

Audit



Report

SHIP REPAIR CONTRACTS AT SUPERVISOR OF SHIPBUILDING,
CONVERSION AND REPAIR, JACKSONVILLE, FLORIDA

Report No. 99-041

November 27, 1998

Office of the Inspector General
Department of Defense

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Acronym

SUPSHIPJAX

Supervisor of Shipbuilding, Conversion and Repair, Jacksonville,
Florida



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

November 27, 1998

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on Ship Repair Contracts at Supervisor of Shipbuilding,
Conversion and Repair, Jacksonville, Florida (Report No. 99-041)

We are providing this audit report for information and use. The audit was requested by Senator Strom Thurmond. Because this report contains no recommendations, no written comments were required, and none were received.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Joseph P. Doyle at (703) 604-9348 (DSN 664-9348) or Mr. Ronald W. Hodges at (703) 604-9340 (DSN 664-9340). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

David Steensma

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Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-041
(Project No. 8CK-5011)

November 27, 1998

**Ship Repair Contracts at Supervisor of Shipbuilding,
Conversion and Repair, Jacksonville, Florida**

Executive Summary

Introduction. This audit was requested by Senator Strom Thurmond, on behalf of a constituent, regarding four allegations that the Supervisor of Shipbuilding, Conversion and Repair, Jacksonville, Florida (SUPSHIPJAX), violated the Federal Acquisition Regulations when awarding ship repair contracts. Specifically, the allegations stated that SUPSHIPJAX did not allow a constituent an opportunity to respond to a negative performance evaluation. The negative evaluation effectively disbarred the constituent from competing on subsequent ship repair contracts in the Jacksonville area. The constituent also alleged that SUPSHIPJAX violated the Antideficiency Act and paid for work not performed. This report addresses three allegations. The fourth allegation regarding payment for work not performed is still being reviewed.

Objectives. The overall audit objective was to determine whether SUPSHIPJAX complied with the applicable Federal Acquisition Regulation and the Antideficiency Act when acquiring ship repair services. We also reviewed the management control program as it applied to the audit objective.

Results. SUPSHIPJAX complied with applicable Federal Acquisition Regulations in its evaluation of the constituent's performance. The allegations addressed in the audit report were unsubstantiated. Management controls were adequate as they applied to the audit objective.

Management Comments. We provided a draft of this report on October 19, 1998. Because this report contains no recommendations, written comments were not required, and none were received. Therefore, we are publishing this report in final form.

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Background

This audit was requested by Senator Strom Thurmond, on behalf of a constituent, regarding allegations that the Supervisor of Shipbuilding, Conversion and Repair, Jacksonville, Florida (SUPSHIPJAX), violated the Federal Acquisition Regulations (FAR) when awarding ship repair contracts. This report addresses three of the constituent's four allegations. The fourth allegation is still being reviewed.

SUPSHIPJAX is a field organization of the Naval Sea Systems Command. The primary mission of SUPSHIPJAX is to award and administer repair contracts for Navy ships at assigned commercial shipyards in the Caribbean as well as the states of Florida, Georgia, and South Carolina. Typically, repair contracts are awarded and administered by the SUPSHIPJAX contracting officer with assistance from various technical staff at SUPSHIPJAX. During FYs 1996 and 1997, SUPSHIPJAX awarded and administered about 550 contract actions valued at \$49.9 million. SUPSHIPJAX contracting officers primarily use guidance such as the FAR, the Defense FAR Supplement, and the Naval Sea System Command Contracting Manual to perform official duties.

In March 1997, SUPSHIPJAX began using past performance as a factor in evaluating contract awards using "best value" contracting methods. Best value contracting is the process used in competitive, negotiated contract awards to select the most advantageous offer by evaluating and comparing factors in addition to price, such as past performance. The FAR requires that, upon contract completion, the procuring agency prepare an evaluation of a contractor's performance for all contracts in excess of \$1 million (\$100,000 after January 1, 1998). Contractors should be given an opportunity to respond to each evaluation.

Objectives

The overall audit objective was to determine whether SUPSHIPJAX complied with the applicable Federal Acquisition Regulations and the Antideficiency Act when acquiring ship repair services. See Appendix A for a discussion of the audit process and our review of the management control program.

Compliance With Federal Acquisition Regulations

This report addresses allegations that SUPSHIPJAX did not follow established procedures when awarding ship repair contracts. Specifically, the report addresses allegations that SUPSHIPJAX refused a constituent an opportunity to respond to a negative performance evaluation, and that the negative evaluation effectively debarred the constituent from competing on ship repair contracts in the Jacksonville area. The allegations further stated that because of the negative evaluation, the constituent was unsuccessful in two subsequent bids for ship repair contracts. The report also addresses whether SUPSHIPJAX violated the Antideficiency Act regarding repairs on the U.S.S. Fahrion. Details of the allegations that were unsubstantiated follow.

Allegation 1. SUPSHIPJAX did not allow the constituent an opportunity to respond to a negative performance evaluation and, as a result, the constituent was unsuccessful in bids for two subsequent contracts.

