

Audit

Report



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**PROCUREMENT PRACTICES AND PROCEDURES FOR
OBTAINING CONTRACTOR SUPPORT AT
DEFENSE FINANCE AND ACCOUNTING SERVICE-DENVER**

Report No. 98-132

May 8, 1998

Office of the Inspector General
Department of Defense

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Acronyms

AFB	Air Force Base
AT&T	American Telephone and Telegraph Technologies, Inc.
DEIS	Defense Enterprise Integration Services
DFAS	Defense Finance and Accounting Service
DFAS-DE/AN	Directorate of Systems and Procedures
DFAS-DE/ANI	Accounting and Integration Division
FAR	Federal Acquisition Regulation
FISC	Fleet Industrial Supply Center
FSO	Financial Systems Organization
IMAS	Interim Migratory Accounting System
JIEO	Joint Interoperability Engineering Organization
MIPR	Military Interdepartmental Purchase Request
PMR	Project Management Reporting



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

May 8, 1998

**MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE**

**SUBJECT: Audit Report on Procurement Practices and Procedures for Obtaining
Contractor Support at Defense Finance and Accounting Service-Denver
(Report No. 98-132)**

We are providing this report for information and use. This report is the second in a series involving contracting at the Defense Finance and Accounting Service. We conducted the audit in response to a complaint to the Defense Hotline.

Management comments on a draft of this report were considered in preparing the final report. The comments were responsive and conformed to the requirements of DoD Directive 7650.3; therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on this audit should be directed to Mr. Terry L. McKinney at (703) 604-9288 (DSN 664-9288) or Mr. Bruce A. Burton at (703) 604-9282 (DSN 664-9282). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 98-132
(Project No. 7CK-8009.01)

May 8, 1998

**Procurement Practices and Procedures for Obtaining
Contractor Support at Defense Finance and
Accounting Service-Denver**

Executive Summary

Introduction. This report is the second in a series involving contracting at the Defense Finance and Accounting Service. The first report (98-099) covered the use of a single contractor to perform contract reconciliation services for over 8 years (Appendix A). We performed the audit in response to a complaint to the Defense Hotline concerning contracting practices and procedures for obtaining contractor support, and funding of system development at Defense Finance and Accounting Service-Denver.

Audit Objectives. The primary objective was to determine whether the hotline complaint had merit. We also evaluated the management control program as it applied to the objective.

Audit Results. The allegations to the DoD Hotline had merit. Program officials responsible for projects involving acquisition and development of automated information systems under the cognizance of the Accounting Department engaged in questionable procurement practices when they directed the work to specific contractors without ensuring that the contractors offered the best value to the Government. Program officials also spent Government funds for a project that resulted in minimal benefits. In addition, the action of the Director, Defense Finance and Accounting Service-Denver to eliminate the appearance of a conflict of interest involving a high-level official was not effective. As a result, program officials did not compete procurements, resulting in higher prices that could have been 22 to 51 percent less than the contracted costs, and unnecessarily spent \$122,000 for the development of an unauthorized project. In addition, a potential conflict of interest continues to exist at Defense Finance and Accounting Service-Denver. See Part I for discussion of the audit results and Appendix A for details of the review of the management control program.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service: establish a team of headquarters procurement personnel that will perform a periodic review of the implementation of Defense Finance and Accounting Service Regulation 4200.1, "Acquisition Authority and Policy" to eliminate the recurrence of procurement problems addressed in the audit finding, and investigate and take appropriate actions against those personnel involved in directing improper contract awards and performing an unauthorized project.

Management Comments. The Defense Finance and Accounting Service agreed to establish a team of headquarters procurement personnel to accomplish a periodic review of DFAS Regulation 4200.1 implementation. This review will be completed by June 30, 1998. Defense Finance and Accounting Service also agreed with the recommendation to take appropriate action against those personnel involved in questionable contract practices, pending the outcome of an investigation by the Defense Criminal Investigative Service. See Part III for the full text of the management comments.

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Part I - Audit Results

Audit Background

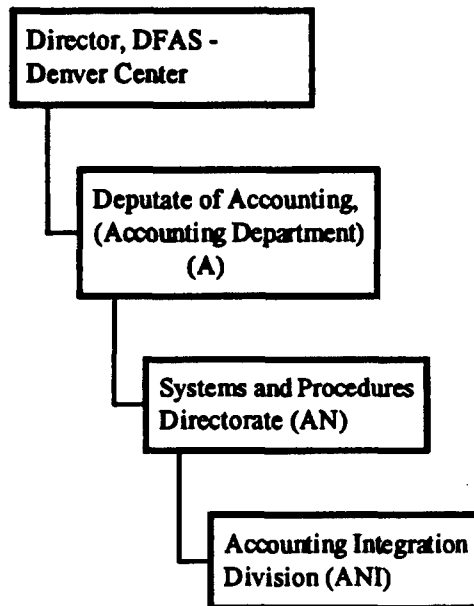
The review was performed in response to a complaint to the Defense Hotline. This report is the second in a series regarding complaints made to the Defense Hotline about the Defense Finance and Accounting Service (DFAS). This particular complaint addressed contracting practices and procedures for obtaining contractor support and funding of system development at the Department of Accounting, Defense Finance and Accounting Service-Denver.

Defense Finance and Accounting Service. DFAS was established in January 1991 to reduce the cost and improve the quality of DoD financial management by consolidating, standardizing, and integrating finance and accounting procedures, operations, and systems. In addition, DFAS identifies and implements finance and accounting requirements, systems, and functions for appropriated and nonappropriated funds, working capital funds, revolving funds, and trust funds. The ultimate goals are to streamline financial operations and services within DoD, eliminate redundancies, and initiate standard finance and accounting operations. DFAS assumed responsibility for all finance and accounting operations, including 332 associated installation finance and accounting offices. DFAS consists of a headquarters staff, 5 field centers and 17 operating locations.

The DFAS headquarters is organizationally accountable to the Office of the Under Secretary of Defense (Comptroller). The DFAS headquarters, located in Arlington, Virginia, provides centralized guidance, control, and oversight of finance and accounting operations at the centers and operating locations. Actual operations are decentralized and accomplished by the centers and operating locations. The five centers are located in Cleveland, Ohio; Columbus, Ohio; Denver, Colorado; Indianapolis, Indiana; and Kansas City, Missouri. In addition, the Financial Systems Organization (FSO) provides information technology support services to DFAS on a fee-for-service basis.

