



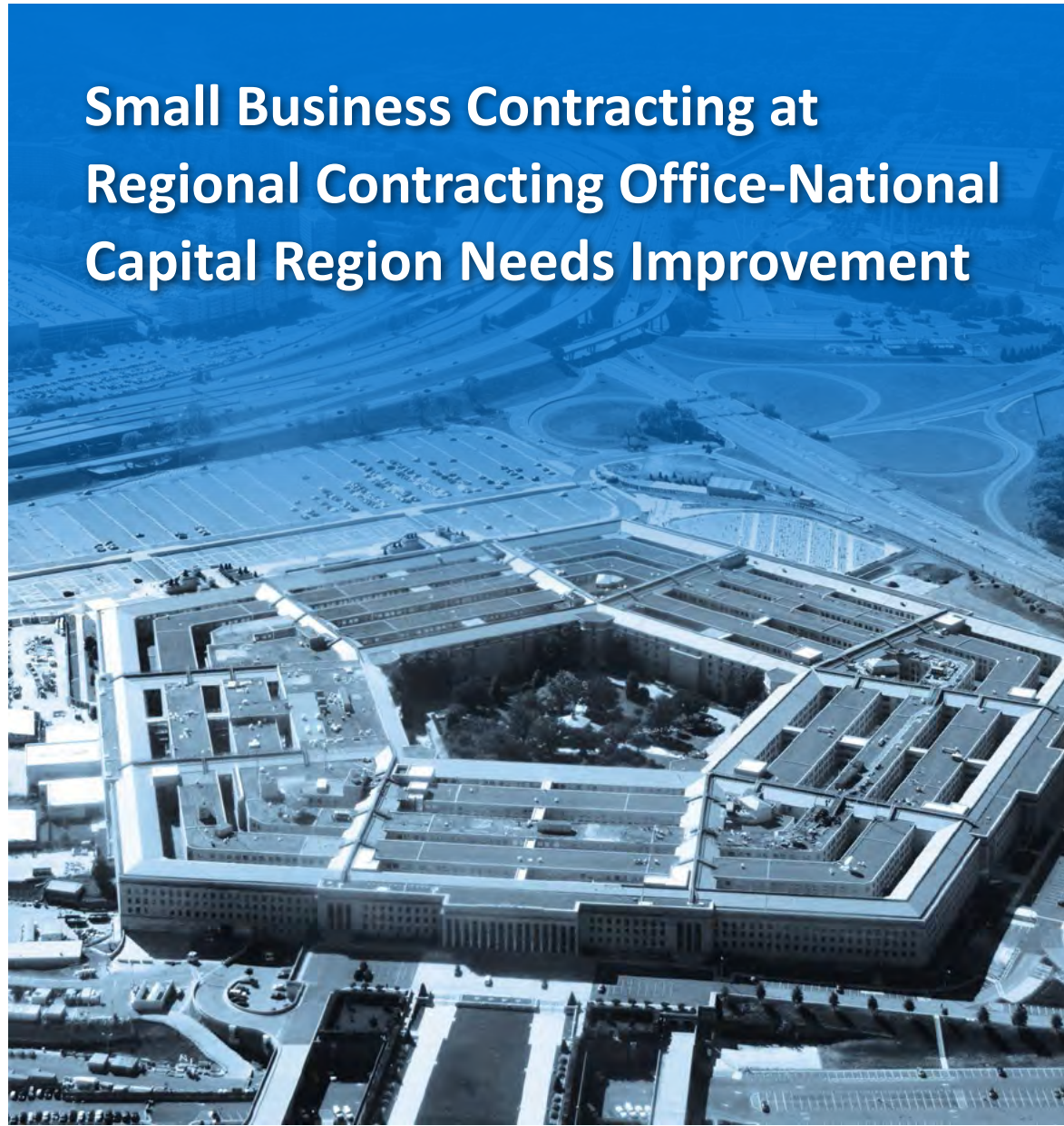
INSPECTOR GENERAL

U.S. Department of Defense

MARCH 20, 2015



Small Business Contracting at Regional Contracting Office-National Capital Region Needs Improvement



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Results in Brief

Small Business Contracting at Regional Contracting Office-National Capital Region Needs Improvement

March 20, 2015

Objective

We performed the audit in response to a Defense Hotline allegation. Our objective was to determine whether the Marine Corps Regional Contracting Office-National Capital Region (RCO-NCR) in Quantico, Virginia, provided small businesses adequate opportunity to be awarded prime contracts. To determine adequate opportunity we reviewed 45 contracts, valued at \$344.5 million, and 1 indefinite-delivery, indefinite-quantity contract, valued at \$123,706. In addition, we determined whether RCO-NCR officials held prime contractors accountable for meeting small business subcontracting goals.

Findings

We substantiated the Hotline allegation that RCO-NCR contracting officials did not hold large prime contractors accountable for meeting small business subcontracting goals. However, we did not substantiate the allegation that RCO-NCR senior leadership did not ensure that small businesses were awarded a sufficient number of contracts.

RCO-NCR contracting officials generally provided small businesses an adequate opportunity to compete for prime contracts. However, we determined that the contracting officials delayed competition by awarding seven bridge contracts, valued at \$91.1 million, awarded to large business incumbents to provide continuation of services until competitive contracts could be awarded.

Findings (cont'd)

The contracting officials did not ensure that prime contractors provided small businesses adequate subcontracting opportunities. Specifically, we reviewed seven prime contracts (valued at \$871 million) that should have required subcontracting plans awarded by RCO-NCR contracting officials. For six of these seven contracts, the contracting officials did not ensure that prime contractors provided small businesses with adequate subcontracting opportunities.

Among other reasons, this occurred because RCO-NCR did not have policies and procedures for evaluating and approving subcontracting plans or for monitoring contractor compliance with subcontracting plans. As a result, small businesses may not have received subcontract work which large businesses were required to provide them, and RCO-NCR personnel may have missed an opportunity to recoup potential liquidated damages of up to \$153.5 million, which they may have been entitled to.

Recommendations

We recommend that the Director, RCO-NCR:

- establish policy requiring contracting officials to obtain adequate subcontracting plans from contractors when the Federal Acquisition Regulation requires subcontracting plans and verify that contractors submit the required subcontracting reports to the Electronic Subcontracting Reporting System;
- implement training to ensure that contracting officials understand their responsibilities; and
- determine whether the contractors for the two specified contracts made a good faith effort to meet the small business subcontracting goals in their subcontracting plans and, if not, determine whether liquidated damages may be imposed against the contractor.

Management Comments and Our Response

The Head, Audit Coordination, Office of the Director, Marine Corps Staff, 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 Comment Required
Director, Regional Contracting Office-National Capital Region	None	B.1, B.2, B.3, B.4



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

March 20, 2015

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
COMMANDANT OF THE MARINE CORPS
NAVAL INSPECTOR GENERAL

SUBJECT: Small Business Contracting at Regional Contracting Office-National Capital
Region Needs Improvement (Report No. DODIG-2015-095)

We are providing this report for information and use. We initiated the audit as the result of a Defense Hotline allegation. We substantiated the allegation that Regional Contracting Office-National Capital Region contracting officials did not hold large prime contractors accountable for meeting small business subcontracting goals. However, we did not substantiate the allegation that Regional Contracting Office-National Capital Region senior leadership did not ensure that small businesses were awarded a sufficient number of contracts.

