (1): 132 in x 30 in x 18 in = 71,280 in^3 Cube (2): 18 in x 12 in x 18 in = 3,888 in^3 Combined = 75,168 in^3 = 325.4 Gallons

Difference of 291.74 gallons. (617.14 gal – 325.4 gal) or 52.7% of the specified capacity.

Figure 3. Measurements of the Hazardous Waste Storage Collection Trench.
Source: DoD OIG

NAVFAC Guidance Did Not Emphasize Construction Standard Compliance

NAVFAC guidance did not require that modifications include references to applicable construction standards and that contract administration personnel confirm that the description of work complied with criteria before modifications were issued. NAVFAC established the Business Management System (BMS) in 2006 to identify and maintain best business processes and procedures. The BMS allows NAVFAC employees access to the processes and procedures that support their operations and requirements. BMS processes did not require that contract modifications include references to applicable construction standards. Specifically, the following BMS processes lacked specific detail needed to ensure that contractors were aware of detailed specifications or that contract administration personnel reviewed construction specifications to ensure they complied with guidance before issuing a modification:

- B.1.6.6 “Contract Modifications, Technical Support,”
- S.17.4.4.1 “Bilateral Modifications: In-Scope Changes,” and
- S.17.4.4.2 “Bilateral Modifications: Construction Under $150K.”

NAVFAC should update the BMS with sufficient detail to ensure that contract administration personnel review modifications before issuing to confirm relevant criteria are referenced and the description of work is consistent with applicable criteria. Additionally, NAVFAC Marianas should evaluate UFC and Naval Air Systems Command requirements and ensure the helipad and hazardous waste storage structures are constructed in accordance with those requirements.

Modifications Issued Without Adequate Independent Government Estimates

Of the seven modifications reviewed, NAVFAC Marianas contract administration personnel did not ensure that IGEs were properly prepared for the six modifications that required an IGE. The UFC[6] states that IGEs should be prepared as though the Government were a sensible and well-equipped contractor estimating the project. Each IGE should be developed as accurately as possible, in as much detail as possible, and based upon the best information available. The IGE should, in all aspects, represent the "fair and reasonable" cost to the Government. The contract administration personnel can then use the IGE to evaluate the contractor's proposed price for a modification and ensure the contractor's price is "fair and reasonable."

For the six modifications that required an IGE, five did not contain sufficient detail and one was not prepared, as required. This occurred because NAVFAC lacked adequate implementing guidance that addressed IGE preparation and independent review.

Independent Government Estimates Not Sufficiently Detailed

The IGEs for five of the modifications consistently lacked appropriate or required detail. The Federal Acquisition Regulation (FAR)[7] states that IGEs for construction costs should be prepared in as much detail as if the Government were competing for award. The UFC also establishes methods, procedures, and formats for construction cost estimates and contract modification estimates. However, the five IGEs lacked or omitted required details related to one or more of the following:

- individual cost elements;
- profit determination;
- construction schedule impact; and
- independent review of estimates.

[6] UFC 3-740-05, "Handbook: Construction Cost Estimating," Chapter 2, November 2010.

[7] FAR 36.203, "Government Estimate of Construction Costs," July 14, 2009.

Individual Cost Elements

Four IGEs included lump sum[8] costs that contained no backup support. The UFC[9] states that the use of lump sum costs is discouraged. If used, the lump sum costs must have backup cost data that relate to specific construction tasks required and the source of the data. However, Modification 1F contained $295,000 in lump sum costs without supporting documentation. In particular, the IGE contained a line item for installation of a private bathroom and shower for the commodore[10] with $15,000 in direct materials and $7,500 in direct labor, but did not contain specific tasks associated with the bathroom construction or include cost estimate sources as required by the UFC.

Three IGEs did not include equipment costs or sufficient estimate details. The UFC[11] states that equipment estimates should include the number, size, and function of the equipment to determine its optimal use. Modification 1C did not include equipment estimates; however, the contractor's proposal indicated equipment costs of $195,322. Also, modification 1Q contained $42,900 in equipment cost estimates; however, no other information in the IGE discussed the specific equipment use or operational costs.

Three IGEs did not include potential subcontract work although contractor proposals identified significant portions of the work would be subcontracted. The UFC[12] states that the estimate should indicate the parts of the work that may be subcontracted and considered a direct cost to the prime contractor. The contractor proposal for Modification 1B contained $150,185 in subcontracted costs, or 81 percent of the total cost. However, the IGE for Modification 1B did not contain a discussion on work that would be subcontracted.

Profit Determination

Four IGEs did not contain appropriate support for profit calculations. The UFC[13] states that the weighted guidelines method[14] should be used to determine profit for all contracts that include profit. The guidance also states that the "profit computation sheet" will be a part of the cost estimate backup and will explain the

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8 In an estimate, lump sum items are noted as "LS," and the estimate does not provide detail for individual cost elements (labor, materials, etc.).

