

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

DOD HOTLINE ALLEGATIONS ON ARMY USE OF
A COMPUTER CONTRACT

Report No. 94-010

October 29, 1993

20000417 092

Department of Defense

DISTRIBUTION STATEMENT A

Approved for Public Release
Distribution Unlimited

DTIC QUALITY INSPECTED 2

ARJ00-07-1751

This report was prepared by the Contract Management Directorate, Office of the Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate (703) 614-6303 (DSN 224-6303).

Acronyms

DCAA
EDS
GSA

Defense Contract Audit Agency
Electronic Data Systems Corporation
General Services Administration



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884**

Report No. 94-010

October 29, 1993

**MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (COMMAND,
CONTROL, COMMUNICATIONS, AND
INTELLIGENCE)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY**

**SUBJECT: Audit Report on DoD Hotline Allegations on Army Use of a Computer
Contract (Project No. 3CK-8018)**

Introduction

We are providing this final report for your information and use. The report discusses DoD Hotline allegations about the Army use of computer contract DAHC94-90-D-0012 with Electronic Data Systems Corporation (EDS). The complainant alleged that the Army was buying computers not authorized by the contract, that lower prices could be obtained by buying from other contractors, and that contracting officers were using the contract to avoid going through the waiver process to use other contractors to acquire computers. In July 1990, the Army Information Systems Selection and Acquisition Agency (the Agency), Alexandria, Virginia, issued contract DAHC94-90-D-0012, with an estimated value of \$1.3 billion, to EDS to procure small multi-user computers, modems, printers, software, maintenance services, and training. The three allegations were not substantiated.

Objectives

The objectives of the audit were to determine whether the Army improperly used contract DAHC94-90-D-0012 to buy computers not authorized by the contract, whether lower prices could have been obtained from other available computer contractors, and whether contracting officers were using the contract to avoid paperwork required to obtain a waiver to use other contractors.

Scope

We reviewed the Army and the EDS contract files, pricing data, and vendor selection information for contract DAHC94-90-D-0012. We interviewed responsible EDS and contracting officials at the Agency and at the Defense Supply Service-Washington. We also interviewed personnel at the Army, the Navy, and the Defense Logistics Agency central order processing offices and reviewed delivery orders issued on the EDS contract. A computer-generated list of accepted delivery orders obtained from the Agency was used and determined to be generally reliable. We sampled 63 delivery orders, totaling \$10 million, from a universe of 752 delivery orders, valued at \$28 million, issued between March 1 and June 3, 1993. Each of the delivery orders reviewed was valued at more than \$4,500, the average cost of a small multi-user computer.

This economy and efficiency audit was made from May 1993 through August 1993 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary. Enclosure 2 lists the organizations visited or contacted during the audit.

Internal Controls

We evaluated the effectiveness of the internal controls at the Agency applicable to the procurement of small multi-user computer systems, modems, printers, and MS-DOS software. This evaluation consisted of reviews of the contract, the vendor selection criteria, the delivery order process, and the contract modifications. The internal controls applicable to the audit objectives were considered to be effective. The audit disclosed no material deficiencies.

Prior Audits and Other Reviews

The Inspector General, DoD, has performed two audits and one review pertaining to the audit objectives. In addition, the Defense Contract Audit Agency (DCAA) performed a pricing audit and a follow-up review to the audit report on contract DAHC94-90-D-0012. See Enclosure 1 for details on prior audits and other reviews.

Background

In July 1990, the Agency competitively awarded contract DAHC94-90-D-0012 to EDS to procure small multi-user computer systems, modems, printers, and MS-DOS software. The contract was awarded for 1 basic year, 4 option years, and 3 additional years for maintenance service. The contract allows the Army, the Navy, the Defense Logistics Agency, the Defense Finance and Accounting Service, and the Defense Commissary Agency to order from the contract.

Contract DAHC94-90-D-0012 with EDS is an indefinite-delivery, indefinite-quantity contract. The contract allows flexibility in terms of scheduling, quantity, minimizing stock levels, and shipping directly to users. The EDS contract is a firm-fixed price contract that requires a minimum purchase of 40 multi-user computers. The maximum number of computers that can be purchased off the contract is 20,000 multi-user computers or \$1.3 billion of computer equipment, software, maintenance service, and training. As of June 1993, the contract was in its third option year and had \$480 million in delivery orders processed.

Discussion

The allegations in the DoD Hotline complaint were not substantiated. Each allegation is discussed below.

Allegation 1. The Army was improperly using contract DAHC94-90-D-0012 with EDS to buy computers not authorized by the contract.