Regional Contracting Office-National Capital Region contracting officials generally provided small businesses an adequate opportunity to compete for prime contracts. However, Regional Contracting Office-National Capital Region contracting officials may have missed an opportunity to recoup potential liquidated damages of up to \$153.5 million, which they may have been entitled to because they did not hold prime contractors accountable for meeting small business subcontracting goals. We conducted this 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 Head, Audit Coordination, Office of the Director, Marine Corps Staff, responding for the Director, Regional Contracting Office-National Capital Region, addressed all specifics of the recommendations and conformed to the requirements of DoD Directive 7650.3; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9187.

A handwritten signature in black ink, reading "Michael J. Roark".

Michael J. Roark
Assistant Inspector General
Contract Management and Payments



Contents

Introduction

Objective	1
Hotline Allegation	1
Background	1
Regional Contracting Office-National Capital Region	1
Small Business Contracting	2
Review of Internal Controls	2

Finding A. Adequate Opportunity Generally Provided to Small Businesses

Small Businesses Had Opportunities to Bid on Competitive Prime Contracts	3
RCO-NCR Effectively Conducted Market Research	4
RCO-NCR Advertised Potential Contracts	4
Sole-Source Contracts Had Justifications	5
Bridge Contracts Delayed Small Businesses Opportunities to Compete	6
Contracts Awarded to Small Businesses Miscoded in FPDS-NG	8

Finding B. Small Businesses Were Not Provided Adequate Subcontracting Opportunities

RCO-NCR Contracting Officials Awarded Four Contracts Without Adequate Subcontracting Plans	11
Two Contracts Did Not Have a Subcontracting Plan	11
Two Contracts Had Subcontracting Plans That Lacked Small Business Subcontracting Goals	12
RCO-NCR Contracting Officials Did Not Hold Prime Contractors Accountable for Meeting Small Business Subcontracting Goals for Two Contracts	13
One Contractor Met Subcontracting Goals	14
RCO-NCR Lacked Policies to Ensure Small Businesses Received Subcontracts	14
Opportunities to Recoup Liquidated Damages May Have Been Missed	15
RCO-NCR May Be Entitled to Liquidated Damages for Two Contracts	15
RCO-NCR Should Determine Amount of Liquidated Damages Due	16
Recommendations, Management Comments, and Our Response	17

Contents (cont'd)

Appendixes

Appendix A. Scope and Methodology	19
Universe and Sample	19
Work Performed	19
Review of Opportunities Provided to Small Businesses	19
Review of Subcontracting Plans	20
Use of Computer-Processed Data	21
Use of Technical Assistance	22
Prior Coverage	22
GAO	22
DoD IG	22
Army	22
SBA IG	22
Appendix B. Sole-Source and Bridge	
Contracts Reviewed	23

Management Comments

Marine Corps Comments	25
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Acronyms and Abbreviations	28
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Introduction

Objective

Our audit objective was to determine whether the Marine Corps Regional Contracting Office-National Capital Region (RCO-NCR) in Quantico, Virginia, provided small businesses adequate opportunities to be awarded prime contracts. In addition, we determined whether RCO-NCR held prime contractors accountable for meeting small business subcontracting goals.

Initially, this audit included a review of contracts at the Marine Corps Systems Command (MCSC) in Quantico, Virginia. After the start of the audit, we decided to conduct two separate audits. We plan to reannounce the audit for MCSC at a later date. See Appendix A for a discussion of the scope, methodology, and prior coverage related to the objectives.

Hotline Allegation

The Defense Hotline received a complaint on October 3, 2012, related to small business contracting concerns at RCO-NCR and MCSC, both located in Quantico, Virginia. The complainant alleged that RCO-NCR and MCSC senior leadership did not ensure that small businesses were awarded a sufficient number of contracts. In addition, the complainant alleged that RCO-NCR and MCSC did not hold large prime contractors accountable for meeting small business subcontracting goals. We substantiated the allegation that RCO-NCR contracting officials did not hold large prime contractors accountable for meeting small business subcontracting goals (Finding B). However, we did not substantiate the allegation that RCO-NCR senior leadership did not ensure that small businesses were awarded a sufficient number of contracts (Finding A).

Background

Regional Contracting Office-National Capital Region

The mission¹ of RCO-NCR is to provide responsive and effective procurement and contracting support for the acquisition of supplies and services for the U.S. Marine Corps. The RCO-NCR area of responsibility covers 13 states, with a high concentration of commands located near Washington, D.C. at Marine Corps Base Quantico and Headquarters Marine Corps. RCO-NCR is organized with two major contracts branches that support all Marine Corps activities in the Washington, D.C. area. A third branch supports the Government-wide Commercial Purchase Card Program, and a fourth manages procurement policy, quality, and metrics.

¹ "RCO Customer Desk Guide," January 30, 2009.

Small Business Contracting

In 1953, Congress passed the Small Business Act, which created the Small Business Administration (SBA) and empowered the SBA to counsel and assist small business concerns and assist contracting personnel to ensure that a fair proportion of government contracts for supplies and services is placed with small businesses. The SBA ensures that the Government-wide goal for participation of small business concerns is established annually. The head of each Federal agency sets an annual goal for small business participation in its contracts by the various small business groups. Those groups include:

- small business concerns;
- small business concerns owned and controlled by service-disabled veterans;
- qualified Historically Underutilized Business Zone small business concerns;
- small business concerns owned and controlled by socially and economically disadvantaged individuals; and
- small business concerns owned and controlled by women.

The SBA uses the Federal Procurement Data System-Next Generation (FPDS-NG) as the official system for collecting, developing and disseminating procurement data. SBA also uses the FPDS-NG information to monitor the agencies' achievements against their small business goals throughout the year. RCO-NCR officials rely on data from FPDS-NG to track how well they are meeting their small business goals.

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 RCO-NCR contracting officers' monitoring of subcontracting plans. Specifically, RCO-NCR contracting officers did not ensure that subcontracting plans were in place, did not ensure subcontracting plans included goals, and did not monitor the plans to ensure that subcontracting goals were achieved. We will provide a copy of the report to the senior official responsible for internal controls at RCO-NCR.

Finding A

Adequate Opportunity Generally Provided to Small Businesses

RCO-NCR contracting officials generally provided small businesses an adequate opportunity to compete for prime contracts. We reviewed 45 contracts² awarded by RCO-NCR, valued at \$344.5 million, and 1 indefinite-delivery, indefinite-quantity (IDIQ) contract, with a value of \$123,706. Specifically, RCO-NCR contracting officials provided:

- adequate opportunities for small businesses to compete by conducting market research or advertising the solicitations for 18 contracts, valued at \$239.1 million, and the IDIQ contract, valued at \$123,706; and
- justifications for sole-source awards for 20 contracts, valued at \$14.3 million.

However, RCO-NCR contracting officials delayed competition by awarding seven bridge contracts, valued at \$91.1 million, awarded to large business incumbents to provide continuation of services until competitive contracts could be awarded.

In addition, RCO-NCR contracting officials miscoded the business size in FPDS-NG of nine contracts, valued at \$2 million, and two IDIQ contracts with a total not-to-exceed value of \$15.9 million that were awarded to small businesses. We notified RCO-NCR contracting officials about the coding errors and they made all corrections to FPDS-NG after our visit.

² Includes definitive contracts, task orders, and purchase orders awarded to other than small businesses. See Appendix A for additional details.