9 UFC 3-740-05, Chapter 3.

10 A commodore is a Navy officer who commands a squadron of ships.

11 UFC 3-740-05, Chapter 7.

12 UFC 3-740-05, Chapter 9.

13 UFC 3-740-05, Chapter 11.

14 In the Weighted Guidelines Method, a weight (between 0.03 and 0.12) is assigned to each of the following factors: degree of risk, relative difficulty of work, size of the job, period of performance, contractor's investment, assistance by government, and subcontracting. The weight is applied to the profit calculation on the computation sheet to determine the fair and reasonable profit percentage.

weighting methodology. However, the IGE for Modification 1C combined overhead and profit into a single category, calculated at 26 percent of total direct costs, which amounted to $420,339. The IGE did not contain a profit computation to show which weighted guideline was used to determine profit. Therefore, NAVFAC did not adequately support what portion of the 26 percent was for profit.

Construction Schedule Impact

Five IGEs did not discuss whether the modification work would increase or decrease the overall timeline of the construction schedule. The UFC[15] states that the modification preparer should consider the cost and time change of the work directly affected and the cost and time impact on the unchanged work. It also states that the existing construction schedule must be analyzed to determine the extent of the impact.

Independent Review

Five IGEs did not show evidence of an independent review by government cost engineers. The UFC[16] states that construction cost estimates should have an independent review by government cost engineers that should include a check of assumptions, logic, quantities, unit prices, and arithmetic. Independent reviews are necessary to ensure accurate and complete estimates and to establish accountability with the cost engineer. Additionally, independent reviews are critical to ensure the cost estimates represent fair and reasonable costs.

Independent Government Estimate Not Prepared

Modification 1A did not contain an IGE. The UFC[17] references that the FAR[18] requires an IGE for modifications over $100,000. The UFC[19] also states that the amount of the modification refers to the sum of the absolute value[20] of its increases and decreases. The net value[21] of Modification 1A was zero; however, the absolute value of the additions and deductions was $772,768. Therefore, an IGE was required for Modification 1A.

NAVFAC Lacked Adequate Implementing Guidance

NAVFAC lacked adequate implementing guidance that addressed IGE preparation and independent review. Specifically, NAVFAC did not incorporate key FAR and

15 UFC 3-740-05, Chapter 14.

16 UFC 3-740-05, Chapter 2.

17 UFC 3-740-05, Chapter 14.

18 FAR 36.203.

19 UFC 3-740-05, Chapter 14.

20 Absolute value is the value of all changes. For example, a modification containing an increase of $60,000 and decrease of $45,000 has an absolute value of $105,000.

21 Net value is the overall sum of the increases and decreases in cost.

DoD[22] cost estimating and independent review requirements into BMS process B-1.6.6.[23] In addition, this process did not require contract personnel to consider the absolute value of changes when they determined whether to prepare an IGE. Further, BMS process S-17.2.23[24] did not include steps requiring contracting officers to ensure that IGEs contained sufficient detail and support.

NAVFAC internal assessments and a prior audit report[25] identified weaknesses in government estimates at NAVFAC Marianas. The recurrence of these weaknesses throughout the period of our review indicated that corrective actions were not effective. NAVFAC should review and revise internal procedures related to IGEs and ensure that contract administration personnel who prepare and review IGEs are adequately trained on the new guidance.

NAVFAC Marianas Did Not Properly Maintain Task Order Files

NAVFAC Marianas contract administration personnel did not ensure task order files were properly maintained. Specifically, documents required by Federal and NAVFAC guidance were missing from the official task order files. This occurred because NAVFAC Marianas contract administration personnel stored some documentation on an unapproved electronic filing system (for example, hard drives or shared drives).

Task Order Files Not Complete

The official file for Guam MACC task order N62742-10-D-1308-0001 was missing documentation. The FAR[26] provides a list of records normally contained in contract and task order files. In addition, the NAVFAC BMS[27] states that the contracting officer should establish and maintain records of all contractual actions and supporting documents in accordance with the FAR. However, the Guam MACC task order file was missing the following documents:

- **Insurance policies.** The FAR and BMS require the task order file to contain a record of active policies for the duration of the task order.

[22] The FAR and DoD requirements are discussed and referenced in previous sections of the IGE discussion. The primary guidance is UFC 3-750-05 and FAR 36.203.

[23] B-1.6.6, "Contract Modifications: Technical Support," 2013 revision. B-1.6.6, "Contract Modifications: Technical Support," 2013 revision.

[24] S-17.2.23, "Business Clearance Memorandum and Pre/Post Negotiation Memorandum Formats," 2014 revision.

[25] Naval Audit Service Report No. NAS-N2009-0050, September 30, 2009.

[26] FAR Subpart 4.8, "Government Contract Files," April 1, 2011.

[27] NAVFAC BMS 17.4.1.2, "Contract Administration – Construction," April 2013.