DFAS-Denver. DFAS-Denver performs centralized financial accounting and reporting for the Air Force and some DoD agencies. The center reviews and analyzes departmental-level financial data reports, and prepares yearend closing statements for certification by the Assistant Secretary of the Air Force (Financial Management and Comptroller). DFAS-Denver maintains pay systems for 1.9 million military personnel and disburses pay to approximately 300,000 DoD civilian personnel. DFAS-Denver also collects Government receivables owed to the Air Force. One of the divisions of DFAS-Denver is Accounting and Integration (DFAS-DE/ANI) in the Directorate of Systems and Procedures (DFAS-DE/AN), Deputate for Accounting (Department of Accounting).

The organization of DFAS-Denver which is addressed in this report is shown below:



DFAS-DE/ANI was established in 1994 to coordinate and integrate a 3-year effort to modernize and consolidate Air Force major command, departmental, field and unique accounting systems. DFAS-DE/ANI is designated as the office primarily responsible for configuration control of accounting systems managed by the Department of Accounting. Also, the division provides program management and contract administrative services for business and software process improvement.

Financial Systems Organization (FSO). FSO is a subordinate organization of DFAS and reports to the Headquarters Director of DFAS through the DFAS Deputy Director for Information Management. Currently, the Director of FSO and the DFAS Deputy Director for Information Management are the same person. FSO provides a wide range of information technology support services to DFAS and end-users, such as DFAS-Denver, on a fee-for-service basis. Services that FSO provides are the development and maintenance of automated information for finance and accounting missions, the integration of new technology into DFAS business processes, and management of the DFAS technology infrastructure. FSO also provides centralized support for DFAS information technology acquisition. DFAS requires coordination between FSO and proponents of project task orders, such as DFAS-DE/ANI, for services costing over \$25,000 to ensure that FSO is given the opportunity to bid on system development work before the proponents contract with another source.

Obtaining Contract Services. The Office of the Under Secretary of Defense, Director, Defense Procurement established DFAS as a contracting organization in November 1996. Prior to this, DFAS obtained contracting services from other DoD organizations and, in some cases, other Federal agencies. DFAS headquarters issues internal regulations and memorandums to instruct field organizations on procedures for acquiring goods and services. DFAS headquarters, in an effort to tighten contracting controls, obtained contracting services from the Fleet Industrial Supply Center (FISC), San Diego, California in 1994. If the DFAS field organizations did not use the Fleet Industrial Supply Center, San Diego as the contracting office, DFAS headquarters had to approve a waiver. DFAS headquarters also authorized all DFAS organizations to order goods and services from the Defense Information Service Agency's Defense Enterprise Integration Services (DEIS).

Audit Objectives

The primary objective was to determine whether the hotline complaint had merit. The audit process, including the review of the management control program, is found in Appendix A.

Obtaining Contractor Support for Acquisition and Development of Systems

Program officials responsible for projects involving acquisition and development of automated information systems within the Accounting Department at DFAS-Denver engaged in questionable procurement practices when they directed the work to specific contractors without ensuring that the contractors offered the best value to the Government. Officials also spent Government funds for a project without obtaining authorization or determining if other systems could have satisfied the requirement. In addition, actions by the DFAS-Denver Director to eliminate a potential conflict of interest involving a high-level official were not effective. These problems occurred because:

- program officials mistakenly believed that the award of delivery orders met the competition requirements of the Federal Acquisition Regulation (FAR) and, in certain cases, circumvented Federal procurement policies and procedures,
- program officials did not always use in-house contracting expertise, and
- DFAS-Denver management took insufficient action to eliminate a potential conflict of interest by a manager who had close ties to a contractor that was receiving much of the directed work.

As a result, contracts awarded to obtain support for the acquisition and development of information systems did not receive the benefits of competition and resulted in higher prices adding from \$1.8 million to \$3.7 million to the contracted costs. DFAS-Denver also unnecessarily spent \$122,000 for the development of the Project Management Reporting (PMR) system. In addition, a potential conflict of interest continues to exist.

Background

DFAS headquarters issued two memorandums to all DFAS elements and centers that identified the FISC, San Diego and the Defense Information Systems Agency as sources of contracting support. In a December 5, 1994 memorandum, DFAS called FISC its "contracting activity." As part of its contracting for DFAS, FISC, San Diego awarded contracts to four prime contractors, each with a team of subcontractors, in September 1996 as a multiple award acquisition. The contracts were designed to provide contractor support for DFAS automated systems development and maintenance efforts.

Obtaining Contractor Support for Acquisition and Development of Systems

In a November 20, 1993 memorandum, DFAS headquarters announced that all DFAS elements and centers could use the DEIS multiple awards contracts issued by the Defense Information Systems Agency. The DEIS contracts consisted of six prime contractors each with a team of subcontractors. The contracts provided a broad range of services such as program and project management; integration program management and development; integration and migration strategy; assessment support; integration prototyping and testing, training, documentation, and information dissemination; integration engineering and software development; and technical management planning. Use of the FISC, San Diego and DEIS contracts was intended to encourage competition and to meet the FAR requirements since each order issued would be competed between prime contractors.

Procurement of Contractor Support

Selecting Sources of Contractor Support. Despite DFAS headquarters designation of the FISC, San Diego as its contracting office, and the emphasis on the availability of the DEIS contracts, DFAS-Denver program officials, in most cases, obtained contractor support from organizations other than FISC and DEIS, including sources outside of DoD. Military Interdepartmental Purchase Requests (MIPRs) were issued to provide funds for contractor support contracts. Between September 1994 and June 1997, the DFAS-DE/AN issued MIPRs with a total value of \$23 million for 19 projects to different contract activities. The following table shows the different contracting organizations the program officials used and the total value of MIPRs issued.