Small Businesses Had Opportunities to Bid on Competitive Prime Contracts

RCO-NCR contracting officials provided small businesses an adequate opportunity to compete for 18 contracts, valued at \$239.1 million, and 1 IDIQ contract with a total value of \$123,706. Specifically, RCO-NCR contracting officials conducted market research to identify small businesses that could possibly perform the work and advertised the solicitations on procurement websites such as Navy Electronic Commerce Online or

Contracting officials provided small businesses an adequate opportunity to compete for 18 contracts... and 1 IDIQ.

Federal Business Opportunities. Therefore, we did not substantiate the hotline allegation that RCO-NCR senior leadership did not ensure that small businesses were awarded a sufficient number of contracts.

RCO-NCR Effectively Conducted Market Research

RCO-NCR contracting officials conducted market research on all 18 contracts and 1 IDIQ contract. Federal Acquisition Regulation (FAR) 10.001(a)(2)(ii)³ states that agencies must conduct market research appropriate to the circumstances before soliciting offers for acquisitions with an estimated value in excess of the simplified acquisition threshold [\$150,000]. Market research is a method used for determining whether small businesses are capable of performing the work.

As part of market research, RCO-NCR contracting officials sent out a request for information to identify companies that were capable of providing services. Both small and large businesses responded to the request for information. The contracting officials and the small business specialist would make a determination whether the small businesses demonstrated that they possessed the knowledge and capabilities to perform the requirement.

For example, for contract M00264-13-C-0019, valued at \$40 million, RCO-NCR contracting officials received 26 responses to a request for information—three from small businesses and 23 from large businesses. FAR subpart 19.5⁴ requires a contracting officer to set aside any acquisition over \$150,000 for small business participation when there is a reasonable expectation that offers will be obtained from at least two responsible small businesses. RCO-NCR contracting officials determined that the small businesses that responded to the request for information did not demonstrate their technical ability to fulfill the requirement. Therefore, RCO-NCR contracting officials concluded it was not likely to receive two or more proposals from capable small businesses and did not set the requirement aside for small businesses. RCO-NCR contracting officials only received four proposals, all from large businesses in response to the solicitation.

RCO-NCR Advertised Potential Contracts

RCO-NCR contracting officials competed 17 of the 18 contracts and 1 IDIQ contract through solicitations advertised on procurement websites such as Navy Electronic Commerce Online or Federal Business Opportunities. RCO-NCR contracting officials did not advertise one limited competitive requirement for dumping debris, garbage, refuse, and rubbish. Specifically, RCO-NCR contracting officials limited competition

³ FAR Part 10, "Market Research," 10.001, "Policy."

⁴ FAR Part 19, "Small Business Programs," Subpart 19.5, "Set Asides for Small Business," 19.502-2, "Total Small Business Set-Asides."

to two landfills⁵ within 20 miles of the installation to reduce costs and the possible chance of accidents. The competition did not specifically exclude small businesses but only included the two landfills within a 20-mile radius of the installation.

RCO-NCR did set aside a procurement for small businesses; however, no small business responded to the solicitation. Specifically, RCO-NCR contracting officials awarded IDIQ contract M00264-12-D-0010 for a not-to-exceed value of \$123,706.25. They advertised the original requirement for uniforms (commercial items) as a 100-percent set aside for small businesses. FAR subpart 19.5 states for each acquisition of supplies or services that has an anticipated dollar value exceeding \$3,000, but not over \$150,000:

is automatically reserved exclusively for small business concerns and shall be set aside for small business unless the contracting officer determines there is not a reasonable expectation of obtaining offers from two or more responsible small business concerns that are competitive in terms of market prices, quality, and delivery.

FAR subpart 5.2⁶ also states that contracting officers must establish a response time that allows potential offerors a reasonable opportunity to respond to each solicitation. RCO-NCR contracting officials advertised the solicitation for 15 days and did not receive any proposals. RCO-NCR contracting officials amended the solicitation and re-advertised it as “unrestricted.” They received only one bid, which was from a large business.

Sole-Source Contracts Had Justifications

RCO-NCR contracting officials awarded 20 contracts, valued at \$14.3 million, as sole source contracts to other than small businesses,⁷ therefore the contracts could not be awarded to small businesses. FAR subpart 6.3⁸ permits contracting without providing for full and open competition when only one responsible source and no other supplies or services will satisfy agency requirements. In addition, FAR subpart 16.5⁹ allows for an exception to the fair opportunity process under a multiple award contract (MAC) exceeding \$3,000 when the agency need for the supplies or services is so urgent that providing a fair opportunity would result in unacceptable delays.

⁵ Neither landfill was a small business.

⁶ FAR Part 5, “Publicizing Contract Actions,” Subpart 5.2, “Synopsis of Proposed Contract Actions,” 5.203, “Publicizing and Response Time.”

⁷ The 20 other than small business awards included 19 awards to large businesses and 1 award to a small business headquartered outside of the United States. Because it was headquartered outside of the United States, it did not meet the definition of a small business according to the Small Business Administration, and the contract award did not count toward RCO-NCR small business goals.

⁸ FAR Part 6, “Competition Requirements,” Subpart 6.3, “Other Than Full and Open Competition,” 6.302, “Circumstances Permitting Other Than Full and Open Competition.”

⁹ FAR Part 16, “Types of Contracts,” Subpart 16.5, “Indefinite Delivery Contracts,” 16.505, “Ordering.”

RCO-NCR contracting officials prepared justifications supporting the rationale for awarding the 20 contracts as sole source contracts to other than small businesses. Specifically, RCO-NCR contracting officials awarded:

- Fourteen contracts, valued at \$13.5 million, to other than small businesses that RCO-NCR contracting officials determined were the only responsible source for various services including:
 - cable and internet;
 - continuation of litigation support;
 - paid advertising in specific magazines;
 - training program development; and
 - annual software maintenance support and upgrades of contractor proprietary software.
- Six sole-source contracts, valued at \$739,326, for wireless phone services under the Navy-wide wireless MACs. RCO-NCR contracting officials awarded contracts sole source to avoid unacceptable delays that would be incurred from competing the contracts among all the MAC holders. All MAC holders were large businesses; therefore, even if the award had been competitive, a small business would not have been able to bid on the contract.

See Appendix B for a listing of sole-source awards.

Bridge Contracts Delayed Small Businesses Opportunities to Compete

RCO-NCR contracting officials delayed competition by awarding seven bridge contracts, totaling \$91.1 million. Bridge contracts are noncompetitive contracts used to provide continuity of service between the end of one contract and the beginning of another. RCO-NCR contracting officials awarded the bridge contracts to the large business incumbents performing the work under the current contracts to provide continuation of services until a competitive contract could be awarded.

Table 1 below shows that RCO-NCR contracting officials awarded three of the seven bridge contracts again to maintain continuity of service and successfully awarded two contracts to small businesses. RCO-NCR contracting officials are in the process of competing the remaining two contracts.

Table 1. Bridge Contracts Awarded by RCO-NCR

Contract Number	Task Order Number	Period of Performance (Base & Options) (In Months)	Contract Value (Base & Options)	Current Status, According to RCO-NCR Contracting Officials
M00264-08-D-0001	0032	12	\$38,163,234.00	New bridge contract
M00264-08-D-0001	0029	12	19,667,186.00	New bridge contract
M00264-13-C-0004		8	26,769,058.00	New bridge contract
M00264-13-C-0021		6	4,816,716.00	New contract - 100 percent small business set aside
M00264-12-D-0007	0002	11	911,208.02	New multiple award including small businesses
M00264-12-D-0007	0007	6	659,985.48	New multiple award including small businesses
M00264-13-P-0001		2	133,532.44	New contract - 100 percent small business set aside
Total			\$91,120,919.94	

RCO-NCR contracting officials awarded contract M00264-13-C-0021, initially valued at \$4.8 million, for services to support the U.S. Marine Corps Wounded Warrior Regiment. It was a sole-source bridge contract awarded to the large business incumbent currently performing the work. The initial period of performance was 6 months. However, RCO-NCR extended the period of performance another 5 months and increased the total price by \$4.3 million to a total of \$9.1 million. Small businesses did not have an opportunity to compete for the work during the 11 months the bridge contract was in effect. The RCO-NCR Small Business Deputy Director stated that, after the bridge contract, RCO-NCR contracting officials awarded a follow-on contract for those services as a 100-percent small-business set aside.