- **Other documents important to the contract.** The FAR and BMS require the task order file to contain contract turnover meeting[28] minutes, partnering meeting[29] information, and subcontract plan compliance reviews.
- **Modification supporting documents.** The FAR and BMS require the task order file, when applicable, to contain subcontracting plans, IGEs, certified cost or pricing data, technical analyses, funds availability, bond information, and excluded parties list information.

Throughout the audit, contract administration personnel located several of the missing documents. Specifically, contract administration personnel provided the insurance policies, contract turnover documentation, subcontracting plan compliance reviews, and bond information for the modifications. However, these documents were difficult to locate because they were not stored in the official task order file. For example, it took from 1 to 3 months to locate the documents.

NAVFAC Marianas Maintained Documentation Outside of the Approved Contract File System

NAVFAC Marianas contract administration personnel maintained some required documentation on unapproved electronic filing systems. Naval Facilities Acquisition Supplement, March 2006 and the 2012 update, state that paper copies of contract files shall be maintained by contracting offices unless an approved back-up and retrievable electronic file system is in place. According to a contracting official, NAVFAC Marianas did not have an approved electronic filing system. The contracting official also stated that the official hard-copy file system was difficult and cumbersome to maintain, and therefore some files were kept electronically, which caused the official file to be incomplete. NAVFAC internal assessments and a prior audit report[30] identified weaknesses in contract file maintenance at NAVFAC Marianas. The recurrence of these weaknesses throughout the period of our review indicates that corrective actions were not effective. NAVFAC should review and revise internal business processes to ensure that contract administration personnel maintain all required documentation in an approved filing system.

[28] The contract turnover meeting is a meeting after award between the procuring contract officer and the administrative contracting officer to ensure knowledge and information is shared.

[29] The partnering meeting is a meeting after award between the administrative contracting officer and the contractor to maximize resources in delivering the client's requirements.

[30] Naval Audit Service Report No. NAS-N2009-0050, "Acquisition Checks and Balances at Naval Base Guam Supported Activities," September 30, 2009.

Conclusion

DoD expended at least $1.45 million and required an additional 93 days of work for mission support facilities that were not complete or usable by the customer. Additionally, NAVFAC contract administration personnel did not ensure adequate preparation of IGEs to support the price reasonableness determinations of contract modifications and could not provide a complete acquisition history for task order N62742-10-D-1308-0001. Further, DoD could have difficulty supporting contract actions if contract documentation is incomplete. If NAVFAC implements the recommendations in this report, it can increase the likelihood that other task orders will be properly administered for this contract and the follow-on contract. According to a NAVFAC Pacific official, the follow-on MACC contract for Guam MILCON projects will be awarded in FY 2016, and valued at around $1 billion.

Management Actions Taken

As a result of our audit, NAVFAC Marianas started to implement corrective actions on IGEs, contract file documentation, hazardous waste storage, and the helipad. Specifically, NAVFAC Marianas held training in IGE development, proper IGE documentation, and contract file requirements. In addition, NAVFAC stated that they awarded a follow-on project to correct the hazardous waste storage deficiencies and ensure the facility is complete and usable based on mission requirements. Finally, NAVFAC Pacific will use an airfield subject matter expert to review the planned work on the helipad to ensure the work meets UFC requirements.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Commander, Naval Facilities Engineering Command:

a. Establish procedures that require contract administration personnel to ensure that task order modifications reference applicable Federal and DoD criteria and that construction specifications are written in compliance with the criteria.

Naval Facilities Engineering Command Comments

The Commander, NAVFAC, Marianas, responding for the Commander, NAVFAC, agreed, stating that NAVFAC established and implemented procedures to ensure that applicable Federal and DoD criteria are included in its task orders and modifications.

Our Response

Comments from the Commander addressed all specifics of the recommendation, and no additional comments are required.

b. Review and revise internal business procedures to ensure they include detailed steps to prepare and review independent government estimates.

Naval Facilities Engineering Command Comments

The Commander, NAVFAC, Marianas, responding for the Commander, NAVFAC, agreed, stating that NAVFAC issued Naval Engineering Training and Operating Procedures and Standard #32, which includes procedures to prepare independent government estimates IGEs. Additionally, NAVFAC Marianas will review the internal business procedures and make recommendations for changes.

Our Response

Comments from the Commander addressed all specifics of the recommendation, and no additional comments are required.

c. Ensure personnel preparing and reviewing independent government estimates are adequately trained on the new guidance.

Naval Facilities Engineering Command Comments

The Commander, NAVFAC, Marianas, responding for the Commander, NAVFAC, agreed stating that training for Naval Engineering Training and Operating Procedures and Standard #32 and revisions to internal business procedures for reviewing independent government cost estimates will be provided to NAVFAC Marianas personnel. NAVFAC Marianas plans to complete the training by July 31, 2015.

Our Response

Comments from the Commander addressed all specifics of the recommendation, and no additional comments are required.

d. Review and revise internal business processes to ensure that contract administration personnel maintain all required documentation in an approved filing system.