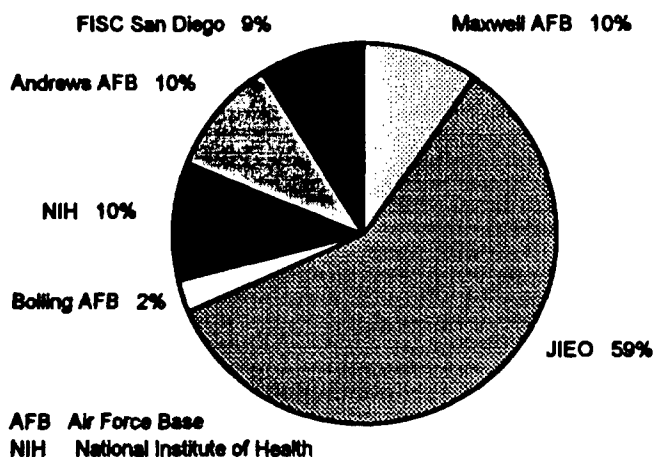
Table 1. Contracting Organizations and MIPR Awards

<u>Contracting Organizations</u>	<u>MIPR Amount</u>
Defense Fuel Supply Center	\$ 1,800,000
Department of Justice	847,000
Maxwell Air Force Base (AFB)	2,000,000
Joint Interoperability Engineering Organization (JIEO)	12,222,458
Bolling AFB	542,245
Andrews AFB	2,102,415
National Institute of Health	2,080,500
Fleet Industrial Supply Center, San Diego	<u>1,836,455</u>
Total	\$23,431,073

Choice of Contractor. Program officials were primarily responsible for selecting sources of contractor support and these officials used existing contracts to obtain specific contractors without competing the requirement. Program officials identified the contractor and contract to be used even before they

Obtaining Contractor Support for Acquisition and Development of Systems

submitted formal requests for procurement support. Contract files did not support the need to use contracting organizations other than FISC or the Defense Information Systems Agency DEIS contracts. Despite requirements, program officials also did not obtain waivers to use other contracting sources. This was especially significant since the division initiating these procurement actions was managed by the DFAS-DE/ANI chief who had a close relationship with a high ranking employee of Logicon Fourth Generation Technology (Logicon 4GT). Procurements showed a pattern of contract awards to this particular contractor. Logicon 4GT received contract awards for the vast majority of contractor support efforts and performed much of the work. The company provided support for 16 projects, either as a prime or subcontractor through contracts issued by the Joint Interoperability Engineering Organization (JIEO), Andrews, Bolling, and Maxwell Air Force Bases, and FISC, San Diego. The following graph shows work awarded to Logicon 4GT by buying organizations.



Percentage of Logicon 4GT Contract Awards

Examples of Logicon 4GT Contract Involvement. DFAS-DE/ANI procured contract support for the Interim Migratory Accounting System (IMAS) through issuance of a delivery order to American Telephone and Telegraph Technologies, Inc. (AT&T), under prime contract F19630-88-D-0005 with Maxwell AFB. The in-house contracting officer awarded the delivery order based on a request from the DFAS-DE/ANI chief. Logicon 4GT, a subcontractor, performed the work on the contract.

The JIEO contract DAAB07-91-D-B519 was selected to support eight projects for which Logicon 4GT performed the work as a subcontractor. This arrangement was unusual in that Logicon 4GT was not even included as a subcontractor when the U.S. Army Communications and Electronics Command awarded the contract. Logicon 4GT was added as a subcontractor after the DFAS-DE/ANI chief contacted the prime contractor, Logicon Eagle Technology, Inc., and JIEO for the support of the Transfer of Management

Obtaining Contractor Support for Acquisition and Development of Systems

Responsibility of Systems project. The support for the project was Logicon 4GT's initial effort under the JIEO contract. Thereafter, Logicon 4GT provided support for seven other projects.

A contract with Lockheed Martin Federal Systems, Inc. under a multiple contract arrangement with the FISC, San Diego also became a vehicle to obtain contractor support from Logicon 4GT. Logicon 4GT, as a subcontractor, performed most of the work to support the Budget and Accounting Classification Implementation project. During the award process of the contract with Lockheed Martin Federal Systems, Inc., DFAS-DE/ANI personnel went as far as changing evaluation criteria, inconsistently rating contractors, and poorly documenting contractors' rating to make an award to Lockheed Martin Federal Systems, Inc. where the subcontractor, Logicon 4GT, performed the work. Although Lockheed Martin Federal Systems, Inc.'s price was \$200,000 higher than another contractor, it received the award based on technical merit after the changed criteria.

In another procurement for the Negative Unliquidated Obligation project, DFAS-DE/ANI directed work through a Logicon 4GT prime contract with Bolling AFB and allowed the contractor to bill overhead and profit when the work was actually completed by Coopers and Lybrand. The award to Logicon 4GT was made despite the fact that a Defense Fuel Supply Center contract SPO600-95-D-5523 with Coopers and Lybrand, which was used in subsequent procurements, was already available for use and would have been more cost-effective.

As a result of these awards, the Government unnecessarily paid higher prices that included overhead and other additives that prime contractors charged for using their subcontractors. DoD also paid higher management fees when using certain buying offices that were not prescribed in headquarters instructions.

Use of JIEO Contract. Particularly illustrative of the questionable procurements was the DFAS-DE/ANI use of the JIEO contract DAAB07-91-D-B519. The DFAS-DE/ANI used this contract and issued a series of delivery orders to support eight projects. When officials initially decided to use the contract in November 1994 to support the Transfer of Management Responsibility of Systems project, DFAS-DE/ANI contacted the contractor before a formal request for support was submitted to JIEO. Also, although there was a requirement to coordinate with the FSO for contractor support procurements, four of the eight projects bypassed the FSO. The DFAS-DE/ANI chief and his staff contacted the JIEO directly and did not inform the FSO regarding the procurements for the four projects. Even when the FSO was informed of the procurements, the DFAS-DE/ANI chief still influenced the selection of the contractor. For example, in a memorandum sent to FSO from the chief of DFAS-DE/ANI on the acquisition strategy for the General Ledger/Fund Control project, the DFAS-DE/ANI chief stipulated that:

...the engineering, technical, and program support services for this concept design phase will be provided under an existing DISA Joint Interoperability Engineering Organization contract...

Obtaining Contractor Support for Acquisition and Development of Systems

The memorandum identified the contract number as DAAB07-91-D-B519, a contract with Logicon Eagle Technology, Inc., on which Logicon 4GT performed as a subcontractor. The only justification for using contract DAAB07-91-D-B519 as mentioned in the memorandum was ... "provide continuity of the IMAS work performed to date" ... (referring to the IMAS project that Logicon 4GT worked on as a subcontractor under Maxwell AFB contract F19630-88-D-0005 with AT&T). The FSO program officials concurred with the DFAS-DE/ANI program-official's decision to use the JIEO contract and they obtained approval from the FSO director for a request for contract support submitted to JIEO.