RCO-NCR contracting officials awarded contract M00264-13-C-0004, valued at \$26.8 million, with a base period of 6 months and two 1-month option periods. They issued the bridge contract to ensure that information technology services to support the Technology Service's Organization requirements would continue without interruption. RCO-NCR contracting officials modified the contract to

extend the bridge for another 12 months. RCO-NCR contracting officials then awarded another bridge contract, M00264-14-C-1014, valued at \$22.6 million, as an undefinitized contract action with a base period of 6 months and two 3-month option periods.

Contracts Awarded to Small Businesses Miscoded in FPDS-NG

During the course of the audit, although not in our nonstatistical sample of 45 contracts, we found that RCO-NCR contracting officials miscoded 9 contracts, valued at \$2 million, awarded to small businesses in FPDS-NG as awards to other than small business. In addition, RCO-NCR contracting officials miscoded two IDIQ contracts with not-to-exceed values totaling \$15.9 million as other than small business. The contracting officer's business size selection data element on a task order is populated from the entry for the IDIQ contract. If the business size for an IDIQ contract was miscoded, the error would carry through to all task orders unless a modification is done to correct the IDIQ business size. Once the modification is processed for the IDIQ contract entry, all task orders will also be corrected.

For example, RCO-NCR contracting officials miscoded the following as "Other than Small Business."

- IDIQ contract M00264-10-D-0002, which also affected four task orders. The RCO-NCR contracting officer and small business representative stated that the reason the IDIQ contract was miscoded was because there was no drop down box in the contracting officer's business size selection for a section 8(a) small business.
- Purchase order M00264-12-P-0103 because the contractor misrepresented herself as a large business and RCO-NCR contracting officials coded the contract based on the misrepresentation.

According to FAR subpart 4.6,¹⁰ the contracting officer who awarded the contract is responsible for the submission and accuracy of the FPDS-NG data. According to the Director, RCO-NCR, the main control to ensure the accuracy of the information was the integrity of FPDS-NG. Additionally, the Director stated that based on certain information that was entered, FPDS-NG should have generated an error message if other information was not provided. However, FPDS-NG would only identify errors based on the error notification. Thus, it was possible that errors could have

¹⁰ FAR Part 4, "Administrative Matters," Subpart 4.6, "Contract Reporting," 4.604, "Responsibilities."

gone undetected. For instance, business-size selection for some of the contracts reviewed incorrectly identified the contractor as other than small businesses when they were actually small businesses.

The coding errors negatively impacted the accuracy of the data in FPDS-NG. The Navy and Marine Corps used the FPDS-NG data to prepare the annual report on procurement competition, which provided information to Congress on the small business goals established for the year and provided notice on whether the Navy and Marine Corps met them. By entering incorrect information into FPDS-NG, RCO-NCR contracting officials may be reporting erroneous small business contracting data to Congress.

We notified RCO-NCR contracting officials about the coding errors and they made all corrections to FPDS-NG after our visit; therefore, we are not making a recommendation.

Finding B

Small Businesses Were Not Provided Adequate Subcontracting Opportunities

RCO-NCR contracting officials did not ensure that prime contractors provided small businesses adequate subcontracting opportunities. Specifically, we reviewed seven prime contracts (valued at \$871 million) awarded by RCO-NCR contracting officials that should have required subcontracting plans. For six of these seven contracts, RCO-NCR contracting officials did not ensure that prime contractors provided small businesses with adequate subcontracting opportunities. Specifically, RCO-NCR contracting officials awarded:

- four contracts, valued at \$58.2 million, either without requiring a subcontracting plan or with a subcontracting plan that did not include small business subcontracting goals; and
- two contracts, valued at \$790 million, which had subcontracting plans with small business subcontracting goals, but contracting officials did not monitor whether the contractor met the goals.

Those conditions occurred because RCO-NCR did not have policies and procedures for evaluating and approving subcontracting plans or for monitoring contractor compliance with subcontracting plans. In addition, the RCO-NCR Director stated that contracting officials did not evaluate and approve subcontracting plans or hold prime contractors accountable for meeting small business subcontracting goals because the contracting office and the Small Business Office at RCO-NCR were understaffed and overworked.

As a result, small businesses may not have received subcontract work that large businesses were required to provide, and RCO-NCR officials may have missed an opportunity to recoup potential liquidated¹¹ damages of up to \$153.5 million which they may have been entitled to.

¹¹ Liquidated damages are money paid when one party to a contract does not comply with the terms of the contract.

RCO-NCR Contracting Officials Awarded Four Contracts Without Adequate Subcontracting Plans

RCO-NCR contracting officials awarded four contracts, valued at \$58.2 million, either without requiring a subcontracting plan or with a subcontracting plan that did not include small business subcontracting goals. Specifically, two contracts, valued at \$26.5 million, did not have a subcontracting plan, and two contracts, valued at \$31.7 million, had subcontracting plans but did not include small business subcontracting goals. Therefore, we substantiated the hotline allegation that RCO-NCR contracting officials did not hold large prime contractors accountable for meeting small business subcontracting goals.

FAR subpart 19.7¹² states that subcontracting plans are required for contracts exceeding \$650,000 when subcontracting possibilities exist. FAR subpart 19.7¹³ states that subcontracting plans must include goals for the percentage of subcontracting dollars to be awarded to small businesses. The FAR¹⁴ also states that contracting officers are responsible for evaluating and accepting the subcontracting plans.

Two Contracts Did Not Have a Subcontracting Plan

RCO-NCR contracting officials awarded contract M00264-13-C-0021, valued at \$4.8 million, for recovery care coordinators for the U.S. Marine Corps Wounded Warrior Regiment without requiring a subcontracting plan. The contract was a follow-on contract to a prior contract with the same contractor. There was no subcontracting plan for contract M00264-13-C-0021, and documentation in the contract file stated that a subcontracting plan was not required.

However, the RCO-NCR Small Business Deputy Director informed us that she believed a subcontracting plan was required and that RCO-NCR contracting officials used the subcontracting plan from the prior contract for contract M00264-13-C-0021 because that contract was a follow-on to the prior contract. However, when we requested a copy of the subcontracting plan from the prior contract, RCO-NCR contracting officials realized that there was no subcontracting plan for the prior contract either. The RCO-NCR Deputy Director stated that RCO-NCR made an error by not requiring a subcontracting plan for the Wounded Warrior Regiment contracts.

¹² FAR Part 19, "Small Business Programs," Subpart 19.7, "The Small Business Subcontracting Program," 19.702, "Statutory Requirements."

¹³ FAR Part 19, "Small Business Programs," Subpart 19.7, "The Small Business Subcontracting Program," 19.704, "Subcontracting Plan Requirements."

¹⁴ FAR 19.705, "Responsibilities of the Contracting Officer Under the Subcontracting Assistance Program," 19.705-4, "Reviewing the Subcontracting Plan."