Naval Facilities Engineering Command Comments

The Commander, NAVFAC, Marianas, responding for the Commander, NAVFAC, agreed, stating that NAVFAC recently revised and implemented an approved filing system, which NAVFAC Marianas will comply with, and is codified in Naval Facility Acquisition Supplement.

Our Response

Comments from the Commander addressed all specifics of the recommendation, and no additional comments are required.

Recommendation 2

We recommend that the Commander, Naval Facilities Engineering Command, Marianas evaluate the requirements for the helipad and hazardous waste storage for the P-528 project and ensure they are built to meet applicable standards and guidance.

Naval Facilities Engineering Command Comments

The Commander, NAVFAC, Marianas, agreed, stating that they evaluated the requirements for the helipad and developed a preliminary project package that will meet the applicable standards and guidance. In addition, NAVFAC Marianas evaluated the requirements for the hazardous waste storage and executed contract actions to resolve the collection trench size, appropriate floor slope, and door gaps. Finally, the storage area walls that are constructed of louvers will be evaluated and appropriate actions will be taken to meet applicable standards and guidance. NAVFAC Marianas plans to complete these projects by June 30, 2016.

Our Response

Comments from the Commander addressed all specifics of the recommendation, and no additional comments are required.

Appendix

Scope and Methodology

We conducted this performance audit from June 2014 through May 2015 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To accomplish our objectives, we reviewed task order documentation for existence and compliance with applicable sections of the CFR, FAR (and its Supplements), UFC, and NAVFAC policies and procedures. We also performed two site visits at NAVFAC Marianas in August and November 2014. During the site visits, we interviewed personnel who administered the selected task order and reviewed the task order files. Additionally, we observed and evaluated work completed under the selected task order modifications to verify that the work complied with requirements and applicable construction criteria.

We identified and reviewed the following criteria relevant to our audit:

- Title 40 CFR Part 265 "Standards for Owners and Operators of Hazardous Waste Treatment, Storage, and Disposal Facilities," Section 1101 "Design and Operating Standards," as of July 14, 2006;
- FAR Subpart 1.602-2, "Responsibilities," as of July 22, 2013;
- FAR 4.8, "Government Contract Files," as of April 1, 2011;
- FAR 36.203, "Government Estimate of Construction Costs," as of July 14, 2009;
- Under Secretary of Defense for Acquisition, Technology and Logistics Memorandum, "Contracting Practices," September 17, 2007;
- UFC 3-260-01, "Airfield and Heliport Planning and Design," November 17, 2008;
- UFC 3-740-05, "Handbook: Construction Cost Estimating," November 2010;
- UFC 4-451-10N, "Design: Hazardous Waste Storage," January 2004;
- Naval Air Systems Command Technical Manual 51-50AAA-2, "General Requirements for Shorebased Airfield Marking and Lighting," September 2009;
- Naval Facilities Acquisition Supplement, 2006 and 2012 versions; and

- NAVFAC BMS Processes:
  - B-1.6.6 "Contract Modifications, Technical Support," 2013 revision;
  - S.17.2.23, "Business Clearance Memorandum and Pre/Post Negotiation Memorandum Formats," 2009 and 2014 revisions;
  - S-17.4.1.2, "Contract Administration – Construction," April 2013;
  - S-17.4.4.1, "Bilateral Modifications: In-Scope Changes," 2010 and 2013 revisions; and
  - S-17.4.4.2, "Bilateral Modifications: Construction Under $150K," 2009 and 2014 revisions.

Universe and Sample Information

We used the Federal Procurement Data System-Next Generation and the Electronic Document Access System to identify the universe of task orders awarded under the Guam MACC. As of June 2014, NAVFAC Pacific and its subordinate commands issued 14 task orders for construction projects under the Guam MACC, totaling $559 million. We limited the scope of our review to the 11 task orders and associated modifications ($480 million) performed on Guam. We nonstatistically selected one task order, N62742-10-D-1308-0001, valued initially at approximately $23.4 million, to review in detail based on the number and dollar value of modifications, time extensions, and modifications throughout the life of the contract when compared against other Guam MACC task orders. The task order had a total of 22 modifications that added approximately $6.7 million, for a total value of approximately $30.1 million.

Due to the number of modifications, we nonstatistically sampled seven modifications to review based on dollar value, time increase, and other risk factors. The seven contract modifications, which totaled approximately $4.7 million, were:

- Modification 1A—Multiple Concept Design Workshop Changes;
- Modification 1B—Helipad and Access Road Changes;
- Modification 1C—Foundation System Changes;
- Modification 1F—Add Furniture, Fixtures, and Equipment Design;
- Modification 1Q—Hazardous Waste Storage Changes;
- Modification 1V—Lightning Protection System Changes; and
- Modification 1W—Chiller Configuration Changes.

In total, we reviewed task order administration processes related to $28.1 million of the $30.1 million obligated under task order N626742-10-D-1308-0001 ($23.4 million for original task order, plus $4.7 million for sampled modifications).

