



# INSPECTOR GENERAL

*U.S. Department of Defense*

JUNE 17, 2016



## Contract Awards at Naval Oceanographic Office Need Improvement

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

## Mission

*Our mission is to provide independent, relevant, and timely oversight of the Department of Defense that supports the warfighter; promotes accountability, integrity, and efficiency; advises the Secretary of Defense and Congress; and informs the public.*

## Vision

*Our vision is to be a model oversight organization in the Federal Government by leading change, speaking truth, and promoting excellence—a diverse organization, working together as one professional team, recognized as leaders in our field.*



For more information about whistleblower protection, please see the inside back cover.



# Results in Brief

## *Contract Awards at Naval Oceanographic Office Need Improvement*

June 17, 2016

### Objective

We determined whether the Naval Oceanographic Office (NAVOCEANO) properly awarded contracts for scientific equipment, software, and technical support. We reviewed a nonstatistical sample of 25 contracts, valued at \$15.5 million.

### Findings

NAVOCEANO contracting officials generally competed contracts or supported sole-source justifications for 22 contracts, valued at \$13 million.

However, NAVOCEANO contracting officials awarded two sole-source task orders, valued at \$2.2 million, under two multiple-award contracts without citing an exception to the fair opportunity rules, which require that each awardee be given a fair opportunity to be considered for each order. The NAVOCEANO contract specialist who assisted the contracting officer stated this occurred because she had never worked on awarding a multiple-award contract before and was not aware of fair opportunity requirements. In addition, NAVOCEANO contracting office management had not established procedures for awarding task orders under multiple-award contracts.

As a result, the Navy may not have received cost savings through competition on the task orders. In addition, NAVOCEANO contracting officials awarded one purchase order, valued at \$310,660, after advertising the solicitation for only 6 days and receiving one bid, which violated the Defense Procurement and Acquisition Policy Memorandum, "Improving Competition in Defense Procurements," November 24, 2010.

### Findings (cont'd)

NAVOCEANO contracting officials adequately supported price reasonableness determinations for 8 contracts, valued at \$5.9 million, of 25 contracts, valued at \$15.5 million. However, NAVOCEANO contracting officials did not support price reasonableness determinations for 17 contracts, valued at \$9.6 million. Specifically, NAVOCEANO contracting officials:

- could not locate price reasonableness determinations for four contracts, valued at \$1.8 million;
- used invalid comparisons to prior contracts for four contracts, valued at \$4.1 million; and
- relied on unsupported independent Government estimates for nine contracts, valued at \$3.7 million.

This occurred because former NAVOCEANO contracting office management provided standard operating procedures with inadequate guidance on performing and documenting price reasonableness determinations, no guidance on preparing and approving independent Government estimates, and a reference to a section of the Federal Acquisition Regulation that no longer existed. In addition, NAVOCEANO scientific staff and contracting officials did not receive adequate training on their responsibilities for developing, reviewing, and approving independent Government estimates. Also, the Chief of Contracts, NAVOCEANO, stated that the NAVOCEANO contracting office experienced high employee turnover, resulting in understaffing. As a result, NAVOCEANO customers may have paid more than they should have for supplies and services.

### Recommendations

We recommend that the Chief of Contracts, NAVOCEANO, develop and implement procedures for awarding task orders under multiple-award contracts; train contracting personnel on awarding multiple-award contracts and task orders; update standard operating procedures to provide guidance on documentation needed to support price reasonableness determinations, including independent Government estimates; train scientific staff and contracting officials on their responsibilities for developing, reviewing, and approving independent Government estimates; and train contracting officials to award contracts both under and over the simplified acquisition threshold.



# Results in Brief

---

## *Contract Awards at Naval Oceanographic Office Need Improvement*

### **Management Comments and Our Response**

The Commanding Officer, NAVOCEANO, comments addressed all specifics of the recommendations to train contracting personnel on awarding multiple-award contracts and task orders, train scientific staff and contracting officials on their responsibilities for developing, reviewing, and approving independent Government estimates, and on awarding contracts both under and over the simplified acquisition threshold. Therefore, we are not requesting additional comments for those recommendations.

However, comments from the Commanding Officer, NAVOCEANO, did not address all the specifics of the recommendations to develop and implement procedures for awarding task orders under multiple-award contracts and update standard operating procedures to provide guidance on documentation needed to support price reasonableness determinations, including independent Government estimates. We request additional comments for these recommendations by July 18, 2016. Please see the Recommendations Table on the next page.

## ***Recommendations Table***

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Chief of Contracts, Naval Oceanographic Office	A.1.a, B.1.a	A.1.b, B.1.b, B.1.c

Please provide Management Comments by July 18, 2016.





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

June 17, 2016

MEMORANDUM FOR UNDERSECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
NAVAL INSPECTOR GENERAL

SUBJECT: Contract Awards at Naval Oceanographic Office Need Improvement  
(Report No. DODIG-2016-100)

We are providing this report for review and comment. Naval Oceanographic Office contracting officials generally competed contracts or supported sole-source justifications for 22 contracts, valued at \$13 million, of 25 contracts, valued at \$15.5 million. In addition, Naval Oceanographic Office contracting officials adequately supported price reasonableness determinations for 8 contracts, valued at \$5.9 million, of 25 contracts. However, Naval Oceanographic Office contracting officials did not support price reasonableness determinations for 17 contracts, valued at \$9.6 million. As a result, Naval Oceanographic Office customers may have paid more than they should have for supplies and services. 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. DoD Instruction 7650.03 requires that recommendations be resolved promptly. Comments from the Commanding Officer, Naval Oceanographic Office addressed all the specifics of Recommendations A.1.b, B.1.b, and B.1.c, therefore we are not requesting additional comments for those recommendations. However, comments from Commanding Officer, Naval Oceanographic Office did not address all the specifics of Recommendations A.1.a and B.1.a. We request additional comments for Recommendations A.1.a and B.1.a by July 18, 2016.

Please send a PDF file containing your comments to [audcmp@dodig.mil](mailto:audcmp@dodig.mil). Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9187 (DSN 664-9187).

A handwritten signature in blue ink, appearing to read "M. Roark", is positioned above the name of the Assistant Inspector General.

Michael J. Roark  
Assistant Inspector General  
Contract Management and Payments

# Contents

---

## Introduction

Objective	1
Naval Oceanographic Office	1
Contracts Reviewed	1
Federal Acquisition Regulation	2
Review of Internal Controls	2

## Finding A. NAVOCEANO Contracting Officials Generally Competed Contracts or Supported Sole-Source Justifications

NAVOCEANO Contracting Officials Generally Competed Contracts	3
NAVOCEANO Supported Sole-Source Justifications	5
NAVOCEANO Contracting Officials Awarded Two Contracts Without Adequate Sole-Source Justifications	6
NAVOCEANO Contracting Officials Improperly Competed One Contract	6
Recommendations, Management Comments, and Our Response	7

## Finding B. NAVOCEANO Contracting Officials Did Not Support Price Reasonableness Determinations

NAVOCEANO Supported Price Reasonableness Determinations for Eight Contracts	10
NAVOCEANO Did Not Support Price Reasonableness Determinations for 17 Contracts	10
Standard Operating Procedures for Price Reasonableness Determinations Were Inadequate	14
NAVOCEANO Personnel Were Not Adequately Trained to Prepare, Review, and Approve Independent Government Estimates	15
NAVOCEANO Experienced High Employee Turnover and Understaffing	15
Conclusion	16
Recommendations, Management Comments, and Our Response	16



## Contents (cont'd)

---

### Appendixes

Appendix A. Scope and Methodology	19
Universe and Sample	19
Work Performed	19
Use of Computer-Processed Data	21
Prior Coverage	21
Appendix B. Contracts Reviewed	22

### Management Comments

Naval Oceanographic Office Comments	24
-------------------------------------	----

Acronyms and Abbreviations	27
----------------------------	----



# Introduction

---

## Objective

We determined whether the Naval Oceanographic Office (NAVOCEANO) contracting personnel properly awarded contracts. See Appendix A for scope, methodology, and prior audit coverage.