The DFAS-DE/ANI program official did not perform price analyses for any procurements to support that using the JIEO contract would be the most cost-effective or in the best interest of the Government, except for the General Ledger/Fund Control project. On this project, personnel prepared a price analysis that compared contractor costs under both the JIEO and DEIS contracts. Although the analysis showed that the DEIS contract price would be lower by 37 percent, the program official used the JIEO contract anyway. The program official did not ensure that the JIEO contractor provided the best value to the Government. In addition, procurement officials paid a 5 percent technical support fee to use the contract which was, in most cases, five times higher than fees of any other buying activities.

Procurement Costs

Competitive Versus Non-Competitive Procurement Costs. The program officials could have used FISC, San Diego or the DEIS contracts and reduced their costs by \$1.4 million to \$3.3 million on eight projects. Also, competition might have been achieved under the DEIS contracts since task orders issued could have been competed between the six DEIS contractors that received awards under a multi-award acquisition. The costs of the DEIS contracts were lower than the JIEO contract as indicated by the price analysis prepared by DFAS-Denver. The potential costs avoided do not include those instances where prime contracts were used to obtain certain subcontractors. Additional funds would have been available had DFAS-Denver contracted directly with subcontractors using competition and avoiding added burdens and profit of prime contractors. The following table shows a comparison of the labor costs under both the JIEO and DEIS contracts. See Appendix B for more detailed information.

Obtaining Contractor Support for Acquisition and Development of Systems

Table 2. Labor Cost Comparisons - JIEO/DEIS Contracts

<u>Project Title</u>	<u>JIEO Contract</u>	<u>DEIS Contract Labor Amount</u>		<u>Potential Cost Savings</u>	
	<u>Labor Amount</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
CFO Act	\$ 73,844	\$ 33,492	\$ 58,524	\$ 15,320	\$ 40,352
DCMS, Increment 1	1,301,660	595,202	984,757	316,903	706,458
DCMS, Increment 2	1,550,454	954,641	1,387,637	162,817	595,813
DJAS	821,667	375,653	627,029	194,638	446,014
GF/GL	300,390	139,010	259,526	40,864	161,380
GL/FC	1,557,842	712,698	1,126,806	431,036	845,144
MAFR CBT for DCS	283,582	128,790	222,255	61,327	154,792
TMR	<u>705,932</u>	<u>323,562</u>	<u>509,908</u>	<u>196,024</u>	<u>382,370</u>
Total	\$6,595,371	\$3,263,048	\$5,176,442	\$1,418,929	\$3,332,323

CFO - Chief Financial Officers

DJAS - Defense Joint Accounting System

GF/GL - General Funds General Ledger

GL/FC - General Ledger Funds Control

DCMS - Departmental Cash Management Systems

MAFR CBT for DCS - Merged Accountability and Fund Reporting Computer Based Training for Departmental Cash System

TMRS - Transfer of Management Responsibility of Systems

Additional Project Fees. The DFAS-DE/AN paid technical support fees for using other contracting organizations. DFAS-Denver's use of the JIEO and Bolling AFB contracts resulted in DoD paying more for choosing the contracting organization. DFAS-DE/AN paid total fees of \$563,264 to JIEO. Program officials could have better used at least \$330,080 for the eight projects had they used the DEIS contracts with a lower fee. Since DEIS charged a lower technical support fee of 2 percent, DFAS-DE/AN would have paid \$233,184. Also, DFAS-DE/AN unnecessarily paid a fee of \$53,258 for using a Bolling AFB contract to obtain a subcontractor, Coopers and Lybrand, in lieu of using Defense Fuel Supply Center contract SPO600-95-D-5523 in which Coopers and Lybrand was a prime. The Government could have better used \$383,338 had the program officials used the DEIS and Defense Fuel Supply Center contracts instead of JIEO and Bolling AFB.

Authorization of Work

Support for Unauthorized Project. Program officials used questionable procurement practices when they initiated the development of an unauthorized PMR system. This occurred when Logicon 4GT, a subcontractor and primary performer on the IMAS project, agreed to perform work on the PMR project under the IMAS project contract. DFAS-DE/ANI personnel could provide only

Obtaining Contractor Support for Acquisition and Development of Systems

minimal documentation for the PMR project, and these documents did not show that DFAS-DE/ANI had a valid need or that the project was legitimately approved. In addition, DFAS-DE/ANI personnel could not provide approval documentation for the development of the PMR project. According to a DFAS-Denver employee, the project was eventually canceled after the Government spent \$122,346. However, we could not confirm the cancellation of the project because documentation was unavailable. As a result, \$122,346 was spent on a project that apparently provided little or no benefit.

PMR Project. The evidence supporting the development of the PMR project was incomplete because paperwork was unavailable, in addition to a general inability of personnel integral to the system's development to recall specific details. DFAS-DE/ANI initiated development of the PMR project to automate the processes most commonly performed by the office staff. Some of these processes included: budget execution, project management reporting, audit deficiency tracking, and the preparation of funding documents. According to the DFAS-DE/ANI support personnel, the idea for the PMR system began when the chief of DFAS-DE/ANI announced an initiative to evaluate the development of a central database in an office memorandum dated December 22, 1994. The memorandum was issued to various offices within the DFAS-Denver Center to request a meeting with office representatives to gather requirements and analyze alternatives. The memorandum stated:

The Accounting and Integration (DFAS-DE/ANI) has been designated as the office of primary responsibility for configuration control for accounting systems managed by the Deputy Director for Accounting. This includes responsibility for the Denver Center's Interim Migratory Accounting Systems (IMAS) Project, Migratory Accounting Systems, and Legacy Accounting Systems. In addition, DFAS-DE/ANI serves as a central point to integrate various projects and reports for DFAS-DE/AN. To perform these responsibilities we are evaluating the development of a central data base to more efficiently respond to taskings and eliminate extensive manual and dual reporting within DFAS-DE/AN.