In addition, RCO-NCR contracting officials awarded IDIQ contract M00264-10-D-0003, with a not-to-exceed value of \$21.7 million, for support services for the Marine Corps Warfighting Laboratory's Center for Emerging Threats and Opportunities without requiring a subcontracting plan. Documentation in the contract file stated that a subcontracting plan was required for the contract. However, RCO-NCR contracting officials did not request a subcontracting plan from the contractor and could not explain why they did not request one.

Two Contracts Had Subcontracting Plans That Lacked Small Business Subcontracting Goals

RCO-NCR contracting officials awarded contract M00264-12-D-0007 with a not-to-exceed value of \$4.9 million for technical and analytical assistance to support the Marine Corps Combat Development Command with a subcontracting plan that did not include small business subcontracting goals. In the subcontracting plan, the contractor stated that it intended to award subcontracts to small businesses and listed a variety of sources that it intended to use to identify potential small business subcontractors. However, the subcontracting plan did not include any specific goals for how much work the contractor intended to subcontract to small businesses.

In addition, RCO-NCR contracting officials awarded contract M00264-13-C-0004, valued at \$26.8 million, for information and technology services to support the Headquarters Marine Corps with a subcontracting plan that did not include small business subcontracting goals. The contractor submitted a subcontracting plan that included a list of seven subcontractors that the contractor planned to use—four small businesses and three large businesses. The subcontracting plan also included a price analysis of the labor rates that the seven subcontractors would charge. However, the plan included no goals for how much work would be subcontracted to the four small businesses.

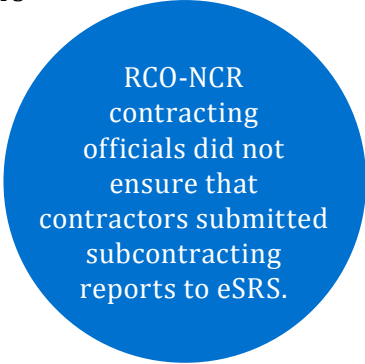
The RCO-NCR Deputy Director stated that RCO-NCR should never have accepted subcontracting plans that did not include small business subcontracting goals. Without subcontracting plans with specific small business subcontracting goals, RCO-NCR contracting officials did not meet their FAR 19.705-4 responsibilities to evaluate subcontracting plans, and they could not require the contractor to award subcontracts to small businesses.

RCO-NCR Contracting Officials Did Not Hold Prime Contractors Accountable for Meeting Small Business Subcontracting Goals for Two Contracts

RCO-NCR contracting officials did not hold prime contractors accountable for meeting small business subcontracting goals for two contracts, valued at \$790 million.

FAR 19.704 states that subcontracting plans must include assurances that, during the performance of the contract, the contractor will submit subcontracting reports to the Electronic Subcontracting Reporting System (eSRS).¹⁵

The reports show whether the contractor is meeting the goals. FAR subpart 19.7¹⁶ states that the contracting officer is responsible for acknowledging receipt of or rejecting the contractor's subcontracting reports in eSRS. However, RCO-NCR contracting officials did not ensure that contractors submitted subcontracting reports to eSRS.



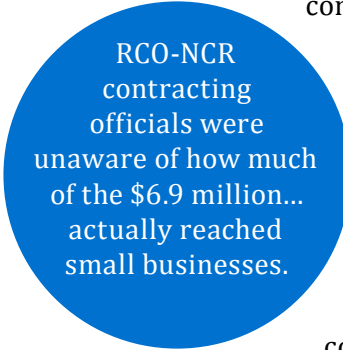
RCO-NCR contracting officials did not ensure that contractors submitted subcontracting reports to eSRS.

RCO-NCR awarded IDIQ contract M00264-08-D-0001, with a not-to-exceed value of \$750 million, to support recruiting programs for the Marine Corps Recruiting Command. The contractor prepared a subcontracting plan with subcontracting goals. Based on the plan, the contractor intended to subcontract \$637.5 million of work. Of that amount, the contractor intended to subcontract about \$146.6 million (23 percent) to small businesses over the 5-year life of the contract. Although the subcontracting plan stated that the contractor would submit subcontracting reports to eSRS, we found no record of any subcontracting reports for the IDIQ contract or any of its task orders in eSRS. As a result, contracting officials were unaware of how much of the \$146.6 million of work intended to be subcontracted to small businesses actually reached small businesses.

RCO-NCR awarded contract M00264-13-C-0019, valued at \$40 million, for information technology services in support of the Marine Corps Network Operations and Security Center. The contractor's proposal included a subcontracting plan, which stated that the contractor intended to subcontract 49 percent of the work—about \$19.6 million—to subcontractors. Of the \$19.6 million, the contractor stated that it would award 35 percent—about \$6.9 million—to small businesses during the performance of this contract. The subcontracting plan also stated that the contractor would submit subcontracting reports to eSRS. However, we did not find the subcontracting reports for the

¹⁵ A Government-wide, electronic, web-based system for small business subcontracting program reporting.

¹⁶ FAR Part 19, "Small Business Programs," Subpart 19.7, "The Small Business Subcontracting Program," 19.705-6, "Postaward Responsibilities of the Contracting Officer."



RCO-NCR contracting officials were unaware of how much of the \$6.9 million... actually reached small businesses.

contract when we reviewed eSRS. Therefore, RCO-NCR contracting officials were unaware of how much of the \$6.9 million of work that was intended to be subcontracted to small businesses actually reached small businesses. The RCO-NCR Director stated that the subcontracting reports were not in eSRS because the contracting staff at RCO-NCR were overworked and did not have time to fulfil their obligation to ensure that contractors submit the subcontracting reports.

One Contractor Met Subcontracting Goals

Subcontracting reports showed that the prime contractor met its small business subcontracting goals for IDIQ contract M00264-06-D-0001, valued at \$22.8 million. The contractor submitted subcontracting reports to eSRS, as required by FAR subpart 19.7. In the subcontracting plan, the contractor set a goal to award approximately \$1.7 million in subcontracts to small businesses, which represented 44 percent of the contractor's total anticipated subcontracts. The contractor submitted subcontracting reports to eSRS bi-annually during the performance of the contract. At the conclusion of the contract, the reports showed that the contractor awarded over \$1.8 million in subcontracts to small businesses, which accounted for 73 percent of the total subcontracts the contractor awarded under the contract. Therefore, for that contract, the subcontracting reports showed the contractor exceeded its small business subcontracting goals.

RCO-NCR Lacked Policies to Ensure Small Businesses Received Subcontracts

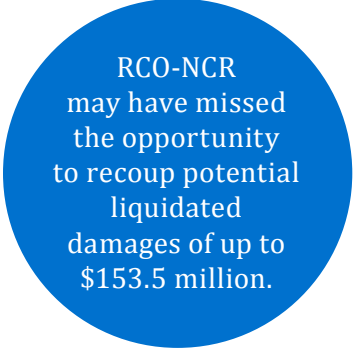
RCO-NCR did not have policies and procedures for evaluating and approving subcontracting plans or for monitoring contractor compliance with subcontracting plans. RCO-NCR had a 100-item checklist for contracting officers to follow for the award and administration of contracts. However, the checklist did not include any requirement to review the adequacy of subcontracting plans or to monitor contractor compliance with small business subcontracting goals. Additionally, the RCO-NCR Deputy Director stated that contracting officials should never have accepted subcontracting plans without small business goals.