## Naval Oceanographic Office

NAVOCEANO provides oceanographic products and services to DoD customers worldwide. This includes tailored oceanographic,<sup>1</sup> hydrographic,<sup>2</sup> bathymetric,<sup>3</sup> and acoustic<sup>4</sup> products and services that aid in safe navigation and effective mission planning. NAVOCEANO is located at John C. Stennis Space Center in Mississippi and employs nearly 1,000 military, civilian, and contractor personnel, including scientific staff.<sup>5</sup>

## Contracts Reviewed

We reviewed 25 nonstatistically selected contracts, valued at \$15.5 million, from a universe of 66 contracts, valued at \$27.7 million, which NAVOCEANO awarded during FYs 2013, 2014, and 2015. The 25 contracts consisted of 17 task orders<sup>6</sup> from 13 indefinite-delivery indefinite-quantity (IDIQ) contracts; 5 purchase orders; 2 Federal Supply Schedule orders; and 1 definitive contract.

To review the 17 task orders, we reviewed 13 IDIQ contracts, with not-to-exceed values totaling \$92.4 million. These 13 contracts included:

- 11 single-award IDIQ contracts with not-to-exceed values totaling \$72.9 million. A single-award IDIQ contract is one IDIQ contract awarded under one solicitation. Competition occurs when the IDIQ contract is awarded. If an IDIQ contract is competed, then all task orders issued under that IDIQ are considered to be competed.
- Two multiple-award contracts (MACs) IDIQ contracts with not-to-exceed values totaling \$19.5 million. A MAC is a pool of two or more contracts awarded from one solicitation. Initial competition occurs when the IDIQ contracts are awarded. Additional competition, called “fair opportunity to be considered,”<sup>7</sup> occurs when the task orders are awarded. Only those contractors in the MAC pool can compete for task orders.

---

<sup>1</sup> Equipment used to study the ocean.

<sup>2</sup> Equipment used to map bodies of water.

<sup>3</sup> Equipment used to measure the depths of bodies of water.

<sup>4</sup> Equipment used to study sound in the water.

<sup>5</sup> Scientific staff includes scientists, subject matter experts, and technical points of contact.

<sup>6</sup> We use the term task order to refer to both task orders for services and delivery orders for products.

<sup>7</sup> FAR Part 16, “Types of Contracts,” Subpart 16.5, “Indefinite-Delivery Contracts,” 16.505, “Ordering.”

NAVOCEANO contracting officials awarded the 17 task orders during FYs 2013, 2014, and 2015, but the IDIQ contracts were awarded as early as FY 2009. We reviewed the IDIQ contracts because competition occurred when the IDIQ contracts were awarded. See Appendix B for a complete list of contracts reviewed.

## Federal Acquisition Regulation

The Federal Acquisition Regulation (FAR) is the primary regulation that all Federal executive agencies use in their acquisition of supplies and services. The FAR<sup>8</sup> precludes agency acquisition regulations that unnecessarily repeat, paraphrase, or otherwise restate the FAR, limits agency acquisition regulations to those necessary to implement FAR policies and procedures within an agency, and provides for coordination, simplicity, and uniformity in the Federal acquisition process. The FAR<sup>9</sup> states that contracting officers shall provide for full and open competition through use of the competitive procedures that are best suited to the circumstances of the contract action and consistent with the need to fulfill the Government's requirements efficiently. The FAR<sup>10</sup> also states that the contracting officer must provide each awardee a fair opportunity to be considered for each order exceeding \$3,500 issued under MACs unless an exception applies.

## Review of Internal Controls

DoD Instruction 5010.40<sup>11</sup> 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 an internal control weakness with NAVOCEANO price reasonableness determinations. Specifically, contracting officials did not document price reasonableness determinations, made invalid price comparisons to prior contracts, and relied on unsupported independent Government estimates (IGEs). We will provide a copy of the report to the senior official responsible for internal controls at NAVOCEANO.

---

<sup>8</sup> FAR "Foreword."

<sup>9</sup> FAR Part 6, "Competition Requirements," Subpart 6.1, "Full and Open Competition," 6.101, "Policy."

<sup>10</sup> FAR Part 16, "Types of Contracts," Subpart 16.5, "Indefinite-Delivery Contracts," 16.505, "Ordering."

<sup>11</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

## Finding A

### **NAVOCEANO Contracting Officials Generally Competed Contracts or Supported Sole-Source Justifications**

NAVOCEANO contracting officials generally competed contracts or supported sole-source justifications for 22 contracts, valued at \$13 million, of 25 contracts, valued at \$15.5 million. Specifically, NAVOCEANO contracting officials:

- properly competed 11 contracts, valued at \$5.2 million; and
- supported sole-source justifications for 11 contracts, valued at \$7.8 million.

However, NAVOCEANO contracting officials awarded two sole-source task orders, valued at \$2.2 million, under two MACs without citing an exception to fair opportunity. The NAVOCEANO contract specialist who assisted the contracting officer stated this occurred because she had never worked on awarding a MAC before and was not aware of fair opportunity requirements. In addition, NAVOCEANO contracting office management had not established procedures for awarding task orders under MACs. As a result, the Navy may not have received cost savings through competition on the task orders.

In addition, NAVOCEANO contracting officials improperly awarded one purchase order, valued at \$310,660, after advertising the solicitation for only 6 days and receiving one bid.

### **NAVOCEANO Contracting Officials Generally Competed Contracts**

NAVOCEANO contracting officials properly competed 11 contracts, valued at \$5.2 million. Those 11 contracts were task orders awarded under 8 IDIQ contracts. Specifically, NAVOCEANO contracting personnel properly:

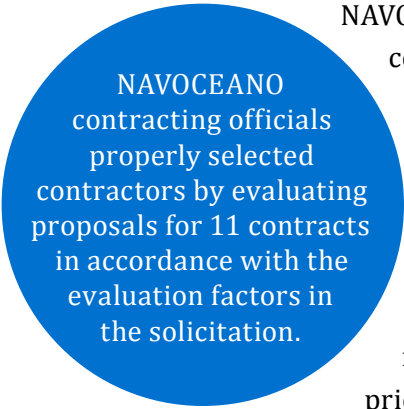
- advertised solicitations,
- selected contractors, and
- set aside contracts for small businesses.

## **NAVOCEANO Properly Advertised Solicitations**

NAVOCEANO contracting officials properly advertised the solicitations for 11 contracts on procurement websites such as Navy Electronic Commerce Online or Federal Business Opportunities. The FAR<sup>12</sup> requires agencies to allow at least 30 days to receive bids or proposals after the date a solicitation is issued, except for the acquisition of commercial items, if the proposed contract action is expected to exceed the simplified acquisition threshold (\$150,000).