We could find no basis other than this memorandum to justify the project. We interviewed DFAS-DE/ANI personnel including the DFAS-DE/ANI chief, project officers, and other support personnel. The DFAS-DE/ANI personnel could provide only minimal information about the project. During our interviews, the project officer stated that he could not remember details about the project and referred us to another project officer who was responsible for the IMAS project. The IMAS project officer was unable to provide information and she referred us to the DFAS-DE/ANI chief. The DFAS-DE/ANI chief stated he could not recall the details of the project and again referred us to the DFAS-DE/ANI support personnel. The documents on file indicated a PMR project was being developed. The documents included two copies of PMR biweekly status reports for the periods May 8, 1995 through May 19, 1995, and May 22, 1995, through June 2, 1995. One of the status reports mentioned that the PMR project plan was delivered at a meeting held on May 8, 1995, at

Obtaining Contractor Support for Acquisition and Development of Systems

DFAS-Denver where representatives from DFAS-DE/ANI and Logicon 4GT were in attendance. Also, Logicon 4GT delivered a PMR system detail design document to DFAS-DE/ANI on July 20, 1995. We requested a copy of the PMR project statement of work, but DFAS-DE/ANI personnel could not provide one. Even with the lack of supporting documentation for the project, we found evidence that tasks for this project were completed under the IMAS contract. DFAS needs to fully investigate the circumstances of the procurement and take appropriate action.

Cost of IMAS Project Contract. The IMAS project costs included taskings the contractor performed for the PMR project. The in-house contracting officer awarded a delivery order under Maxwell AFB contract F19630-88-D-0005 on September 7, 1994, for \$1,999,542 to AT&T. The contracting officer made the award to AT&T based on a request from the DFAS-DE/ANI chief. Logicon 4GT performed most of the work as a subcontractor and provided support for integration and migration analysis, and concept documentation to implement IMAS. Taskings to accomplish these requirements were identified in the IMAS statement of work. The statement of work identified a total of nine taskings. The in-house contracting officer confirmed that no additional taskings were issued for the IMAS project. The total bills the Government received and paid to AT&T for the IMAS contract amounted to \$1,999,542. Since this was a time-and-material contract, the AT&T bills detailed labor categories and hours expended. The AT&T bills did not provide detailed information on task billings. However, during our review of the IMAS project folders, we found that the files included copies of invoices that Logicon 4GT submitted to AT&T. The invoices showed that Logicon 4GT billed AT&T for 14 tasks. Since the IMAS project contained only 9 tasks, we presented the discrepancy to the DFAS-DE/ANI personnel but, they could not provide an explanation or documentation for the additional tasks valued at \$122,346. We believe DFAS-DE/ANI incurred the additional costs for the PMR documents Logicon 4GT delivered, and that the unexplained tasking costs of \$122,346 were attributable to the PMR project.

Procurement Policies

Federal Acquisition Regulation. FAR, Part 2 defines a contract as a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the Government to spend appropriated funds such as awards and notices of awards, job orders or task letters issued under basic ordering agreements; letter contracts, orders, and bilateral contract modifications.

Use of Delivery Orders. Program officials used delivery orders on existing contracts as the vehicle for obtaining contractor support. According to FAR, Part 2, since these were time-and-material contracts, an order is also a contract

Obtaining Contractor Support for Acquisition and Development of Systems

that obligates the Government to spend appropriated funds. Thus, a delivery order, just as any type of contract, must meet the FAR requirements prior to award. The program officials considered delivery orders to be competed and in accordance with the FAR. Their conclusion was based on the premise that the existing contracts were awarded competitively.

Competition. FAR, Part 6 requires competition for all acquisitions with some exceptions. In delivery order awards, even though the basic contract was competitively awarded, the FAR exempts competition only when all responsible sources were realistically permitted to compete for the requirements contained in the order. However, this was not enforced with the delivery orders placed on existing contracts for the support of projects for which DFAS-DE/AN was responsible. Each delivery order issued for the projects contained new requirements that were not considered during the award of the contracts, and all responsible sources were not given the opportunity to compete. In addition, final pricing for the orders was not established until the orders were awarded. Therefore, the contract support organizations misinterpreted the regulations and did not competitively award the delivery orders. As a result of their misinterpretations, these officials did not perform other essential elements of the procurements.

Market Research. FAR, Part 10 requires that market research be performed to identify all possible sources before soliciting proposals for contracts valued at more than \$100,000. Although each of the procurements was valued at \$100,000 or more, our review of the project files at the DFAS-DE/AN found no indications that market research was performed. The absence of market research was the result of the program managers' conscious decisions to make awards on existing contracts for selected contractors. The delivery orders were awarded without considering other possible sources.

Price Analysis. Price analysis techniques are used to evaluate contractor proposals. The analysis is usually aided by independent Government cost estimates that reflect the realistic price of a proposed acquisition. DFAS-DE/AN procurements, particularly those that used the JIEO contract, contained no price analyses to support the reasonableness of delivery order awards, except one General Ledger/Fund Control project. In addition, the contract required negotiations before issuing each delivery order. Contracting officials could provide no evidence of such negotiations and, in the absence of independent price analyses, all of the proposed prices were accepted with no reduction. Therefore, the Government could not ensure the reasonableness of prices for the award of the delivery orders.

Justifications. FAR, Part 6.303 requires that technical and requirements personnel provide and certify accurate and complete data to support their recommendation for other than full and open competition. The FAR also requires, in Part 6.304, that justification for other than full and open competition shall be approved in writing. Although other documents in the project files cited either "continuity of work" or "time constraint" as the reason for selecting a particular contractor, none of the project files contained formal

Obtaining Contractor Support for Acquisition and Development of Systems

justification documents to support decisions. Without the justifications, program officials could not substantiate that the award of delivery orders provided the best value to the Government.

Secretary of Defense Memorandum "Use of Orders Under the Economy Act," February 8, 1994. The memorandum addresses the DoD policy on issuance of Economy Act orders to other Government agencies, otherwise known as "contract offloading." The Economy Act (31 U.S.C. 1535), as provided in FAR, Part 17.5, allows a requiring agency to place an order with another agency for supplies or services when the other agency is in a position to supply, render, or obtain; if formally determined to be in the Government's best interest. In his memorandum, the Secretary of Defense stated:

Before an Economy Act order is released outside of DoD for contracting action, the head of the requesting agency or designee shall determine that:

- o the ordered supplies or services cannot be provided as conveniently and cheaply by contracting directly with a private source;
- o the servicing agency has unique expertise or ability not available within DoD; and
- o the supplies or services clearly are within the scope of activities of the servicing agency and that agency normally contracts for those supplies or services for itself.