The RCO-NCR Director stated that contracting officials did not evaluate and approve subcontracting plans or hold prime contractors accountable for meeting small business subcontracting goals because the contracting officials and the Small Business Office at RCO-NCR are understaffed and overworked.

The RCO-NCR Director should establish policy requiring contracting officials to obtain adequate subcontracting plans from contractors when the FAR requires subcontracting plans and to verify that contractors submit the required subcontracting reports to eSRS. Additionally, the RCO-NCR Director should implement training to ensure that contracting officials understand their FAR Subpart 19.7 responsibilities for evaluating and administering subcontracting plans.

Opportunities to Recoup Liquidated Damages May Have Been Missed

Small businesses may not have received subcontract work which large businesses were required to provide them, and RCO-NCR may have missed the opportunity to recoup potential liquidated damages of up to \$153.5 million which they may have been entitled to on two contracts. FAR subpart 19.7¹⁷ discusses the importance of complying with subcontracting plans, and provides the statutory basis for obtaining liquidated damages, stating:



RCO-NCR may have missed the opportunity to recoup potential liquidated damages of up to \$153.5 million.

Maximum practicable utilization of small business, veteran-owned small business, service-disabled veteran-owned small business, HUBZone [Historically Underutilized Business Zone] small business, small disadvantaged business, and women-owned small business concerns as subcontractors in Government contracts is a matter of national interest with both social and economic benefits. When a contractor fails to make a good faith effort to comply with a subcontracting plan, these objectives are not achieved, and 15 U.S.C. 637(d)(4)(F) directs that liquidated damages shall be paid by the contractor.

FAR subpart 19.7 further states, “The amount of damages attributable to the contractor’s failure to comply shall be an amount equal to the actual dollar amount by which the contractor failed to achieve each subcontracting goal.”

RCO-NCR May Be Entitled to Liquidated Damages for Two Contracts

The contractors for two prime contracts did not submit subcontracting reports to eSRS stating whether the contractors met their small business subcontracting goals. Table 2 demonstrates that the contractors may owe as much as \$153.5 million in liquidated damages to RCO-NCR.

¹⁷ FAR Part 19, “Small Business Programs,” Subpart 19.7, “The Small Business Subcontracting Program,” 19.702, “Statutory Requirements,” 19.705-7, “Liquidated Damages.”

Table 2. Potential Liquidated Damages

Contract Number	Total Value	Small Business Subcontracting Goal	Actual Subcontracting Dollars
M00264-08-D-0001	\$749,999,998.00	\$146,600,000.00	Unknown
M00264-13-C-0019	\$39,989,046.41	\$6,858,121.46	Unknown
Total	\$789,989,044.41	\$153,458,121.46	

IDIQ contract M00264-08-D-0001, with a not-to-exceed value of \$750 million, included a small business subcontracting goal of \$146.6 million. However, the contractor did not submit any reports to eSRS and RCO-NCR contracting officials had no information on whether the contractor issued any subcontracts to small businesses. The potential liquidated damages could be as much as \$146.6 million.

Contract M00264-13-C-0019, awarded for \$40 million, included a small business subcontracting goal of \$6.9 million. However, the contractor did not submit any reports to eSRS and RCO-NCR contracting officials had no information on whether the contractor issued any subcontracts to small businesses. The potential liquidated damages could be as much as \$6.9 million.

RCO-NCR Should Determine Amount of Liquidated Damages Due

Before RCO-NCR contracting officials can recoup liquidated damages, they need to determine whether the contractors made a good faith effort to subcontract work to small businesses. FAR subpart 19.7 describes the failure to make a good faith effort to comply with a subcontracting plan.

[W]hen considered in the context of the contractor's total effort in accordance with its plan, the following, though not all inclusive, may be considered as indicators of a failure to make a good faith effort: a failure to attempt to identify, contact, solicit, or consider for contract award small business, veteran-owned small business, service-disabled veteran-owned small business, HUBZone [Historically Underutilized Business Zone] small business, small disadvantaged business, or women-owned small business concerns; a failure to designate and maintain a company official to administer the subcontracting program and monitor and enforce compliance with the plan; a failure to submit the ISR [Individual Subcontracting Report], or the SSR [Individual Subcontracting Report], using the eSRS, or as provided in agency regulations; a failure to maintain records or otherwise demonstrate procedures adopted to comply with the plan; or the adoption of company policies or procedures that have as their objectives the frustration of the objectives of the plan.

The RCO-NCR Director should determine whether the contractors for contracts M00264-08-D-0001 and M00264-13-C-0019 made a good faith effort to meet the small business subcontracting goals in their subcontracting plans and, if not, determine whether liquidated damages may be imposed against the contractor.

Recommendations, Management Comments, and Our Response

We recommend that the Director, Regional Contracting Office-National Capital Region:

Recommendation 1

Establish policy requiring contracting officials to obtain adequate subcontracting plans from contractors when the Federal Acquisition Regulation requires subcontracting plans.

Marine Corps Comments

The Head, Audit Coordination, Office of the Director, Marine Corps Staff, responding for the Director, RCO-NCR, agreed, stating that RCO-NCR is currently working on a standard operating procedure for subcontracting plans. RCO-NCR plans to publish the standard operating procedures by May 31, 2015.

Recommendation 2

Establish policy requiring contracting officials to verify that contractors submit the required subcontracting reports to the Electronic Subcontracting Reporting System.

Marine Corps Comments

The Head, Audit Coordination, Office of the Director, Marine Corps Staff, responding for the Director, RCO-NCR, agreed, stating that RCO-NCR is in the process of developing a standard operating procedure that requires contracting officer oversight to ensure that the approved subcontracting reports are uploaded to eSRS. RCO-NCR plans to publish the standard operating procedure by May 31, 2015.

Recommendation 3

Implement training to ensure that contracting officials understand their Federal Acquisition Regulation subpart 19.7 responsibilities for evaluating and administering subcontracting plans.

Marine Corps Comments

The Head, Audit Coordination, Office of the Director, Marine Corps Staff, responding for the Director, RCO-NCR, agreed, stating that the RCO-NCR Office of Production, Policy, Quality, and Metrics and the Small Business Specialist will conduct training for contracting officers on their responsibilities for subcontracting plans in accordance with FAR 19.7. RCO-NCR plans to complete the training by May 31, 2015.

Recommendation 4

Determine whether the contractors for contracts M00264-08-D-0001 and M00264-13-C-0019 made a good faith effort to meet the small business subcontracting goals in their subcontracting plans and, if not, determine whether liquidated damages may be imposed against the contractor.

Marine Corps Comments

The Head, Audit Coordination, Office of the Director, Marine Corps Staff, responding for the Director, RCO-NCR, agreed, stating that RCO-NCR will conduct in-depth assessments of contracts M00264-08-D-0001 and M00264-13-C-0019 to determine whether the contractors made a good faith effort to meet the small business contracting goals. If it is determined that the contractors did not make a good faith effort, a decision will be made to seek liquidated damages. If the determination is made to assess liquidated damages, RCO-NCR will proceed with the process in accordance with FAR 19.705-7. RCO-NCR plans to complete the assessment by June 30, 2015.

Our Response

The Head, Audit Coordination, Office of the Director, Marine Corps Staff, responding for the Director, RCO-NCR, fully addressed the specifics of the recommendations, and no further comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from April 2014 through January 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.

Our objective was to determine whether RCO-NCR provided small businesses adequate opportunity to be awarded prime contracts and whether they were holding prime contractors accountable for meeting small business subcontracting goals.