For example, NAVOCEANO contracting officials advertised the solicitation for IDIQ contract N62306-10-D-3S00 for bathymetry<sup>13</sup> production on Navy Electronic Commerce Online for 35 days. In another example, NAVOCEANO contracting officials advertised the solicitation for IDIQ contract N62306-10-D-3012 for autonomous profiling floats, a commercial item, on Federal Business Opportunities for 20 days.

## **NAVOCEANO Properly Selected Contractors**



NAVOCEANO contracting officials properly selected contractors by evaluating proposals for 11 contracts in accordance with the evaluation factors in the solicitation.

NAVOCEANO contracting officials properly selected contractors by evaluating proposals for 11 contracts in accordance with the evaluation factors in the solicitation. The FAR<sup>14</sup> requires the contracting officer to ensure that proposals are evaluated based solely on the factors and subfactors in the solicitation. For example, the solicitation for IDIQ contract N62306-13-D-9S01 stated that the evaluation factors were past performance, technical capability, and price. Four contractors submitted proposals. NAVOCEANO contracting officials reviewed the four proposals and rated the contractors on each of the evaluation factors. NAVOCEANO contracting officials determined that only one contractor met the minimum requirements for all evaluation factors. Contracting officials properly selected that contractor for the award.

In another example, the source selection evaluation factors for IDIQ contract N62306-09-D-9S07 were technical capabilities, management capability, past performance and experience, and cost. NAVOCEANO contracting officials received three proposals. They evaluated the contractor proposals and properly selected the contractor with the best overall evaluation and the lowest price.

<sup>12</sup> FAR Part 5, "Publicizing Contract Actions," Subpart 5.2, "Synopsis of Proposed Contract Actions," 5.203, "Publicizing and Response Time."

<sup>13</sup> Bathymetry is the measurement and characterization of the seafloor's depth and features.


<sup>14</sup> FAR Part 15, "Contracting By Negotiation," Subpart 15.3, "Source Selection," 15.303, "Responsibilities."

## **NAVOCEANO Properly Set Aside Contracts for Small Businesses**

NAVOCEANO contracting officials properly set aside six contracts, valued at \$1.7 million, for small businesses after determining that two or more small businesses could perform the work. The FAR<sup>15</sup> requires a contracting officer to set aside any acquisition over \$150,000 for small businesses when there is a reasonable expectation that offers will be obtained from at least two small businesses. For example, NAVOCEANO contracting officials properly competed IDIQ contract N62306-14-D-4S03 as a 100-percent small business set-aside. Market research showed about 20 small business machine shops in the immediate area, three of which could potentially fulfill the requirement.

## **NAVOCEANO Supported Sole-Source Justifications**

NAVOCEANO contracting officials supported sole-source justifications for 11 contracts, valued at \$7.8 million. The 11 contracts included 1 definitive contract, 4 purchase orders, 2 Federal Supply Schedule orders, and 4 task orders awarded from 3 IDIQ contracts. The FAR<sup>16</sup> permits contracting without providing for full and open competition when only one responsible source exists and no other supplies or services will satisfy agency requirements.



NAVOCEANO contracting officials supported sole-source justifications for 11 contracts, valued at \$7.8 million.

For example, NAVOCEANO awarded IDIQ contract N62306-12-D-2000 as a sole-source contract for major and minor repair of underwater vehicles, manufacturing and testing of spare parts, software upgrades, and technology refresh and upgrades. Contracting officials prepared a Justification for Other than Full and Open Competition that stated the contractor owned the license and production rights for the underwater vehicles; therefore, that contractor was the only one who could perform the work.

In another example, NAVOCEANO contracting officials awarded purchase order N62306-14-M-M200, valued at \$523,000, for a subscription to a satellite-based system that collects, processes, and disseminates data from fixed and mobile platforms worldwide. The contractor owned the system and operated the system per a memorandum of understanding between the National Aeronautics and Space Administration, the National Oceanic and Atmospheric Administration, and France's National Centre for Space Studies.

<sup>15</sup> FAR Part 19, "Small Business Programs," Subpart 19.5, "Set-Asides for Small Business," 19.502-2, "Total Small Business Set-Asides."

<sup>16</sup> FAR Part 6, "Competition Requirements," Subpart 6.3, "Other Than Full and Open Competition," 6.302-1, "Only one responsible source and no other supplies or services will satisfy agency requirements."

## **NAVOCEANO Contracting Officials Awarded Two Contracts Without Adequate Sole-Source Justifications**

A NAVOCEANO contracting officer<sup>17</sup> awarded two sole-source task orders, valued at \$2.2 million, under two MACs without citing an exception to fair opportunity. The FAR<sup>18</sup> requires the contracting officer to provide each awardee a fair opportunity to be considered for each order exceeding \$3,500 issued under MACs unless an exception applies, in which case a written justification is required. The NAVOCEANO contract specialist who assisted the contracting officer stated this occurred because she had never worked on awarding a MAC and was not aware of FAR fair opportunity requirements. In addition, the NAVOCEANO contracting office management had not established procedures for awarding task orders under MACs. As a result, the Navy may not have received cost savings through competition on the task orders. The Chief of Contracts, NAVOCEANO, should develop and implement procedures for awarding task orders under MACs and provide training for contracting personnel on awarding MACs and task orders.

## **NAVOCEANO Contracting Officials Improperly Competed One Contract**

NAVOCEANO contracting officials awarded purchase order N62306-13-P-4005 on September 29, 2013, for \$310,660, after advertising the solicitation for only 6 days and receiving one offer. If a solicitation is open for less than 30 days and only one offer is received, a Defense Procurement and Acquisition Policy Memorandum<sup>19</sup> requires the contracting officer to readvertise the solicitation for a minimum of 30 days unless a waiver is obtained from the head of the contracting activity. Therefore, the contracting officer should have readvertised the solicitation for a minimum of 30 additional days. Additionally, the contract file did not contain documentation showing whether contracting officials evaluated the proposal in accordance with the evaluation factors in the solicitation. We found no indication that this was a systemic problem; therefore, we are not making a recommendation.

---

<sup>17</sup> The contracting officer who awarded the contract no longer works at NAVOCEANO; therefore, we could not interview her.

<sup>18</sup> FAR Part 16, "Types of Contracts," Subpart 16.5, "Indefinite-Delivery Contracts," 16.505, "Ordering."

<sup>19</sup> Defense Procurement and Acquisition Policy Memorandum, "Improving Competition in Defense Procurements," November 24, 2010.



## Recommendations, Management Comments, and Our Response

### **Recommendation A.1**

We recommend that the Chief of Contracts, Naval Oceanographic Office:

- a. **Develop and implement procedures for awarding task orders under multiple-award contracts.**

#### *Naval Oceanographic Office Comments*

The Commanding Officer, NAVOCEANO, responding for the Chief of Contracts, NAVOCEANO, partially agreed. The Commanding Officer agreed that there is a need to ensure that orders under MACs are properly awarded. However, he stated that it was not necessary for NAVOCEANO to develop specific procedures since FAR 16.505(b) provides guidance for issuing orders under MACs. The Commanding Officer stated that the NAVOCEANO Contracting Department would ensure that procedures are being followed through reviews by the Contract Review Board and through quarterly quality assurance self-assessments. He stated that the Contract Review Board would review all contractual actions to ensure that proposed contract actions are in compliance with established acquisition policies and procedures.