We compared the task order and modifications obtained from the electronic system to information in the contract file. NAVFAC personnel confirmed that our universe was complete, and overall, we determined the electronic information obtained was sufficient for our purposes.

Use of Computer-Processed Data

We did not rely on computer-processed data for our report results or conclusions.

Use of Technical Assistance

We received assistance from the Department of Defense Office of Inspector General's (DoD IG) Technical Assessment Division. An engineer helped us interpret the technical and engineering language in the contract design specifications and inspect project sites during the November 2014 site visit.

Prior Coverage

During the last 5 years, the DoD IG and Naval Audit Service issued two reports with findings related to our review of contract administration at NAVFAC activities. Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/pubs/index.cfm. Naval Audit Service reports are not available over the Internet.

DoD IG

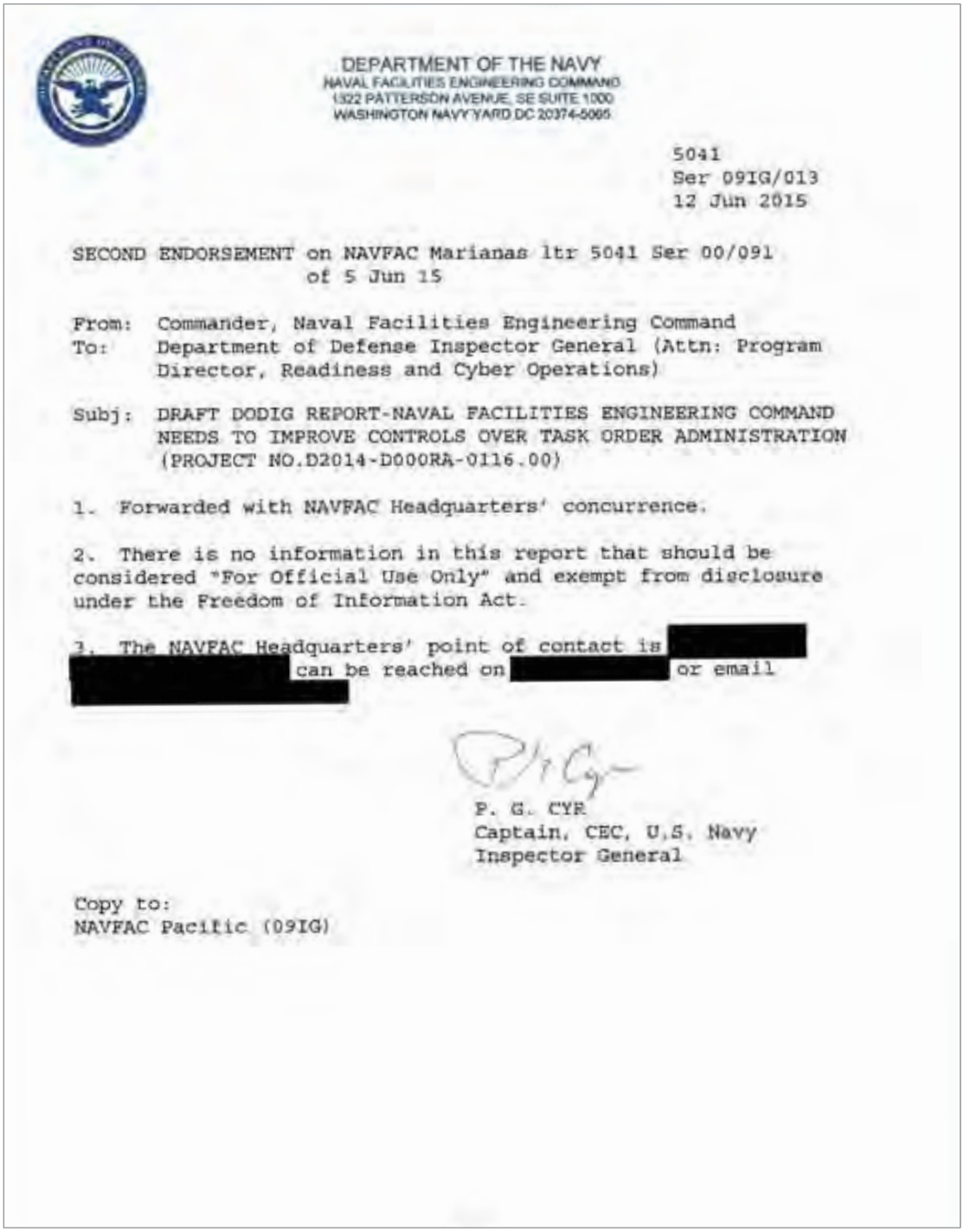
Report No. DODIG-2013-007: "Award and Administration of Multiple Award Contracts at Naval Facilities Engineering Command Specialty Centers Need Improvement," October 26, 2012

Naval Audit Service

Report No. NAS-N2009-0050: "Acquisition Checks and Balances at Naval Base Guam Supported Activities," September 30, 2009