Universe and Sample

The audit universe consisted of 558 contracts (valued at \$528.2 million) that RCO-NCR contracting officials awarded to other than small businesses in FYs 2011, 2012, and 2013. We selected a nonstatistical random sample of 45 contracts, valued at \$344.5 million, and 1 IDIQ contract, valued at \$123,706. The 45 contracts consisted of 18 task orders from 7 IDIQ contracts awarded by RCO-NCR, and 27 other contracts.

Work Performed

We collected, reviewed, and analyzed documents for the 45 contracts and 1 IDIQ contract to determine whether RCO-NCR contracting officials provided small businesses adequate opportunities to be awarded prime contracts and whether RCO-NCR held prime contractors accountable for meeting small business subcontracting goals. We reviewed documentation dated between April 2004 and January 2015.

Review of Opportunities Provided to Small Businesses

In order to review the 18 task orders, we also reviewed seven IDIQ contracts, with a not-to-exceed value of \$804.6 million. RCO-NCR contracting officials awarded the task orders during FYs 2011, 2012, and 2013, but the IDIQ contracts were awarded as early as FY 2006. We reviewed the IDIQ contracts, including those awarded before FY 2011, because RCO-NCR contracting officials made the decision to award a task order to a small business or to other than a small business at the time they awarded the IDIQ contract.

We also determined whether the RCO-NCR, “Contract File Document Checklist For Actions Exceeding \$150,000,” was in accordance with the FAR. To determine whether RCO-NCR met small business contracting goals, we:

- interviewed personnel from the DoD Office of Small Business Programs and the Navy Office of Small Business Programs to obtain an understanding of small business contracting requirements and goals.
- interviewed RCO-NCR personnel to determine how they established their small business prime and subcontracting goals, whether they met those goals, and how they made that determination.
- reviewed the accuracy of FPDS-NG data for the RCO-NCR contracts because RCO-NCR officials relied on data from FPDS-NG to track how well they met their small business goals.

To determine whether RCO-NCR provided small business an adequate opportunity to be awarded prime contracts, we reviewed documents from contract files, including:

- requests for proposals;
- Small Business Coordination Records;
- acquisition plans;
- market research;
- business clearance memorandums;
- justifications for other than full and open competition;
- System for Award Management (SAM) information; and
- FPDS-NG Contract Action Reports.

Review of Subcontracting Plans

To determine if RCO-NCR monitored compliance with small business subcontracting goals, we reviewed seven prime contracts* (valued at \$871 million) that should have required subcontracting plans. We reviewed contractor proposals, Small Business Coordination Records, and business clearance memorandums. In addition, we interviewed RCO-NCR contracting officials, and obtained subcontracting reports from eSRS.

* The seven contracts were part of the universe of 558 contracts.

We interviewed key RCO-NCR personnel at Marine Corps Base Quantico to understand their roles and responsibilities related to the contract awards. Those interviewed included directors, contracting officers, and contract specialists.

We reviewed the following sections of the FAR relevant to our audit objectives.

- FAR Part 4, “Administrative Matters,” establishes policies and procedures relating to the administrative aspects of contract execution.
- FAR Part 5, “Publicizing Contract Actions—Acquisition,” addresses adequacy of publicizing proposed contract actions.
- FAR Part 6, “Competition Requirements,” addresses competition requirements and situations where contracts can be awarded without full and open competition.
- FAR Part 10, “Market Research,” addresses when and how contracting officials should conduct market research.
- FAR Part 16, “Types of Contracts,” describes the type of contracts that may be used in acquisitions and guidance for selecting a contract type appropriate to the circumstances of the acquisition.
- FAR Part 19, “Small Business Programs,” establishes requirements for contracting officials to provide prime contracting opportunities and subcontracting opportunities for small businesses.

Use of Computer-Processed Data

We relied on computer-processed data from FPDS-NG to identify a universe of contracts to review. Specifically, we queried FPDS-NG to identify contracts awarded by RCO-NCR. We relied on the contracting officer’s business-size selection field to select contracts awarded to other than small businesses. We used the data to identify which contracts to review. Once we identified contracts that matched our criteria, we selected a nonstatistical sample of contracts to review.

To assess the accuracy of computer-processed data, we compared the FPDS-NG data to documents in the contract files and to data from SAM. SAM is a Federal Government owned and operated website where a contractor makes several self-certifications, including self-certification of its small business status. SAM transmits contractor data to FPDS-NG, but contracting personnel must manually input the contractor’s business size.

We determined that RCO-NCR contracting personnel relied on built-in controls in FPDS-NG to prevent or detect errors, but the controls did not ensure data accuracy. Specifically, we identified nine contracts and two IDIQ contracts that RCO-NCR contracting officials awarded to small businesses but were miscoded in FPDS-NG as

being awarded to other than small businesses. We notified RCO-NCR contracting officials about those coding errors and they corrected them in FPDS-NG. Even though we discovered FPDS-NG coding errors, we determined that data obtained from FPDS-NG were sufficiently reliable to accomplish our audit objectives.

Use of Technical Assistance

The Quantitative Methods Division provided technical assistance during the audit.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), Department of Defense Inspector General (DoD IG), Army Audit Agency (AAA), and SBA Inspector General issued five reports discussing small business contracting. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>. Unrestricted Army Audit Agency reports can be accessed from .mil and gao.gov domains at <https://www.aaa.army.mil/>. Unrestricted Small Business Administration Inspector General reports can be accessed at <http://www.sba.gov/office-of-inspector-general/863>.

GAO

Report No. GAO-14-706, “8(A) Subcontracting Limitations: Continued Noncompliance with Monitoring Requirements Signals Need for Regulatory Change,” September 16, 2014

Report No. GAO-14-126, “Strategic Sourcing: Selected Agencies Should Develop Performance Measures on Inclusion of Small Business and OMB should Improve Monitoring,” January 23, 2014

DoD IG

Report No. DODIG-2012-059, “Inadequate Controls Over the DoD Service-Disabled Veteran-Owned Small Business Set-Aside Program Allow Ineligible Contractors to Receive Contracts,” February 29, 2012

Army

Report No. A-2010-0023-FFH, “Small Business Contracts, U.S. Army Medical Command Health Care Acquisition Activity,” December 3, 2009

SBA IG

SBA IG Report No. 10-08, “SBA’s Efforts to Improve the Quality of Acquisition Data in the Federal Procurement Data System,” February 26, 2010

Appendix B

Sole-Source and Bridge Contracts Reviewed

Contract Number	IDIQ Not-to-Exceed Value (Base & Options)	Contract Value (Base & Options)	Reason for Sole Source Award to Other than Small Business
IDIQ Contracts and Task Orders			
M00264-12-D-0007	\$4,949,870		Bridge IDIQ—incumbent contractor was a large business.
Task Order 0002		\$911,208	Task orders awarded against bridge IDIQ.
Task Order 0007		659,985	
M00264-12-D-0002	2,628,962		Continuing with the same contractor would prevent costly duplication of ongoing litigation services.
Task Order 0002		147,945	
Task Order 0003		497,211	
N00244-11-D-0005 ¹			Task orders awarded against a MAC for cellular service. The contract holders were all large businesses.
Task Order MY27		146,583	
Task Order MY04		133,069	
Task Order MY33		100,625	
N00244-12-D-0016 ¹			
Task Order MY03		112,559	
Task Order MY34		138,089	
N00244-12-D-0015 ¹			
Task Order MY03		108,402	The contractor has a franchise agreement with the Marine Corps.
M00264-08-D-0002	1,362,000		
Task Order 0101		112,183	
M00264-08-D-0001 ²			Bridge task order—incumbent contractor was a large business.
Task Order 0029		19,667,186	
Task Order 0032		38,163,234	
Subtotal	\$8,940,832	\$60,898,279	

¹ Value of IDIQ contracts not included in table because the Fleet Logistics Center, San Diego, California, awarded the multiple award contracts.