#### *Our Response*

Comments by the Commanding Officer did not address the specifics of the recommendation. Although FAR 16.505(b) does provide guidance for issuing orders under MACs, that guidance was in place when NAVOCEANO improperly awarded the task orders identified in this report. In addition, the Contract Review Board approved the award of the MACs, and the task orders were awarded on the same day as the MACs. NAVOCEANO standard operating procedures did not include any instructions on awarding task orders under MACs or any information on quarterly quality assurance self-assessments. Furthermore, quarterly reviews of existing contracts would not prevent improper awards of orders under MACs; the reviews could detect errors only after they occurred. Finally, if contracting officials are not aware of the procedures for awarding orders under MACs, then reviews of proposed contract actions by those contracting officials will not prevent errors in awarding these orders. We request that the Commander provide comments on the final report on how he will develop and implement procedures to ensure contracting officials properly award task orders under MACs.

**b. Train contracting personnel on awarding multiple-award contracts and task orders.**

*Naval Oceanographic Office Comments*

The Commanding Officer, NAVOCEANO, responding for the Chief of Contracts, NAVOCEANO, agreed. The Commanding Officer stated that weekly informal training and monthly formal training on awarding orders under MACs is being provided to the contracting staff.

*Our Response*

Comments from the Commanding Officer, NAVOCEANO, addressed all specifics of the recommendation and no further comments are required.

## Finding B

### NAVOCEANO Contracting Officials Did Not Support Price Reasonableness Determinations

NAVOCEANO contracting officials adequately supported price reasonableness determinations for 8 contracts, valued at \$5.9 million, of 25 contracts, valued at \$15.5 million. However, they did not support price reasonableness determinations for 17 contracts, valued at \$9.6 million. Specifically, NAVOCEANO contracting officials:

- could not locate price reasonableness determinations for four contracts, valued at \$1.8 million;
- used invalid comparisons to prior contracts for four contracts, valued at \$4.1 million; and
- relied on unsupported IGEs for nine contracts, valued at \$3.7 million.

This occurred because former NAVOCEANO contracting office management provided standard operating procedures with inadequate guidance on performing and documenting price reasonableness determinations, no guidance on preparing and approving IGEs, and a reference to a section of the FAR that no longer existed.<sup>20</sup> In addition, NAVOCEANO scientific staff and contracting officials did not receive adequate training on their responsibilities for developing, reviewing, and approving IGEs. Also, the Chief of Contracts, NAVOCEANO, stated that the NAVOCEANO contracting office experienced high employee turnover, resulting in understaffing. As a result, NAVOCEANO customers may have paid more than they should have for supplies and services.

<sup>20</sup> The standard operating procedures referred to FAR Subpart 15.8, "Price Negotiation," which was eliminated from the FAR in 1997.

## NAVOCEANO Supported Price Reasonableness Determinations for Eight Contracts

NAVOCEANO contracting officials adequately supported price reasonableness determinations for eight contracts, valued at \$5.9 million. The FAR<sup>21</sup> states the

contracting officer shall include documentation of fair and reasonable prices in the contract file. Specifically, the files for the eight contracts contained price reasonableness determinations, which were prepared by contracting officials and included adequate price analysis.

NAVOCEANO contracting officials adequately supported price reasonableness determinations for eight contracts, valued at \$5.9 million.

For example, NAVOCEANO contracting officials adequately supported the price reasonableness determination for contract N62306-13-M-4S04, valued at \$309,410. The contract was for 3 years of services by a professional geologist. Contracting officials performed adequate price analysis by verifying that

the geologist would be working a reasonable amount of hours. To analyze the geologist's proposed labor rate, contracting officials performed market research to determine the range of labor rates charged by professional geologists in the commercial marketplace. Contracting officials then determined that the labor rate proposed for the geologist on this contract was near the lower end of the range.

## NAVOCEANO Did Not Support Price Reasonableness Determinations for 17 Contracts

NAVOCEANO contracting officials did not support price reasonableness determinations for 17 contracts, valued at \$9.6 million. Specifically, NAVOCEANO contracting officials:

- could not locate price reasonable determinations for four contracts, valued at \$1.8 million;
- used invalid comparisons to prior contracts for four contracts, valued at \$4.1 million; and
- relied on unsupported IGEs for nine contracts, valued at \$3.7 million.

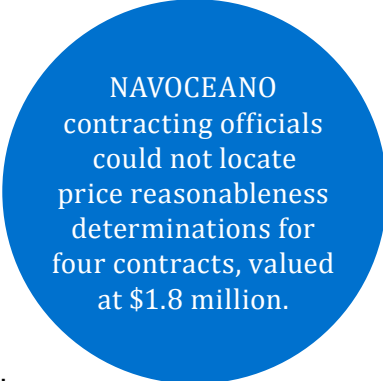
NAVOCEANO contracting officials did not support price reasonableness determinations for 17 contracts, valued at \$9.6 million.

<sup>21</sup> FAR Part 15, "Contracting By Negotiation," Subpart 15.4, "Contract Pricing," 15.406, "Documentation," 15.406-3, "Documenting the Negotiation."

The FAR<sup>22</sup> states the contracting officer shall include the determination of fair and reasonable prices in the contract file, including the source and type of data used to support the determination. The FAR<sup>23</sup> also states that the Government may use various proposal analysis techniques and procedures to ensure a fair and reasonable price.

### ***Price Reasonableness Determinations Not in Contract Files***

NAVOCEANO contracting officials could not locate price reasonableness determinations for four contracts, valued at \$1.8 million. Price reasonableness determinations can be documented using a business clearance memorandum, award memorandum, or similar documentation. The following are examples of contracts that did not include price reasonableness determinations in the contract files.



NAVOCEANO contracting officials could not locate price reasonableness determinations for four contracts, valued at \$1.8 million.

- **Contract N62306-09-D-9S07 Task Order 0076.** The contracting officer could not locate a price reasonableness determination that supported the price of \$239,949. The contracting officer stated that she accidentally placed a price reasonableness determination for a different task order in the file for task order 0076. In preparation for our audit, the contracting officer realized that the price reasonableness determination in the file was for another task order, and she improperly scratched out the overall price on the document and wrote in the task order 0076 price with a pen.
- **Contract N62306-10-D-2004 Task Order 0017.** The contract file did not include a price reasonableness determination, and contracting officials could not locate any price reasonableness determination. Therefore the task order price of \$948,683 was not supported. In addition, contracting officials did not obtain a Certificate of Current Cost or Pricing Data for IDIQ contract N62306-10-D-2004, valued at \$9,763,653. The FAR<sup>24</sup> requires the contracting officer to obtain certified cost or pricing data from the contractor for contracts expected to exceed \$700,000,<sup>25</sup> unless an exception applies. Contracting officials did not obtain certified cost or pricing data; instead, they cited the exception found in FAR 15.403-1(c)(2), “prices set by law or regulation.” The contracting officer explained that this exception applied because the contractor’s indirect cost and fringe

<sup>22</sup> FAR Part 15, “Contracting by Negotiation,” Subpart 15.4, “Contract Pricing,” 15.406, “Documentation,” 15.406-3, “Documenting the Negotiation.”