Management Comments

Naval Facilities Engineering Command



DEPARTMENT OF THE NAVY
NAVAL FACILITIES ENGINEERING COMMAND
1322 PATTERSON AVENUE, SE SUITE 1000
WASHINGTON NAVY YARD DC 20374-5065

5041
Ser 09IG/013
12 Jun 2015

SECOND ENDORSEMENT on NAVFAC Marianas ltr 5041 Ser 00/091 of 5 Jun 15

From: Commander, Naval Facilities Engineering Command
To: Department of Defense Inspector General (Attn: Program Director, Readiness and Cyber Operations)

Subj: DRAFT DODIG REPORT-NAVAL FACILITIES ENGINEERING COMMAND NEEDS TO IMPROVE CONTROLS OVER TASK ORDER ADMINISTRATION (PROJECT NO.D2014-D000RA-0116.00)

1. Forwarded with NAVFAC Headquarters' concurrence.

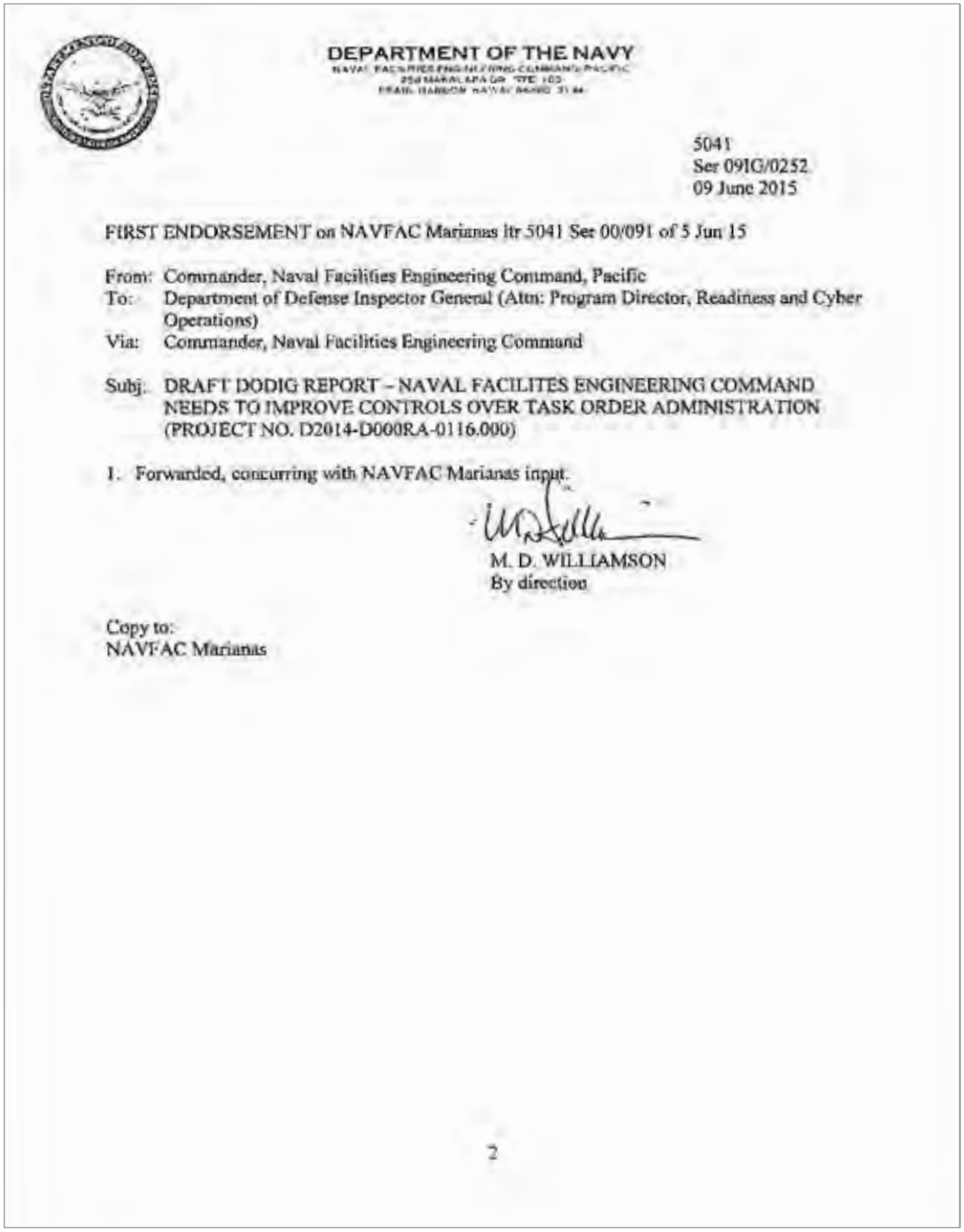
2. There is no information in this report that should be considered "For Official Use Only" and exempt from disclosure under the Freedom of Information Act.