The Secretary of Defense also stated that, if the servicing agency is required to comply with the FAR, a written determination shall be prepared by the requesting agency and, if delegated by the head of the requesting agency, approved at a level no lower than that of SES, or Flag or General Officer at the requesting organization. If the requesting organization does not have a SES, Flag or General Officer, the commander of the organization shall approve the written determination. In cases where the servicing agency is not required to comply with the FAR, the Secretary of Defense requires that the written determination must be approved by the senior procurement executive of the requesting agency.

DFAS Issuance of Economy Act Orders. Program officials did not comply with DoD policy on the use of orders under the Economy Act when they obtained contractor support for three projects from two contract organizations outside of DoD. DFAS-DE/AN obtained contractor support for the projects called Vendor Pay Reinvention Program and Job Order Cost Accounting System II through a contract awarded by the Department of Justice to KPMG Peat Marwick LLP. DFAS-DE/AN issued three MIPRs totaling \$847,000. KPMG Peat Marwick LLP's efforts to support the Vendor Pay Reinvention Program involved four major tasks: monitoring the pilot program, supporting statistical sampling process, conducting financial risk assessment, and providing biweekly status reports. DFAS-DE/AN also used a National Institute of Health contract to obtain contract support for the Defense Cash Management System,

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Increment 3 project, for which DFAS-DE/AN issued a MIPR with a value of \$2,080,500. DFAS-DE/AN issued the MIPR to the DFAS headquarters who then issued the Economy Act order to the National Institute of Health. The contractor, Logicon 4GT, provided follow-on support to the project as it was the provider of support for the Defense Cash Management System, Increments 1 and 2 projects DFAS-DE/ANI obtained through a JIEO contract. There was no doubt that the services DFAS-DE/ANI obtained from Department of Justice and National Institute of Health contractors could have been performed within DoD. The multiple award contracts FISC, San Diego awarded in 1996 listed KPMG Peat Marwick LLP and Logicon as subcontractors under one of four prime contracts. Also, subcontractors under the multiple award contracts were selected because of their capabilities to perform a wide range of DFAS tasks. Therefore, the services DFAS-DE/ANI obtained outside of DoD could not be classified as "unique expertise" or "ability not available within DoD." Project document files did not show any written evidence that a determination was made, and that approval was obtained from the DFAS Director or his designee, before DFAS-DE/AN issued the Economy Act orders to Department of Justice and National Institute of Health. In addition, DFAS-DE/ANI personnel could provide no evidence that they met the requirements of the Secretary of Defense memorandum.

DFAS In-House Contracting and Legal Personnel

DFAS Regulation 005 "Delegation of Statutory Authority," Change 13, November 14, 1994. The regulation encompassed the DFAS procurement policy applicable to DFAS-DE/AN projects reviewed. The regulation required that all procurement actions should be processed through central procurement offices established at the DFAS centers and headquarters. Also, it required that all contracts and delivery orders for acquisitions over \$10,000, including modifications of such documents, should be reviewed for legal sufficiency by the DFAS Office of General Counsel. Subsequently, DFAS issued DFAS Regulation 4200.1, "Acquisition Structure and Policy," on June 2, 1997, which similarly prescribes DFAS procurement policy, but under a modified authority and structure. The new regulation provides DFAS headquarters with a more centralized authority, but did not eliminate the central procurement offices at the centers. Currently, it would be too early to tell whether the new regulation would result in strengthened controls over DFAS-Denver procurement operations.

Involvement of In-House Contracting and Legal Personnel. Program officials bypassed the in-house contracting and legal personnel in the procurement process for obtaining contractor support despite the DFAS regulation. Only 4 of 16 procurements made by DFAS-DE/AN had documentation of in-house contracting and legal personnel reviews. Their review was vital to the process because it served as an integral part of internal management control that addressed the procurement and legal aspects of the acquisition. For example, the in-house contracting officer would serve as an independent evaluator to ensure the validity of procurement actions in accordance with DFAS and federal regulations. According to the contracting

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officer and legal personnel, they did not review procurement documents because the responsible project officers and program officials did not submit the procurement packages. No supporting documents were contained in the files to explain the rationale for bypassing the in-house contracting officer and legal personnel.

Even when DFAS-Denver officials did not bypass in-house contracting staff, DFAS-Denver was not always successful in scrutinizing procurement actions. Requests that actually did reach the central procurement office were not reviewed for completeness. For example, as a part of procurement packages, DFAS-DE/AN issued three MIPRs valued at \$847,000 to the Department of Justice between November 1996 and February 1997. Only two of the MIPRs were processed through the DFAS-Denver contracting office. The contracting officer did not properly review the packages for either MIPR. Had a review been completed, it would have determined that a waiver was not obtained for the procurement of services. The contracting officer, at first, mistakenly believed that he had not seen the packages and stated that he would have closely scrutinized a request to use the Department of Justice. However, once it was determined that he had signed off on the packages, the contracting officer then stated that there was a lack of personnel in the contracting office to do an adequate review of each funding document. Although controls were put in place, at least one directorate did not completely adhere to the regulation and when the directorate did adhere to the regulation, the contracting office did not always do its job properly. Controls in place to oversee procurement awards were not working and need to be strengthened. We believe that because of a pattern of directing awards to selected contractors, DFAS-Denver staff were not able to render impartial decisions involving awards and these decisions need to be moved to DFAS headquarters.

Potential Conflict of Interest

The number of contract awards to Logicon 4GT, and the DFAS-DE/ANI chief's involvement in the PMR project were particularly disturbing in light of the chief's relationship with the Denver branch manager of Logicon 4GT. Since 1994, DFAS-DE/ANI has paid Logicon \$20.7 million for various contracts.

Relationship. The DFAS-DE/ANI chief and a Logicon 4GT Denver operations manager, the highest ranking Logicon official at Denver, have had a social relationship since June 1984 when both worked for the Government. The Logicon 4GT employee left the Government in August 1989 and began working for Logicon 4GT in June 1991. In September 1994, the work on the IMAS, the first of the 12 projects we reviewed that Logicon 4GT supported, was given to Logicon 4GT through a Maxwell AFB contract with AT&T. The delivery order award to AT&T was made based on a request from the DFAS-DE/ANI chief. The DFAS-DE/ANI chief and the Logicon 4GT employee became brothers-in-law in July 1996 and it was at this time that the DFAS-DE/ANI chief's supervisor requested that the general counsel review the relationship.