<sup>23</sup> FAR Part 15, “Contracting by Negotiation,” Subpart 15.4, “Contract Pricing,” 15.404-1, “Proposal Analysis Techniques.”

<sup>24</sup> FAR Part 15, “Contracting by Negotiation,” Subpart 15.4, “Contract Pricing,” 15.403, “Obtaining Certified Cost or Pricing Data,” 15.403-4, “Requiring Certified Cost or Pricing Data.”

<sup>25</sup> The threshold increased from \$700,000 to \$750,000 on October 1, 2015.

benefit rates were in accordance with provisions and cost principles for non-profit organizations. She also explained that the contractor's accounting system was audited by the Defense Contract Audit Agency, and the contractor had a negotiated forward pricing rate agreement<sup>26</sup> for this contract. However, the contracting officer's explanation did not support that the prices were set by law or regulation. Compliance with cost principles, a Defense Contract Audit Agency audit, and a forward pricing rate agreement are different than a law or regulation establishing the contract price.

### ***Invalid Comparisons to Prior Contracts Made***

NAVOCEANO contracting officials based price reasonableness determinations on invalid comparisons to prior contracts for four contracts, valued at \$4.1 million. NAVOCEANO contracting officials compared the proposed prices to historical prices paid for the same or similar items. According to the FAR,<sup>27</sup> the prior price must be a valid basis for comparison. If the reasonableness of the prior price was uncertain, then the prior price may not be a valid basis for comparison. The following are examples of invalid price comparisons.

- **Purchase Order N62306-15-P-B024.** The NAVOCEANO contracting officer awarded purchase order N62306-15-P-B024 on September 30, 2015, for \$1,033,752. The contracting officer prepared a price analysis that compared the proposed prices to unit prices "as of 4-1-2014." However this price analysis did not explain the basis for those unit prices. When we asked the contracting officer how those unit prices were developed, he stated that they were based on the prices from a contract that was awarded in 2002 and ended in 2007. The FAR<sup>28</sup> states, "If there has been a significant time lapse between the last acquisition and the present one . . . then the prior price may not be a valid basis for comparison." Relying on prices negotiated in FY 2002 for a contract awarded in FY 2014 without performing additional analysis to determine whether the prior price was valid is not reasonable.
- **Contract N6236-14-F-9005.** The NAVOCEANO contracting officer awarded contract N6236-14-F-9005 on September 30, 2014, for \$2,631,590. The contracting officer determined that the price was fair and reasonable by comparing it to the price of another contract, N62306-12-F-2004. The contracting officer for contract N62306-12-F-2004 had determined that

<sup>26</sup> According to FAR 2.101, a forward pricing rate agreement is, "A written agreement negotiated between a contractor and the Government to make certain rates available during a specified period for use in pricing contracts or modifications. These rates represent reasonable projections of specific costs that are not easily estimated for, identified with, or generated by a specific contract, contract end item, or task. These projections may include rates for such things as labor, indirect costs, material obsolescence and usage, spare parts provisioning, and material handling."

<sup>27</sup> FAR Part 15, "Contracting by Negotiation," Subpart 15.4, "Contract Pricing," 15.404-1, "Proposal analysis techniques."

<sup>28</sup> FAR Part 15, "Contracting by Negotiation," Subpart 15, "Contract Pricing," 15.404-1, "Proposal analysis techniques."

the price was fair and reasonable because the contract was awarded from a General Services Administration (GSA) Federal Supply Schedule, and GSA had already determined that the schedule prices were fair and reasonable for the purpose of establishing the GSA contract. However, in March 2014, the Director, Defense Procurement and Acquisition Policy, issued a memorandum<sup>29</sup> stating that GSA's determination did not relieve the ordering activity contracting officer of the responsibility of making a determination of fair and reasonable price. The contracting officer did not adequately support the price reasonableness determination for contract N62306-14-F-9005 because it was based solely on a comparison to a contract whose price was supported only by the GSA price reasonableness determination.

### ***Unsupported Independent Government Estimates Relied Upon***

Contracting officials based price reasonableness determinations on unsupported IGEs for nine contracts, valued at \$3.7 million. The FAR<sup>30</sup> states that contracting officials may establish price reasonableness by comparing proposed prices to IGEs. A Defense Procurement and Acquisition Policy memorandum<sup>31</sup> states that the contracting officer should analyze the IGE to determine how the IGE was developed, what assumptions were made, what information and estimating tools were used, where the information was obtained, and how previous estimates compared with prices paid. That information should be documented in a business clearance memorandum, which is the Navy's version of a price negotiation memorandum. The Navy Marine Corps Acquisition Regulation Supplement requires that IGEs include the information described in the Defense Procurement and Acquisition Policy memorandum. NAVOCEANO contracting officials used IGEs that did not include adequate documentation to ensure that the IGEs represented fair and reasonable prices.

For example, for contract N62306-14-D-2S05 task order 0009, awarded on September 24, 2015, for \$160,986, the contracting officer based the price reasonableness determination on a comparison to the IGE. However, the IGE did not include any support for how the numbers in the IGE were derived. The IGE stated only that the estimate was based on "similar work done in the past."

<sup>29</sup> Defense Procurement and Acquisition Policy Memorandum, "Class Deviation—Determination of Fair and Reasonable Prices When Using Federal Supply Schedules Contracts," March 13, 2014.

<sup>30</sup> FAR Part 15, "Contracting by Negotiation," Subpart 15.4, "Contract Pricing," 15.404-1, "Proposal analysis techniques."

<sup>31</sup> Defense Procurement and Acquisition Policy Memorandum, "Contracting Practices—Independent Government Estimates, Government Surveillance, and Contract Quality Assurance," September 17, 2007.

In another example, NAVOCEANO contracting officials awarded contract N62306-09-D-9S07 task order 0075 on August 15, 2013, for \$348,919. The purpose of the task order was to fabricate Ocean Surface Current Analyses-Realtime (OSCAR) Buoys and Environmental Acoustic Recording System (EARS) Buoys, and the price included both OSCAR machined parts and EARS machined parts. Contracting officials determined that the price was fair and reasonable based on a comparison to the IGE. However, the IGE supported the prices of only the OSCAR machined parts, not the EARS machined parts. The EARS machined parts accounted for over half of the task order price. Therefore, the price reasonableness determination for the majority of the task order price was unsupported.

## **Standard Operating Procedures for Price Reasonableness Determinations Were Inadequate**

Former NAVOCEANO contracting office management issued standard operating procedures with inadequate guidance on performing and documenting price reasonableness determinations, no guidance on preparing and approving IGEs, and a reference to a section of the FAR<sup>32</sup> that no longer existed.

Regarding performing and documenting price reasonableness determinations, the standard operating procedures state only, “set forth details of cost/price analysis,” and “discuss the basis for price reasonableness,” in the business clearance memorandum. The standard operating procedures did not include detailed instructions explaining how to adequately document and support price reasonableness determinations.

Regarding preparation and approval of IGEs, the standard operating procedures provided no guidance. The standard operating procedures did not explain that IGEs should include the information required by the Defense Procurement and Acquisition Policy Memorandum.<sup>33</sup> The memorandum stated that the contracting officer should analyze the IGE to determine how the IGE was developed, what assumptions were made, what information and estimating tools were used, where the information was obtained, and how previous estimates compared with prices paid. The Chief of Contracts, NAVOCEANO, should update standard operating procedures to provide guidance on documentation needed to support price reasonableness determinations, including IGEs.