3. The NAVFAC Headquarters' point of contact is [redacted] can be reached on [redacted] or email [redacted]

P. G. CYR
Captain, CEC, U.S. Navy
Inspector General

Copy to:
NAVFAC Pacific (09IG)

Naval Facilities Engineering Command (cont'd)



DEPARTMENT OF THE NAVY

5041
Ser 09IG/0252
09 June 2015

FIRST ENDORSEMENT on NAVFAC Marianas ltr 5041 Ser 00/091 of 5 Jun 15

From: Commander, Naval Facilities Engineering Command, Pacific
To: Department of Defense Inspector General (Attn: Program Director, Readiness and Cyber Operations)
Via: Commander, Naval Facilities Engineering Command

Subj: DRAFT DODIG REPORT – NAVAL FACILITES ENGINEERING COMMAND NEEDS TO IMPROVE CONTROLS OVER TASK ORDER ADMINISTRATION (PROJECT NO. D2014-D000RA-0116.000)

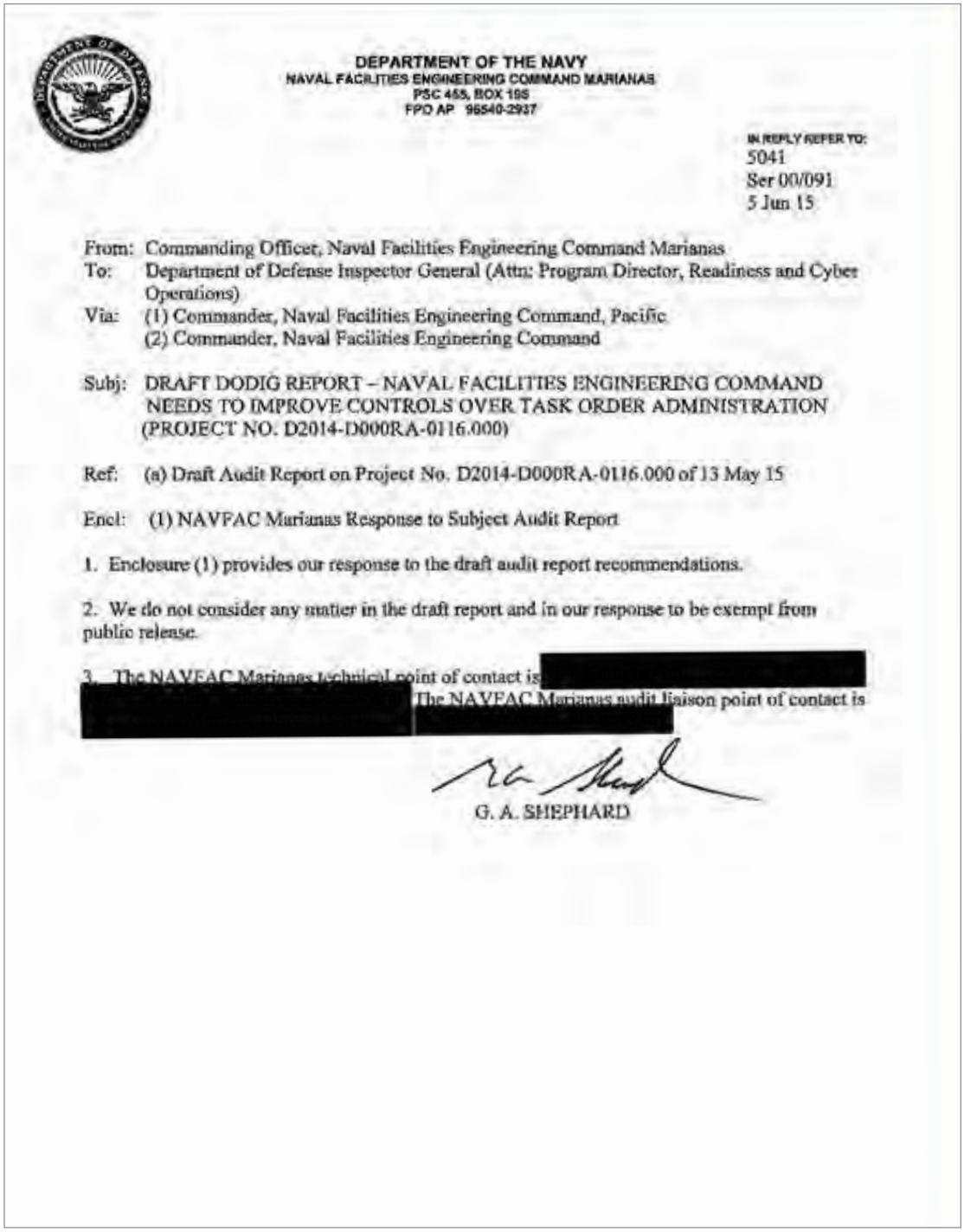
1. Forwarded, concurring with NAVFAC Marianas input.