Audit Response. The EDS contract was properly used to make purchases authorized by the contract. The internal controls established were adequate to verify that items ordered were authorized. Our review of delivery orders issued from March to June 1993 showed that items ordered were authorized.

Internal Control Checks. Five sequential internal control checks were established in the delivery order process to ensure that the items ordered were authorized on the contract.

- o The contracting officers used the EDS contract line item number and the description when completing a delivery order.

- o The central order processing offices used an automated data base system to match contract line item numbers from the delivery orders to the EDS contract.

- o EDS verified that the items on the delivery order received were listed on the contract.

- o Government quality assurance representatives at EDS verified that the equipment was authorized on the contract and then attached a DD 250, "Material Inspection and Receiving Report," to the delivery order before the equipment was shipped.

- o The Defense Finance and Accounting Service did not make payments unless the DD 250 attached to the delivery order verified that the delivery order complied with the contract.

In our opinion, the internal control checks completed during the processing of the delivery orders were adequate to verify that items purchased using the EDS contract were authorized.

Delivery Order Review. All delivery orders examined were for items listed on the contract. The 63 delivery orders reviewed accounted for \$10 million (35 percent) of the \$28 million of delivery orders processed from March to June 1993.

Allegation 2. Lower prices could be obtained by buying from other companies. According to the complainant, other companies offer computers on the General Services Administration (GSA) schedules at lower prices.

Audit Response. Lower prices for the items listed on the contract could not be obtained by buying from other companies. The decision to competitively award the contract to EDS was based on price and benefits such as technical, managerial, and logistical capabilities. For option years and modifications, EDS and the Agency negotiated the lower of the EDS price or GSA schedule price. In addition, non-cost factors show the EDS contract was the best value for computer procurements.

Initial Award. Before the Agency awarded the EDS contract, the Networks Project Manager for Defense Communications Switched Systems, Program Executive Office, Fort Monmouth, New Jersey, performed an economic analysis of the alternatives for the computer purchases. The comparison was based on the estimated cost to purchase 10,000 small multi-user computers. For FYs 1987 through 1993, the analysis showed the EDS contract would have the lowest overall cost. The EDS cost was \$560 million for 10,000 small multi-user computers. For the same number of computers, the GSA schedule cost was \$708 million and the individual contract cost was \$1.2 billion.

We reviewed the request for proposal, the vendor evaluation criteria, and the basis for the decision to select EDS as the contractor. The Agency request for proposal was advertised in the Commerce Business Daily and was sent to approximately 200 computer vendors. The evaluation criteria included the overall cost and the vendors' technical, managerial, and logistical capabilities.

Modifications. EDS and the Agency made comparisons that showed the prices were equal to or lower than the GSA price for each contract line item. EDS obtained the GSA catalog price or a vendor quote for contract line items. When the contract was renegotiated, EDS and the Agency compared the EDS price with GSA schedule prices for each option year. EDS and the Agency also made this comparison for each additional modification to the contract. The Agency reviewed the EDS and GSA prices and negotiated the lower price for each line item. In addition, as required by the contract, EDS signed a certification stating that, for modifications to the contract, prices will not exceed GSA schedule prices.

We reviewed the Agency files to determine whether EDS and the Agency obtained GSA catalog prices and vendor quotes. For FY 1993 price modifications, EDS contract prices were either equal to or lower than GSA schedule prices.

Non-Cost Factors. The effect of non-cost factors also contributed to the Army decision to purchase computers using the EDS contract. We verified that the EDS contract provided more advantages than individual contracts. The advantages included capability to deliver overseas, a 24-hour call-in service, and hardware warranties. Requiring such non-cost factors in individual contracts would result in additional requirements and costs to the solicited proposals.

Allegation 3. Contracting officers were using the Army contract with EDS to avoid obtaining a waiver from the Army Information Systems Command, Fort Huachuca, Arizona, to use other contractors.

Audit Response. Contracting officers were not using the EDS contract to avoid obtaining a waiver to use other contractors. The Hotline complainant considered the Army certification process as a waiver. The Army certification is a pre-acquisition process of evaluating automatic data processing equipment for compliance with Army standards. The requester must verify the certification is obtained regardless of the contractor from which the equipment

is purchased. EDS obtained the certification on the equipment for the original contract and obtains certifications for any modifications to the contract.

Management Comments

We provided a draft of this report to the addressees on September 22, 1993. Because the report contained no recommendations, no comments were required by management, and none were received. Therefore, we are publishing this report in final form.