---

<sup>32</sup> The standard operating procedures referred to FAR Subpart 15.8, “Price Negotiation,” which was eliminated from the FAR in 1997.

<sup>33</sup> Defense Procurement and Acquisition Policy Memorandum, “Contracting Practices—Independent Government Estimates, Government Surveillance, and Contract Quality Assurance,” September 17, 2007.



## **NAVOCEANO Personnel Were Not Adequately Trained to Prepare, Review, and Approve Independent Government Estimates**

NAVOCEANO scientific staff and contracting officials did not receive adequate training on their responsibilities for preparing, reviewing, and approving IGEs. NAVOCEANO contracting officials presented an acquisition seminar annually to scientific staff on how to prepare and submit a complete requirements package, which includes an IGE. However, we determined that the acquisition seminar training package did not adequately address how to prepare an IGE. Specifically, while the training package listed the elements of an IGE and stated that IGEs should be developed independently by Government employees, it did not instruct the preparer to describe where the information was obtained and how previous estimates compared with prices paid. Additionally, the NAVOCEANO Chief of Contracts stated that she was not aware whether contracting officials received training on reviewing and approving IGEs prior to her arrival in May 2015. The Chief of Contracts, NAVOCEANO, should provide training to NAVOCEANO scientific staff and contracting officials on their responsibilities for preparing, reviewing, and approving IGEs.

## **NAVOCEANO Experienced High Employee Turnover and Understaffing**

The Chief of Contracts, NAVOCEANO, stated the NAVOCEANO contracting office experienced high employee turnover, resulting in understaffing. One contracting officer stated that a missing price reasonableness determination was the result of departures of former contracting officials. The Chief of Contracts pointed out that contracting officials were trained on awarding contracts either under or over the simplified acquisition threshold of \$150,000, but not on both. Contract award procedures are different for contracts under and over the simplified acquisition threshold. Therefore, when a contracting official trained to award contracts over the simplified acquisition threshold leaves, a contracting official who is not trained in that area, may be unprepared to take over the workload. Further, the NAVOCEANO comptroller explained that the NAVOCEANO contracting office gets most of its funding in the last half of the fiscal year and awards most of its contracts in the last quarter of the fiscal year. As a result, high employee turnover, understaffing, and lack of training impede the contracting officers' ability to award the contracts before the end of the fiscal year. The Chief of Contracts, NAVOCEANO, should train contracting officials on awarding contracts both under and over the simplified acquisition threshold.

## Conclusion

NAVOCEANO contracting officials relied on inadequate documentation when making price reasonableness determinations for 17 contracts, valued at \$9.6 million. Specifically, NAVOCEANO contracting officials could not locate price reasonableness determinations, used invalid comparisons, and based price reasonableness determinations on unsupported IGEs. This occurred because NAVOCEANO Contract Office standard operating procedures contained inadequate guidance for performing and documenting price reasonableness determinations, no guidance on preparing and approving IGEs, and referred to a section of the FAR that no longer existed. In addition, NAVOCEANO scientific staff and contracting officials did not receive adequate training on their responsibilities for developing, reviewing, and approving IGEs. NAVOCEANO also experienced high employee turnover and understaffing. Therefore, NAVOCEANO customers may have paid more than they should have for supplies and services.

## Recommendations, Management Comments, and Our Response

### **Recommendation B.1**

**We recommend that the Chief of Contracts, Naval Oceanographic Office:**

- a. Update standard operating procedures to provide guidance on documentation needed to support price reasonableness determinations, including independent Government estimates.**

### *Commanding Officer, Naval Oceanographic Office Comments*

The Commanding Officer, NAVOCEANO, responding for the Chief of Contracts, NAVOCEANO, partially agreed with the recommendation. The Commanding Officer stated that, while there is a need to improve upon supporting price reasonableness determinations, it is not the responsibility of the contracting officer to generate the IGE. He stated the IGE is prepared by either the Government's technical staff or requirements staff; therefore, the standard operating procedures would not be updated to include generating IGEs. He stated that the contracting staff had been given guidance on ensuring that IGEs submitted with each requirements package identify (1) how the estimate was developed, (2) what assumptions were made, (3) what information was used, (4) from where the information was obtained, and (5) comparison to previous prices paid.

### *Our Response*

Comments by the Commanding Officer did not address all specifics of the recommendation. We recommended that the Chief of Contracts update standard operating procedures to provide guidance on documentation needed to support price reasonableness determinations, including IGEs. We did not specifically recommend that the standard operating procedures include a requirement for the contracting staff to prepare IGEs. FAR 15.404(a)(1) states that contracting officers are responsible for evaluating the reasonableness of the offered prices. If the contracting officer determines that the contract price is reasonable by comparing the price to the IGE, then the contracting officer must first ensure that the IGE includes all required elements as stated in the Defense Procurement and Acquisition Policy memorandum.<sup>34</sup> Updating the standard operating procedures to include guidance on documentation to support IGEs would help ensure that IGEs include these required elements. We request that the Commander provide comments on the final report describing how updated standard operating procedures will instruct contracting officers to ensure IGEs include all required information.

- b. Train Naval Oceanographic Office scientific staff and contracting officials on their responsibilities for developing, reviewing, and approving independent Government estimates.**

### *Commanding Officer, Naval Oceanographic Office Comments*

The Commanding Officer, NAVOCEANO, responding for the Chief of Contracts, NAVOCEANO, partially agreed. The Commanding Officer stated that it is not the contracting officer's responsibility to develop or approve the IGE. However, the Commanding Officer stated that the Training Department and the Contracting Department coordinated efforts to train the scientific staff on generating IGEs and performing market research. He also stated that the Contracting Department held a 3-day acquisition seminar in May 2016, specifically addressing generating IGEs and performing market research. The training was provided to all individuals responsible for generating a requirements package.

### *Our Response*

Comments from the Commanding Officer, NAVOCEANO, addressed all specifics of the recommendation and no further comments are required.

<sup>34</sup> Defense Procurement and Acquisition Policy memorandum, "Contracting Practices - Independent Government Estimates, Government Surveillance, and Contract Quality Assurance," September 17, 2007.

**c. Train contracting officials on awarding contracts both under and over the simplified acquisition threshold.**

*Commanding Officer, Naval Oceanographic Office Comments*

The Commanding Officer, NAVOCEANO, agreed. The Commanding Officer stated that the Contracting Department is developing crosstraining efforts to ensure that contracting staff will be able to execute contract actions regardless of the dollar amount or complexity of the procurement.

*Our Response*

Comments from the Commanding Officer, NAVOCEANO, addressed all specifics of the recommendation and no further comments are required.

## Appendix A

---

### Scope and Methodology

We conducted this performance audit from October 2015 through May 2016, 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 NAVOCEANO properly awarded contracts. Specifically, we determined whether contracting officials properly competed contracts and supported price reasonableness determinations.