Unsubstantiated. SUPSHIPJAX complied with existing FAR guidance and Navy procedures that allow contractors to respond to past performance evaluations under best value contracting methods. Navy procedures are consistent with FAR, subpart 42.1503, "Contractor Performance Information," that allows contractors a minimum of 30 days to submit comments, statements, or additional information in response to performance evaluations. The constituent received a negative performance evaluation on the U.S.S. Moosbrugger contract (BG-97-13) in May 1997. The constituent failed to comply with the established 30-day response requirement because comments arrived 5 months after the evaluation.

Allegation 2. SUPSHIPJAX's negative evaluation of the constituent's performance effectively debarred the constituent from competing on subsequent ship repair contracts in the Jacksonville area.

Unsubstantiated. SUPSHIPJAX considered the constituent for all contracts on which he bid. SUPSHIPJAX awarded the contracts based on best value, considering past performance and price. The constituent proposed the lowest price on two subsequent contracts, the U.S.S. Vicksburg and U.S.S. Hue City (Request for Proposals N62670-97-R-0009 and N62670-97-R-0010); that were awarded after he received the negative evaluation on the U.S.S. Moosbrugger. However, the constituent's failure to provide a timely rebuttal on the negative evaluation affected his overall rating on the awards. Several months after the constituent received the negative performance evaluation, SUPSHIPJAX awarded him a contract for repairs on the U.S.S. Kennedy (BG-98-02) and would have awarded him a second repair contract if the constituent had not increased his final bid price on that contract. The constituent also received a negative evaluation for repairs performed on the U.S.S. Kennedy. However, in this case, the constituent provided a timely rebuttal to the negative evaluation and SUPSHIPJAX changed the evaluation.

Allegation 3. SUPSHIPJAX violated the Antideficiency Act when it improperly issued verbal orders for repairs on the U.S.S. Fahrion without sufficient funds to cover the cost.

Unsubstantiated. We requested assistance from the Office of Deputy General Counsel, Inspector General, DoD, to determine the validity of this allegation. The Deputy General Counsel concluded that the SUPSHIPJAX contracting officer did not violate 31 United States Code, section 1517, the Antideficiency Act by using the Judgement Fund to pay a court judgement under the Contract Disputes Clause. The contract files showed that, after a year of wrangling and lawsuits between the parties, the U.S. District Court resolved the matter by issuing a judgement.

Appendix A. Audit Process

Scope

We reviewed SUPSHIPJAX contract awards for ship repairs. Specifically, we reviewed best value contracting policies and procedures that were used to evaluate ship repair contractors for FYs 1997 and 1998.

In performing the audit, we reviewed past performance evaluations and documents to support those evaluations for repairs on the U.S.S. Moosbrugger (BG-97-13) and U.S.S. Kennedy (BG 98-02). We also reviewed the request for proposal on the U.S.S. Hue City and U.S.S. Vicksburg (N62670-97-R-0009 and N62670-97-R-0010). We interviewed Naval Sea Systems Command and SUPSHIPJAX personnel involved in establishing procedures and evaluating contractor performance. We reviewed contract files and funding documents for the emergency repair contract on the U.S.S. Fahrion. We also interviewed the constituent.

Methodology

To determine whether SUPSHIPJAX complied with the Federal Acquisition Regulations on best value contracting, we compared applicable regulations with procedures used by SUPSHIPJAX to evaluate contractor performance. To determine whether the constituent was debarred by SUPSHIPJAX, we reviewed contracts awarded after SUPSHIPJAX implemented the use of contractor past performance information in best value award. To determine whether SUPSHIPJAX violated the Antideficiency Act, we reviewed SUPSHIPJAX budget and contract documents and related correspondence that covered the period from January 1995 through August 1998. In addition, we interviewed the Commander-in-Chief, U.S. Atlantic Fleet in Norfolk, VA and SUPSHIPJAX contracting and budget officials. We also requested assistance from the Office of the Deputy General Counsel, Inspector General, DoD.

— **DoD-wide Corporate Level Government Performance and Results Act Goals.** In response to the Government Performance and Results Act, the Department of Defense has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal.

Objective: Fundamentally reengineer DoD and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. (DoD-6)

General Accounting Office High Risk Area. The General Accounting Office has identified several high risk areas in the Department of Defense. This report provides coverage of the Defense Contract Management high risk area.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from February through September 1998 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and a ship repair contractor in Jacksonville, Florida. Further details are available upon request.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the SUPSHIPJAX Annual Command Evaluation and Review Plan for FYs 1997 and 1998 and the implementation of the SUPSHIPJAX management control program. Specifically, we reviewed management controls over contract management and administration. We also reviewed management controls over contractor performance and contract cost. Because we did not identify a material management control weakness, we did not assess management's self-evaluation.

Adequacy of Management Controls. Management controls over contract management and administration were adequate in that we identified no material management control weaknesses.

Summary of Prior Coverage

During the last 5 years, the Inspector General, Naval Sea Systems Command, Arlington, Virginia, issued one report titled, "Best Value Contracting Practices at Supervisor of Shipbuilding, Conversion and Repair, Jacksonville, Florida".

Appendix B. Report Distribution

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Superintendent, Naval Post Graduate School
Systems Management Department
Commander, Supervisor of Shipbuilding, Conversion and Repair, Jacksonville, Florida

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House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

Audit Team Members

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