Legal Review. The DFAS-Denver general counsel found that the relationship between the DFAS-DE/ANI chief and the Logicon 4GT employee constituted a

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“covered” relationship (a relative with whom the employee has a close relationship). On November 25, 1996, the general counsel recommended the DFAS-DE/ANI chief be transferred from his position. The general counsel stated that he believed a reasonable person would question the DFAS-DE/ANI chief’s impartiality in dealings with Logicon 4GT, and that unless a determination was made that the Government interest outweighed impartiality concerns, the ethics regulations required that the DFAS-DE/ANI chief be disqualified from acting in current matters involving Logicon 4GT. The general counsel also pointed out that he could foresee other problems, most notably that of the DFAS-DE/ANI chief receiving a personal gift from the Logicon 4GT employee which could violate FAR 52.203-3, prohibiting contractors from offering gratuities and gifts to Government employees. By the time the legal counsel made the review, the contracts for the support of 12 projects that Logicon worked on had already been awarded.

DFAS-Denver Action. After waiting 5 months from issuance of general counsel opinion, the DFAS-Denver Director, to comply with the general counsel recommendation, moved the DFAS-DE/ANI chief from the Accounting and Integration Division to the Department of Accounting as the Deputy Director, a more prestigious position. At the time this occurred, the position of Deputy Director was two management levels above the Accounting and Integration Division. However, in the reorganization that occurred in October 1997, the Department of Accounting is one management level above his original position. This individual remained in direct line of command and still in a position to influence future procurements. DFAS-Denver management did not seek a legal opinion of this latest personnel action. Then, in December 1997, and because of this audit, the individual was reassigned as the division chief of the General Procedures and Systems Division, Department of Accounting. However, according to the position description, this person still remained in a position to influence future procurements, thereby, weakening internal controls. In any regard, the employee still remains in a high-level position with the ability to influence procurements involving Logicon 4GT.

Conclusion

Program officials engaged in questionable procurement practices that included directing work to a selected contractor, procuring unauthorized work, and unnecessarily offloading contract work outside of the DoD. The DFAS-Denver Director also did not take sufficient action to eliminate a conflict of interest situation. As a result, DoD may have overpaid between \$1.9 million and \$3.8 million for contract support services. In addition, controls were not in place to prevent future problems with procurements.

Recommendations and Management Comments

We recommend that the Director, Defense Finance and Accounting Service:

1. Establish a team of headquarters procurement personnel that will perform a periodic review of the implementation of Defense Finance and Accounting Service Regulation 4200.1, "Acquisition Authority and Policy," to eliminate the recurrence of procurement problems addressed in the audit finding.

2. Investigate and take appropriate actions against those personnel involved in directing improper contract awards and performing an unauthorized project.

DFAS Comments. DFAS concurred with both recommendations. See Part III for the full text of management comments.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

Audit Scope. Our review focused on the procurement actions of the DFAS-DE/AN. Between 1994 and 1997, DFAS-DE/AN issued military interdepartmental purchase requests totaling \$23.4 million to 8 contracting organizations to obtain contractor support for 19 projects using 3 contractors. Specifically, we reviewed DFAS-DE/AN procurement procedures for the 16 projects valued at \$20.7 million and the associated project files located at DFAS-Denver. We also examined the project and contract files associated with the eight projects at JIEO, Fort Monmouth, NJ. Additionally, we examined the project and contract files kept at FSO for the eight projects that used the JIEO contract and one project that used the Defense Financial Integrated Systems Services contract. We interviewed programming, contracting, functional, and technical personnel located at DFAS-Denver and DFAS-FSO, Indianapolis. We also interviewed contracting personnel at JIEO, Fort Monmouth, NJ. We reviewed records and documentation dating from 1994 through 1997.

Audit Period, Standards and Locations. We performed this economy and efficiency audit from March 1997 through September 1997 in accordance with audit standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included a review of management controls considered necessary. No statistical sampling procedures or computer processed data were used during the audit.

Contacts During the Audit. We visited or contacted contractor personnel and individuals and organizations within DoD. Further details are available upon request.

Management Control Program

DoD Directive 5010.38 "Management Control Program," as revised 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 management control procedures relating to procurement of contractor support services at DFAS-DE/AN and the contracting office at DFAS-Denver.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Directive 5010.38. DFAS-Denver management controls were not adequate to prevent program officials from directing sources of procurements and developing an unauthorized project. DFAS personnel did not adhere to procurement policies and procedures in awarding procurements. In addition, control weaknesses still exist concerning separation of functions. Recommendation 1, if implemented, will improve contractor support procurement procedures and prevent program officials from making decisions concerning contract awards. A copy of the report will be provided to the senior official responsible for management controls at DFAS.

Management's Self Evaluation. A branch within DFAS-DE/ANI completed a risk assessment in February 1997 but no management control reviews were completed because DFAS-DE/ANI was only formed in 1994 to modernize and consolidate field, departmental, and Air Force major command-unique accounting systems which made DFAS-DE/ANI not accountable in the 5-year cycle within which control reviews are required. The contracting office did not perform a self evaluation because that section was not considered an assessable unit.

Prior Audit

Inspector General, DoD, Report 98-099, "Audit of the Continued Use of a Single Contractor for Contract Reconciliation Work," April 2, 1998. The report states that from 1989 through 1997, the Defense Logistics Agency and the Defense Finance and Accounting Service did not plan the scope or depth of reconciliation services and continuously used Coopers and Lybrand to obtain these services. The Defense Logistics Agency and the Defense Finance and Accounting Service established initial contact with Coopers and Lybrand when it was a subcontractor on an existing sole-source contract. The Defense Logistics Agency and the Defense Finance and Accounting Service awarded Coopers and Lybrand two additional contracts by issuing sole-source awards claiming unusual and compelling urgency and uniqueness of capabilities for performing the work. As a result, DoD has no idea of the reconciliation requirements and has allowed one contractor to be the sole provider of reconciliation services for over eight years. In addition, DoD lost the benefits that result from contract competition. Recommendations were directed to the Under Secretary of Defense (Comptroller), to establish an independent panel to determine the extent of reconciliation services, and within six months to arrange for a competitive acquisition using firm-fixed price or incentive award contracts, and terminate the current reconciliation services contract. We also recommended that the Directors of the Defense Logistics Agency and the Defense Finance and Accounting Service review the circumstances of the procurement and take appropriate action against any personnel involved in using inappropriate justifications to award contracts.