### Universe and Sample

The audit universe consisted of 66 contracts, valued at \$27.7 million, which NAVOCEANO contracting officials awarded from October 1, 2012, to September 30, 2015, over the simplified acquisition threshold of \$150,000. We selected a nonstatistical sample of 25 contracts, valued at \$15.5 million, to get a mix of definitive contracts, task orders, Federal Supply Schedule orders, competitive versus sole-source contracts, and firm-fixed price versus cost-type contracts. The 25 contracts consisted of 17 task orders from 13 IDIQ contracts, 5 purchase orders, 2 Federal Supply Schedule orders, and 1 definitive contract.

### Work Performed

We collected, reviewed, and analyzed documents for the 25 contracts to determine whether NAVOCEANO properly awarded the contracts. To review the 17 task orders, we reviewed 13 IDIQ contracts, with not-to-exceed values totaling \$92.4 million.

- 11 single-award IDIQ contracts with not-to-exceed values totaling \$72.9 million. A single-award IDIQ contract is one IDIQ contract awarded under one solicitation. Competition occurs when the IDIQ contract is awarded. If an IDIQ contract is competed, then all task orders issued under that IDIQ are considered to be competed.
- Two MACs with not-to-exceed values totaling \$19.5 million. A MAC is a pool of two or more contracts awarded from one solicitation. Competition occurs when the IDIQ contracts are awarded. Additional competition, called “fair opportunity to be considered,” occurs when the task orders are awarded. Only those contractors in the MAC pool can compete for task orders.

NAVOCEANO contracting officials awarded the 17 task orders during FYs 2013, 2014, and 2015, but the IDIQ contracts were awarded as early as 2009. We reviewed the IDIQ contracts because competition occurred when the IDIQ contracts were awarded.

To determine whether NAVOCEANO properly awarded contracts, we reviewed documents from the contract files, including:

- market research,
- solicitations,
- Federal Business Opportunities and Navy Electronic Commerce Online postings,
- business clearance memorandums,
- justifications for other than full and open competition,
- contractor proposals, and
- IGEs.

We interviewed key NAVOCEANO personnel at the John C. Stennis Space Center in Mississippi to understand their roles and responsibilities for awarding contracts. Those interviewed included the Technical Director, Comptroller, Chief of Contracts, contracting officers, and contract specialists.

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

- FAR Part 5, “Publicizing Contract Actions,” establishes policies and procedures relating to the solicitation response time.
- FAR Part 6, “Competition Requirements,” addresses competition requirements and situations where contracts can be awarded without full and open competition.
- FAR Part 15, “Contracting by Negotiation,” establishes policies and procedures governing competitive and noncompetitive negotiated acquisitions.
- FAR Part 16, “Types of Contracts,” establishes and procedures and provides 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.

We reviewed documentation dated between August 2002 and March 2016.

## **Use of Computer-Processed Data**

We did not use computer-processed data to perform this audit.

## **Prior Coverage**

During the last 5 years, the Naval Audit Service issued one report discussing contract awards at NAVOCEANO. Naval Audit Service reports are not available over the Internet.

### ***Navy***

Report No. N2014-0026, "Service Contracts Awarded for Naval Meteorology and Oceanography Command," June 4, 2014

## Appendix B

### Contracts Reviewed

	Contract Number	IDIQ Base & Options Value (at time of award)	Task Order Number	Contract Base & Options Value (at time of award)	Service or Products Purchased
1	N62306-13-D-9S01	\$2,157,300.00	0007	\$154,023.90	Repairs, modifications, and improvements to boat hulls and associated systems
2	N62306-12-D-1002	6,081,424.35	0015	198,500.00	Undersea acoustic transponding systems and ancillary equipment
3			0019	195,350.00	
4	N62306-09-D-9S07	8,100,775.00	0076	239,949.06	Machine shop support for systems used in conducting underwater surveys
5			0075	348,918.73	
6	N62306-14-D-4S03	6,095,440.00	0001	291,420.84	Machine shop support for systems used in conducting underwater surveys
7			0010	369,584.75	
8	N62306-10-D-3S00	5,473,419.16	0021	302,508.72	Support for discovery, extraction, management, integration, processing, editing, conversion, and quality control of scientific ocean data
9	N62306-14-D-2S05	6,227,338.00	0004	448,806.57	Custom software services support for Synoptic Applications and Ocean Sciences Divisions applications
10			0009	160,986.02	
11	N62306-12-D-2000	9,802,850.00	0008	490,394.66	Remote Environmental Monitoring Unit 600 upgrades
12	N62306-09-D-7S03	4,873,669.36	0021	519,968.10	Custom software maintenance and services support for Data Division Applications
13	N62306-14-D-4S01	\$5,869,317.95	0001	831,058.15	Dataset analysis, evaluation, processing, and exploitation of hydrographic and bathymetric data



## Contracts Reviewed (cont'd)

	Contract Number	IDIQ Base & Options Value (at time of award)	Task Order Number	Contract Base & Options Value (at time of award)	Service or Products Purchased
14	N62306-10-D-2004	9,763,653.00	0017	948,683.00	Autonomous underwater vehicle development, system integrations and analytical support
15	N62306-14-D-4002	9,638,300.00	0001	898,464.00	Air deployable certified, conductivity, temperature, autonomous profiling float
16	N62306-14-D-4003	9,873,100.00	0001	1,264,340.00	Air deployable certified, conductivity, temperature, depth autonomous profiling float
17	N62306-10-D-3012	8,422,525.00	0008	1,489,333.00	Autonomous profiling explorer floats
18	N62306-14-C-2000			250,000.00	Processing and delivery of satellite data for use in numerical weather prediction models
19	N62306-13-P-4005			310,660.00	Sub-bottom profiler sparker system
20	N62306-14-M-2008			408,913.23	Seapath 330+ Inertial Navigation Systems and engineering support
21	N62306-14-M-M200			523,000.00	Real-time drifting data buoy data collection, processing, distribution and archival
22	N62306-14-F-9005			2,631,590.15	Upgrade of sidescan sonar systems
23	N62306-15-F-B015			832,878.00	Applanix Position Orientation System/ Marine Vessel 320 System
24	N62306-15-P-B024			1,033,752.00	Power source systems with battery backup support
25	N62306-13-M-4S04			309,410.40	Geotechnical analytical support
	<b>Total</b>	<b>\$92,379,111.82</b>		<b>\$15,452,493.28</b>	

# Management Comments

## Naval Oceanographic Office Comments



**DEPARTMENT OF THE NAVY**  
NAVAL OCEANOGRAPHIC OFFICE  
1002 BALCH BOULEVARD  
STENNIS SPACE CENTER, MS 39522-5001

IN REPLY REFER TO:  
7560  
Ser N5/002  
03 JUN 2016

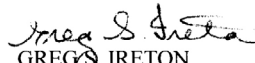
From: Commanding Officer, Naval Oceanographic Office  
To: Inspector General, Inspector General of the Department of Defense

Subj: CONTRACT AWARDS AT NAVAL OCEANOGRAPHIC OFFICE NEED  
IMPROVEMENT

Ref: (a) DoD Instruction 7650.03  
(b) Inspector General Draft Report, Contract Awards at Naval Oceanographic Office  
Need Improvement Project No. D2016-D000CF-0007.000 of 5 May 16