² Value of IDIQ contract not included in table because RCO-NCR competitively awarded the IDIQ. The task orders were bridges.

Sole-Source and Bridge Contracts Reviewed (Cont'd)

Contract Number	IDIQ Not-to-Exceed Value (Base & Options)	Contract Value (Base & Options)	Reason for Sole Source Award to Other than Small Business
Definitive Contracts			
M00264-12-C-0006		10,059,450	The contractor possessed unique qualifications to provide technical expertise.
M00264-12-C-0019		1,544,010	The university had the only locally certified curriculum approved by the National Security Agency.
M00264-13-C-0004		26,769,058	Bridge contract—incumbent contractor was a large business.
M00264-13-C-0021		4,816,716	Bridge contract—incumbent contractor was a large business.
Subtotal	0	\$43,189,234	
Purchase Orders			
M00264-11-P-0046		106,624	Advertising to target audience that subscribed to a specific magazine and newspaper published by the contractor.
M00264-12-P-0052		134,866	
M00264-11-P-0359		147,982	Contractor proprietary database for legal research.
M00264-12-P-0281		141,103	The contractor possessed unique and specialized skills to develop a training program.
M00264-13-P-0020		134,479	The contractor has a franchise agreement with the Marine Corps.
M00264-12-P-0286		108,001	Contractor is the sole owner and provider for software support, licensing, and technical support.
M00264-12-P-0277		135,000	The contractor was the only source capable of providing software maintenance.
M00264-12-P-0339		146,735	Only source for contractor proprietary software.
M00264-13-P-0436		102,581	The Navy requires the usage of contractor proprietary software.
M00264-13-P-0001		133,532	Bridge purchase order—incumbent was a large business.
Subtotal	0	\$1,290,903	
Total	\$8,940,832	\$105,378,416	

Management Comments

Marine Corps Comments



DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
3000 MARINE CORPS PENTAGON
WASHINGTON, DC 20350-3000

IN REPLY REFER TO:
7500
DMCS-A
9 Mar 15

From: Head, Audit Coordination, Office of the Director,
Marine Corps Staff
To: Program Director, Contract Management and Payments,
Office of the Inspector General, U.S. Dept of Defense
(DODIG)

Subj: DODIG DRAFT AUDIT REPORT PROJECT NO. D2014-D000CF-0166,
SMALL BUSINESS CONTRACTING AT REGIONAL CONTRACTING
OFFICE-NATIONAL CAPITAL REGION NEEDS IMPROVEMENT,
FEBRUARY 04, 2015

Ref: (a) DoD Directive 7650.3

Encl: (1) U.S. Marine Corps Comments

1. Official responses required by the reference are provided at the enclosure.

2. Marine Corps corrective actions are ongoing. When fully implemented, planned corrective actions will mitigate internal control weaknesses identified in the draft report.

3. The Marine Corps will comment on the potential monetary benefits of \$153.5 million after completing the required in-depth assessments discussed in the enclosed response to recommendation no. 4.

[Redacted signature block]

A handwritten signature in black ink, appearing to read "C. K. Dove", is positioned above the printed name.

C. K. DOVE

Copy to:
NAVINGEN (N11)
DC, I&L

Marine Corps Comments (cont'd)

**DEPARTMENT OF DEFENSE INSPECTOR GENERAL (DODIG)
DRAFT REPORT DATED 04 FEBRUARY 2015
PROJECT #D2014-D000CF-0166**

**"SMALL BUSINESS CONTRACTING AT REGIONAL CONTRACTING
OFFICE-NATIONAL CAPITAL REGION NEEDS IMPROVEMENT"**

**UNITED STATES MARINE CORPS COMMENTS
TO THE DODIG RECOMMENDATIONS**

DODIG recommends that the Director, Regional Contracting Office-National Capital Region:

RECOMMENDATION 1: Establish policy requiring contracting officials to obtain adequate subcontracting plans from contractors when the Federal Acquisition Regulation requires subcontracting plans.

USMC RESPONSE: Concur with recommendation.

The Regional Contracting Office-National Capital Region (RCO-NCR) is currently working on a Standard Operating Procedure (SOP) for subcontracting plans. The SOP will include the following requirements:

- (a) Subcontracting Plans in solicitations, if applicable.
- (b) Coordination with the Small Business Specialist in reviewing the subcontracting plans when proposals are received.
- (c) Contracting Officer oversight to ensure that the approved plans are uploaded to the Electronic Subcontracting Reporting System (eSRS).
- (d) The requirement to review subcontracting plans annually.
- (e) The Contracting Officer will take appropriate action in accordance with FAR 19.705-6 to assess liquidated damages, if appropriate.

RCO-NCR anticipates having the SOP published by 31 May 2015.

RECOMMENDATION 2: Establish policy requiring contracting officials to verify that contractors submit the required subcontracting reports to the Electronic Subcontracting Reporting System.

USMC RESPONSE: Concur with recommendation.

RCO-NCR is in the process of developing an SOP that requires Contracting Officer oversight to ensure that approved subcontracting reports are uploaded to the Electronic Subcontracting Reporting System (eSRS).

RCO-NCR anticipates having the SOP published by 31 May 2015.

Marine Corps Comments (cont'd)

Subj: USMC Comments to DODIG Draft Report D2014-D000CF-0166

RECOMMENDATION 3: Implement training to ensure that contracting officials understand their Federal Acquisition Regulation subpart 19.7 responsibilities for evaluating and administering subcontracting plans.

USMC RESPONSE: Concur with recommendation.

There are two subcontracting-related on-line Defense Acquisition University (DAU) courses that all contract specialists and Contracting Officers are required to complete:

- (a) CLC 001 - Defense Subcontract Management
- (b) CLC 054 - Electronic Subcontracting Reporting System

The RCO-NCR Office of Production, Policy, Quality, and Metrics (PPQM) and the Small Business Specialist will conduct training for the Contracting Officers on their responsibilities for subcontracting plans in accordance with FAR 19.7.

RCO-NCR anticipates having the training completed by 31 May 2015.

RECOMMENDATION 4: Determine whether the contractors for contracts M00264-08-D-0001 and M00264-13-C-0019 made a good faith effort to meet the small business subcontracting goals in their subcontracting plans and, if not, determine whether liquidated damages may be imposed against the contractor.

USMC RESPONSE: Concur with recommendation.

RCO-NCR will conduct in-depth assessments of contracts M00264-08-D-0001 and M0024-13-C-0019 to determine whether the contractors made a good faith effort to meet the small business subcontracting goals. If it is determined that the contractors did not make a good faith effort, a decision will be made on seeking liquidated damages. If the determination is made to assess liquidated damages, RCO-NCR will proceed with the process in accordance with FAR 19.705-7.

RCO-NCR anticipates having the assessments completed by 30 June 2015.

Acronyms and Abbreviations

eSRS	Electronic Subcontracting Reporting System
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System-Next Generation
IDIQ	Indefinite-Delivery, Indefinite-Quantity
MAC	Multiple Award Contract
MCSC	Marine Corps Systems Command
RCO-NCR	Regional Contracting Office-National Capital Region
SAM	System for Award Management
SBA	Small Business Administration

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