Appendix A. Audit Process

The Defense Finance and Accounting Service agreed to review applicable staff actions and take appropriate action against those involved in using inappropriate justifications to award contracts. The Defense Logistics Agency felt that it did a good job of planning for reconciliation contracts given the circumstances of not knowing the scope and depth of work for which it was contracting. The Defense Logistics Agency stated it had reviewed applicable staff actions and determined that no action was warranted for the acquisition officials involved.

The Office of the Inspector General, DoD, disagreed that the Defense Logistics Agency did an adequate job planning reconciliation services procurement and stated the response was unacceptable because the Defense Logistics Agency failed to accept responsibility. The Defense Logistics Agency was requested to reconsider its position and provide additional comments to the final report. The Defense Finance and Accounting Service was asked to provide comments explaining when it will complete a review of staff actions.

Appendix B. Contractor Labor Costs Comparison

Project Title	Number JIEO Contract of Labor Hours ¹	DEIS Contracts Labor Costs										Potential Cost Savings ²	
		Hours	Cost	BDM	Boeing	CSC	EDS	Lockheed Martin	Unisys	Minimum	Maximum	Minimum	Maximum
CFO Act	928	\$ 73,843.52	\$ 36,852.04	\$ 33,492.04	\$ 36,414.88	\$ 58,523.84	\$ 41,323.48	\$ 38,723.44	\$ 15,319.68	\$ 40,351.48			
DCMS, Increment 1	15,524	1,301,660.04	643,250.70	595,201.80	792,993.60	984,756.70	710,810.42	684,687.86	316,903.34	706,458.24			
DCMS, Increment 2	18,017	1,550,453.63	991,736.04	1,016,861.15	1,387,636.99	954,640.36	1,032,513.55	1,043,465.07	162,816.64	595,813.27			
DJAS	9,799	821,666.99	406,983.03	375,653.30	488,850.52	627,028.71	450,935.76	433,042.40	194,638.28	446,013.69			
GF/GL	3,319	300,390.40	144,145.31	139,010.69	259,526.27	199,371.65	152,829.88	156,593.80	40,864.13	161,379.71			
GL/FC	19,000	1,557,842.00	778,633.20	712,697.60	992,672.80	1,126,806.00	839,227.20	816,264.80	431,036.00	845,144.40			
Departmental													
MAFR CBT for DCS	3,536	283,582.08	141,148.20	128,790.12	146,932.16	222,254.88	157,706.84	148,632.24	61,327.20	154,791.96			
TMRS	8,319	705,932.10	344,846.79	323,561.61	488,946.09	509,907.87	375,411.72	368,643.78	196,024.23	382,370.49			
Total		\$6,595,370.76							\$1,418,929.50	\$3,332,323.24			
Percentage of Savings									22%	51%			

Acronyms:

- CFO - Chief Financial Officers
- DJAS - Defense Joint Accounting System
- GF/GL - General Funds General Ledger
- GL/FC - General Ledger Funds Control
- DCMS - Departmental Cash Management Systems
- MAFR CBT for DCS - Merged Accountability and Fund Reporting Computer Based Training for Departmental Cash System
- TMRS - Transfer of Management Responsibility of Systems

¹Hours spent on mostly used labor categories such as Computer Systems Analysts - Senior, Mid, and Junior Levels.

²Compared the JIEO cost to the highest cost under the DEIS contract.

³Compared the JIEO cost to the lowest cost under the DEIS contract.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Deputy Under Secretary of Defense (Acquisition Reform)
Director, Defense Logistics Studies Information Exchange
Director, Defense Procurement
Under Secretary of Defense (Comptroller)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
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Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
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Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, Defense Finance and Accounting Service
Director, National Security Agency
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Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
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House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Technology
House Subcommittee on National Security, International Affairs, and Criminal Justice,
Committee on Government Reform and Oversight
House Committee on National Security**

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Part III - Management Comments

Defense Finance and Accounting Service Comments



DFAS-HQ/C

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291


APR 14 1998

MEMORANDUM FOR DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE,
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Procurement Practices and Procedures for Obtaining Contractor Support at
Defense Finance and Accounting Service - Denver (DoDIG Project No.
7CK-8009.01), February 11, 1998

Attached you will find our comments on the findings and recommendations documented
in the subject draft audit report.

My point of contact is Mr. Gary Maxam, DFAS- ASO/C, (703) 607-5709.


Bruce M. Carnes
for Director of Resource Management

Attachment
As stated

Defense Finance and Accounting Service

Project No. 7CK-8009.01
4/2/98

Recommendation 1. Establish a team of headquarters procurement personnel that will perform a periodic review of the implementation of Defense Finance and Accounting Service Regulation 4200.1, "Acquisition Authority and Policy" to eliminate the reoccurrence of procurement problems addressed in the audit finding.

DFAS Response: Concur with the establishment of a team of headquarters procurement personnel to accomplish a periodic review of DFAS Regulation 4200.1 implementation. This team will complete their review prior to June 30, 1998. Through the DFAS Acquisition Support Organization, now in its second year of operation, our contracting procedures will receive the unbiased review necessary to preclude similar situations.

Recommendation 2. Investigate and take appropriate actions against those personnel involved in directing improper contract awards and performing an unauthorized project.

DFAS Response: Concur with this recommendation. I understand an investigation by the Defense Criminal Investigative Service is already in process; therefore, to avoid duplication of effort, I will not initiate a separate investigation. However, I support and stand ready to assist the DCIS investigation. If this investigation leads to substantiated wrong doing on the part of the Defense Finance and Accounting Service - Denver Center personnel, DFAS will take the appropriate corrective/administrative action.

Audit Team Members

This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

**Paul J. Granetto
Terry L. McKinney
Bruce A. Burton
Arsenio M. Sebastian
LaNita C. Matthews
John A. Seger
Monica S. Rice
Ana M. Myrie**

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