The courtesies extended to the audit staff are appreciated. If you have questions on this audit, please contact Mr. Joseph P. Doyle, Program Director, at (703) 692-3218 (DSN 222-3218) or Ms. Carolyn R. Milbourne, Project Manager, at (703) 692-3109 (DSN 222-3109). The distribution of this report is listed in Enclosure 3.



Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

Summary of Prior Audits and Other Reviews

IG, DoD, Report No. 93-051, "Contract Award Protest of a Small Business Administration 8(a) Contractor," February 4, 1993. The report stated that the Agency did not adequately comply with the Walsh-Healey Public Contracts Act and other small business 8(a) contracting requirements. The Agency attempted to make a \$64-million sole source procurement for 14 mainframe computers. Recommendations were not made because the Agency subsequently withdrew the procurement.

IG, DoD, Report No. 93-024, "The Use of Small Business Administration Section 8(a) Contractors in Automatic Data Processing Acquisitions," November 25, 1992. The report stated that the Army and the Navy were not competing large 8(a) automatic data processing equipment procurements and were not performing the required reviews for compliance with the Walsh-Healey Public Contracts Act. The report recommended contract actions exceeding the thresholds under the Business Opportunity Development Reform Act of 1988 (the Reform Act) be reviewed, the Defense Federal Acquisition Regulation Supplement be changed to require justification of inability to compete under the Reform Act, and specifications be reviewed to ensure they are competitive and nonrestrictive. The report also recommended that reviews be required to ensure contractor's compliance with the Walsh-Healey Public Contracts Act. The Director of Defense Procurement signed a policy memorandum on May 4, 1993, to ensure that indefinite-delivery, indefinite-quantity contracts are not used to circumvent competition requirements. The Army will issue reminders to obtain delegation of procurement authorities on computer purchases, and the Navy will send out reminders to contracting officers to comply with the Walsh-Healey Public Contracts Act.

IG, DoD, "Report on Desktop III Procurement," September 26, 1990. The review was requested by the House Committee on Government Operations. The review concluded that the award of the Desktop III contract to Unisys complied with procurement regulations and policies. The report stated no basis existed to recommend that the contract be terminated. The report also stated there was no evidence of improper bias by the Air Force toward any of the offerors.

DCAA Report No. 6321-91W210000010-193, "Report on Audit of Proposal for Change Order No. C1000001, Under Contract No. DAHC94-90-D-0012, Electronic Data Systems Corporation, Federal Government Group, Military Systems Division, Herndon, VA," July 8, 1991, and Supplement 1, August 14, 1991. Supplement 1 showed that EDS had understated its proposed cost by \$618,077 and that a 6-percent program management cost was not supported. DCAA needed more detailed information to adequately evaluate the program management cost. As of the date of this report, DCAA has not received the detailed information.

ENCLOSURE 1

Organizations Visited or Contacted

Office of the Secretary of Defense

Directorate of Command, Control, Communications, and Intelligence Planning and Strategy, Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), Arlington, VA

Department of the Army

Director of Information Systems for Command, Control, Communications, and Computers, Arlington, VA
Army Information Systems Selection and Acquisition Agency, Alexandria, VA
Contracting Directorate, Army Garrison, Fort Belvoir, VA
Army Information Systems Command, Fort Huachuca, AZ
Army Information Systems Management Activity, Fort Monmouth, NJ
Defense Supply Service-Washington, Arlington, VA

Department of the Navy

Naval Computer and Telecommunications Command, Washington, DC
Naval Computer and Telecommunications Area Master Station-Atlantic, Norfolk, VA

Defense Organization

Information Services Office, Defense Logistics Agency, Alexandria, VA

Non-Defense Federal Organization

General Services Administration, Washington, DC

Non-Government Organization

Electronic Data Systems Corporation, Herndon, VA

ENCLOSURE 2

Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Director of Defense Procurement
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Director of Information Systems for Command, Control, Communications, and
Computers
Director, Army Information Systems Selection and Acquisition Agency
Auditor General, Department of the Army

Non-Defense Federal Organizations

Office of Management and Budget
National Security and International Affairs Division, Technical Information Center,
General Accounting Office

Chairman and Ranking Minority Member of Each of the Following Congressional
Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on
Government Operations

ENCLOSURE 3

Audit Team Members

David K. Steensma	Director, Contract Management
Joseph P. Doyle	Audit Program Director
Carolyn R. Milbourne	Audit Project Manager
James A. Wingate	Senior Auditor
Veronica Gamble	Senior Auditor
Patricia M. Crumm	Auditor
Donna L. Starcher	Auditor
Robin A. Hysmith	Administrative Support

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: DOD Hotline Allegations on Army Use of A Computer Contract

B. DATE Report Downloaded From the Internet: 04/17/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 04/17/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.