Encl: (1) Project No. D2016-D000CF-0007.000 Recommendations - NAVOCEANO Actions

1. Per reference (a), Naval Oceanographic Office (NAVOCEANO) submits enclosure (1), NAVOCEANO actions to implement recommendations and or provide comments related to the recommendations stated within reference (b).
2. Reference (b) identified an internal control weakness with NAVOCEANO price reasonableness determinations. Specifically, stating that Contracting officials did not document price reasonableness determinations, made invalid price comparisons to prior contracts and relied on unsupported independent Government estimates. The NAVOCEANO Contracting Department has established and implemented procedures to ensure prices are fair and reasonable and that analysis is adequately documented, prior to award, for all contracts. These procedures include an internal contracts review board process and written guidance to identify various methods of analysis to determine prices fair and reasonable.
3. The NAVOCEANO point of contact regarding this matter is [REDACTED]  
[REDACTED]

  
GREG S. IRETON

## Naval Oceanographic Office Comments (cont'd)

### PROJECT NO. D2016-D000CF-0007.000 RECOMMENDATIONS - NAVOCEANO ACTIONS

**Recommendation A.1.a:** “develop and implement procedures for awarding task orders under multiple-award contracts, and”

**Naval Oceanographic Office Contracting Department Response: Agree in Part.** While it is agreed that there is a need to ensure task/delivery orders against multiple-award contracts should be awarded properly, it is not necessary for NAVOCEANO to develop specific procedures since FAR Part 16.505 (b) provides guidance for issuance of orders against multiple-award contracts. The NAVOCEANO Contracting Department will ensure procedures are being followed through internal contracts review board and quarterly quality assurance self-assessment (QASA) contract reviews. The contract review board will review all contractual actions, as required, to ensure proposed contractual actions are in the best interest of the Government and to ensure compliance with established acquisition policies and procedures.

**Recommendation A.1.b:** “train contracting personnel on awarding multiple-award contracts and task orders.”

**Naval Oceanographic Office Contracting Department Response: Agree.** Training efforts will be made to focus on ensuring the Contracting staff has concise understanding of FAR Part 16.505 (b) to ensure proper execution of orders issued against multiple-award contracts. Informal training is conducted on a weekly basis and formal training is conducted once per month.

**Recommendation B.1.a:** “update standard operating procedures to provide guidance on documentation needed to support price reasonableness determinations, including independent Government estimates;”

**Naval Oceanographic Office Contracting Department Response: Agree in Part.** While it is agreed that there is a need to improve upon supporting price reasonableness determinations, it is not the Contracting Officer’s responsibility to generate the independent Government estimates. An independent Government estimate is an unbiased cost estimate based upon the specifications and without the influence of potential contractor’s marketing effort or input. The independent Government estimate is prepared by either the Government’s technical staff or requirements staff. In accordance with the Federal Acquisition Regulations (FAR) 15.404-1 (c)(2)(iii)(D), independent Government estimates are generated by technical personnel, which is used for comparison to proposed costs. The purpose of an independent Government estimate is to provide a basis for budgeting and reserving funds for the contract action; basis for comparing costs or prices proposed by an offeror; and basis for determining price reasonableness when only one proposal is received. In accordance with FAR 1.602-1 (a), Contracting officers are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships. In order to perform these responsibilities, Contracting Officers should be allowed wide latitude to exercise business judgment.

As such, standard operating procedures will not be updated to include generating independent Government estimates because it is not the Contracting Officer’s direct responsibility as defined in the regulations stated above.

Enclosure (1)

## Naval Oceanographic Office Comments (cont'd)

Training efforts have been provided to the Contracting Staff to improve upon the determination of price reasonableness. Contracting Staff have been given guidance on ensuring the independent Government estimates submitted with each requirements package identifies (1) how the independent Government estimate was developed, (2) what assumptions were made, (3) what information was used, (4) from where the information was obtained and (5) comparison to previous prices paid. Training has also been provided to identify methods of analysis to determine prices fair and reasonable.

**Recommendation B.1.b:** “train Naval Oceanographic Office scientific staff and contracting officials on their responsibilities for developing, reviewing, and approving independent Government estimates; and”

**Naval Oceanographic Office Contracting Department Response:** **Agree in Part.** While it is agreed that there is a need to improve upon the development of independent Government estimates, it is not the Contracting Officer’s responsibility to develop or approve the independent Government estimate or provide training on how to generate the independent Government estimates. However, coordinated efforts between the Training Department and the Contracting Department have been made to train the requirements staff on generating the independent Government estimates or performing market research because it has essentially improved the process of contract execution.

The NAVOCEANO Contracting Department has offered training to the requirements staff, which includes the scientific staff. The NAVOCEANO Contracting Department held an annual acquisition seminar honing specifically on generating independent Government estimates and performing market research over a three-day period from 2-4 May 2016 to all individuals responsible for generating a requirements package. Templates for generating an independent Government estimate, as well as, performing market research were provided to each attendee and posted on the command’s share portal.

**Recommendation B.1.c:** “train contracting officials on awarding contracts both under and over the simplified acquisition threshold.”

**Naval Oceanographic Office Contracting Department Response:** **Agree.** The intent of the Statement made by the Chief of Contracts was not to imply Contracting officials were incapable of executing contract actions greater than \$150,000. It was to simply state that the workforce experience had been limited without cross-training between teams and therefore, required longer to execute contract actions that were not within their normal skillsets.

The NAVOCEANO Contracting Department is in the process of developing cross-training efforts to mitigate risk of unfamiliarity of work requirements by developing the Contracting staff’s skill sets to execute contract actions regardless of the dollar amount or complexity of the procurement. These cross-training efforts will provide for a quicker recovery from disruptions caused by personnel turnover as all contracting staff will be able to seamlessly step into other roles ensuring any contract type is executed properly.

Enclosure (1)

## Acronyms and Abbreviations

---

<b>EARS</b>	Environmental Acoustic Recording System
<b>FAR</b>	Federal Acquisition Regulation
<b>GSA</b>	General Services Administration
<b>IDIQ</b>	Indefinite-Delivery Indefinite-Quantity
<b>IGE</b>	Independent Government Estimate
<b>MAC</b>	Multiple-Award Contract
<b>NAVOCEANO</b>	Naval Oceanographic Office
<b>OSCAR</b>	Ocean Surface Current Analyses-Realtime



# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

*The Whistleblower Protection Ombudsman's role is to educate agency employees about prohibitions on retaliation and employees' rights and remedies available for reprisal. The DoD Hotline Director is the designated ombudsman. For more information, please visit the Whistleblower webpage at [www.dodig.mil/programs/whistleblower](http://www.dodig.mil/programs/whistleblower).*

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

### **Congressional Liaison**

[congressional@dodig.mil](mailto:congressional@dodig.mil); 703.604.8324

### **Media Contact**

[public.affairs@dodig.mil](mailto:public.affairs@dodig.mil); 703.604.8324

### **For Report Notifications**

[www.dodig.mil/pubs/email\\_update.cfm](http://www.dodig.mil/pubs/email_update.cfm)

### **Twitter**

[www.twitter.com/DoD\\_IG](http://www.twitter.com/DoD_IG)

### **DoD Hotline**

[www.dodig.mil/hotline](http://www.dodig.mil/hotline)



DEPARTMENT OF DEFENSE | INSPECTOR GENERAL

4800 Mark Center Drive  
Alexandria, VA 22350-1500  
[www.dodig.mil](http://www.dodig.mil)  
Defense Hotline 1.800.424.9098