M. D. WILLIAMSON
By direction

Copy to:
NAVFAC Marianas

2

Naval Facilities Engineering Command (cont'd)



DEPARTMENT OF THE NAVY
NAVAL FACILITIES ENGINEERING COMMAND MARIANAS
PSC 455, BOX 195
FPO AP 96540-2937

IN REPLY REFER TO:
5041
Ser 00/091
5 Jun 15

From: Commanding Officer, Naval Facilities Engineering Command Marianas
To: Department of Defense Inspector General (Attn: Program Director, Readiness and Cyber Operations)
Via: (1) Commander, Naval Facilities Engineering Command, Pacific
(2) Commander, Naval Facilities Engineering Command

Subj: DRAFT DODIG REPORT – NAVAL FACILITIES ENGINEERING COMMAND NEEDS TO IMPROVE CONTROLS OVER TASK ORDER ADMINISTRATION (PROJECT NO. D2014-D000RA-0116.000)

Ref: (a) Draft Audit Report on Project No. D2014-D000RA-0116.000 of 13 May 15

Encl: (1) NAVFAC Marianas Response to Subject Audit Report

1. Enclosure (1) provides our response to the draft audit report recommendations.

2. We do not consider any matter in the draft report and in our response to be exempt from public release.

3. The NAVFAC Marianas technical point of contact is [redacted] The NAVFAC Marianas audit liaison point of contact is [redacted]

G. A. SHEPHARD

Naval Facilities Engineering Command (cont'd)

Commanding Officer, Naval Facilities Engineering Command (NAVFAC) Marianas
Responses to Subject Draft Report

We reviewed the draft audit report and concur with the findings and recommendations contained therein. Plans of action and milestones (POA&M) were developed to address all recommendations in the draft report.

Recommendation 1. a. – Establish procedures that require contract administration personnel to ensure that task order modifications reference applicable Federal and DoD criteria and that construction specifications are written in compliance with the criteria.

Corrective Action – Concur. Naval Facilities Engineering Command (NAVFAC) established and implemented procedures to ensure that applicable Federal and DoD criteria are included in its task orders and its modifications. The Project Program section (i.e., Statement of Work) of each task order includes the following standardize language: "DESIGN AND CONSTRUCTION REQUIREMENTS: In addition to the codes and standards listed in Part 2 and Part 4 of the Basic Contract, the design and construction shall be in accordance with the latest revision/edition of applicable current codes, standards, and regulations requirements of this statement of work and include Energy Star efficiency initiatives."

Completion Date: Completed.

Recommendation 1.b. - Review and revise internal business procedures to ensure they include detailed steps to prepare and review independent government estimates.

Corrective Action – Concur. Naval Facilities Engineering Command (NAVFAC) issued Naval Engineering Training and Operating Procedures and Standard (NETOPS) #32 on 10 January 2015. NETOPS #32 included procedures for preparing independent government estimates. NAVFAC Marianas will review the internal business procedures (Business Management System) for reviewing independent government estimates and make recommendations for changes via its Corrective Action Report (CAR) process, for NAVFAC's consideration to revise its processes.

Target Completion Date: 31 July 2015

Recommendation 1.c. - Ensure personnel preparing and reviewing independent government estimates are adequately trained on the new guidance.

Corrective Action – Concur. Training for NETOPS #32 and revisions made to the internal business procedures of reviewing independent government estimates will be provided to NAVFAC Marianas personnel.

Target Completion Date: 31 July 2015

1

Enclosure (1)

Naval Facilities Engineering Command (cont'd)

Final Report Reference

Recommendation 1.d. - Review and revise internal business processes to ensure that contract administration personnel maintain all required documentation in an approved filing system.

Corrective Action – Concur. NAVFAC recently revised and implemented its approved filing system in which NAVFAC Marianas will comply with; and which is codified in Naval Facility Acquisition Supplement.

Target Completion Date: Completed.

Recommendation 2. - We recommend that the Commander, Naval Facilities Engineering Command, Marianas evaluate the requirements for the helipad and hazardous waste storage for the P-528 project and ensure they are built to meet applicable standards and guidance.

Corrective Action – Concur. NAVFAC Marianas evaluated the requirements for the helipad and developed a preliminary project package (Attachment 1) that will meet applicable standards and guidance. NAVFAC Marianas evaluated the requirements for the hazardous waste storage and executed contract actions to resolve the collection trench size, appropriate floor slope, and door gaps (Attachment 2). The remaining finding, storage area walls that are constructed of louvers, will be evaluated and appropriate actions will be taken to meet applicable standards and guidance.

Target Completion Date: 30 June 2016

2

Enclosure (1)

Attachments omitted because of length. Copies provided upon request.

Acronyms and Abbreviations

BMS	Business Management System
CFR	Code of Federal Regulations
FAR	Federal Acquisition Regulation
IGE	Independent Government Estimate
MACC	Multiple Award Construction Contract
MILCON	Military Construction
NAVFAC	Naval Facilities Engineering Command
UFC	Unified Facilities Criteria

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

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