Evaluation Report

PROGRAM MANAGEMENT OF THE MATERIALS AND PROCESSES PARTNERSHIP FOR POLLUTION PREVENTION

Report No. D-2000-127 May 22, 2000

Office of the Inspector General
Department of Defense

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Acronyms

AMC	Army Materiel Command
ARDEC	Armament Research, Development and Engineering Center
BBL	Barry, Bette and Led Duke, Incorporated
CTC	Concurrent Technologies Corporation
FAR	Federal Acquisition Regulation
MP4	Materials and Processes Partnership for Pollution Prevention
NDCEE	National Defense Center for Environmental Excellence
RFP	Request for Procurement
TACOM	Tank-automotive and Armaments Command

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May 22, 2000

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE
(ENVIRONMENTAL SECURITY)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Evaluation Report on the Program Management of the Materials and Processes Partnership for Pollution Prevention (Report No. D-2000-127)

We are providing this evaluation report for your information and use. This evaluation was initiated in response to a request from the Deputy Under Secretary of Defense (Environmental Security) to review the National Defense Center for Environmental Excellence. We considered management comments on a draft of this report when preparing the final report.

The Department of the Army comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the evaluation staff. Questions on this evaluation should be directed to Mr. William C. Gallagher at (703) 604-9270 (DSN 664-9270) (wgallagher@dodig.osd.mil) or Mr. Michael H. Claypool at (703) 604-9291 (DSN 664-9291) (mclaypool@dodig.osd.mil). See Appendix D for the report distribution. The evaluation team members are listed inside the back cover.

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Report No. D-2000-127 **May 22, 2000**
(Project No. D1999CB-0068.000)
(Formerly Project No. 9CB-5016)

Program Management of the Materials and Processes Partnership for Pollution Prevention

Executive Summary

Introduction. This evaluation was initiated in response to a request from the Deputy Under Secretary of Defense (Environmental Security) to review the National Defense Center for Environmental Excellence. This report is the first in a series of reports being issued by the Inspector General, DoD, in accordance with the request.

The National Defense Authorization Act for FY 1999 directed that DoD use funds to develop new materials and manufacturing processes for the purpose of validating technology for installation of pollution abatement, enhancing weapons systems performance, and reducing life cycle operations and maintenance costs. This work, known as the Materials and Processes Partnership for Pollution Prevention, was to be accomplished by the National Defense Center for Environmental Excellence. The FY 1999 Conference Report appropriated $15 million for this program.

Objectives. The overall evaluation objective was to evaluate the effectiveness of the National Defense Center for Environmental Excellence in developing and disseminating environmental technologies for the DoD. This report discusses the Army's program management and the contracting procedures used for the Materials and Processes Partnership for Pollution Prevention program. Subsequent reports will discuss the benefits of the National Defense Center for Environmental Excellence and the management control program related to the National Defense Center for Environmental Excellence.

Results. The Army did not require Concurrent Technologies Corporation to conduct a lease analysis for a facility in Edgefield, South Carolina. As a result, the Army inappropriately paid $3.0 million for leased facility renovations as a direct charge to a research contract (finding A).

In addition, the Army did not properly plan, program, or manage the project selection process for the MP4 program. As a result, Concurrent Technologies Corporation expended 59 percent of the $13.6 million program funds without a final project list approved by the Army (finding B).

Summary of Recommendations. We recommend that the Army request construction approval and review the costs charged to the Government for the Edgefield facility, review the performance of the assigned contracting officials, require that a lease analysis be completed for future leased space requirements, and require contractor compliance with applicable Federal regulations. We further recommend that the Army reappoint the executive agent and establish a methodology to ensure coordination and agreement within the DoD Working Group.

Management Comments. The Army did not concur with requesting construction approval for the Edgefield facility because section 2353, title 10, United States Code, does not allow research and development funds as a direct charge to the contract for construction of buildings for general utility use. The Army agreed to review the costs for the Edgefield facility and the performance of the contracting officials involved. The Army also stated that a lease/purchase analysis is not needed for space requirements because the Defense Contract Audit Agency is requiring Concurrent Technologies Corporation to conduct a lease analysis.

The Army reassigned the executive agent for the National Defense Center for Environmental Excellence to the Assistant Secretary of the Army (Installations and Environment), and initiated actions to improve the DoD Working Group.

Evaluation Response. The Army comments were responsive. While we agree that the section 2353, title 10, United States Code, citation does not allow construction of general utility buildings using research and development funds, construction did occur and was charged as a direct cost to the research and development contract. We agree that, if the construction costs are disallowed as direct costs to the contract and instead applied as indirect costs, there is no requirement to obtain construction approval. In addition, we agree that performing a lease/purchase analysis is redundant if Concurrent Technologies Corporation is required to conduct a lease analysis to ensure cost reasonableness for the Government and revised the recommendation to reflect this agreement.

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Background

The FY 1990 Supplemental Appropriations Act, Public Law 101-302, provided for the establishment of the National Defense Center for Environmental Excellence (NDCEE). Congress established the NDCEE as a resource to transition environmentally acceptable materials and processes to DoD industrial organizations and private industry; to provide training that supports the use of new environmentally acceptable technologies; and to support applied research and development, and where appropriate, to transition new technologies.

NDCEE Executive Agent. The DoD sponsors the NDCEE through the Office of the Deputy Under Secretary of Defense (Environmental Security) (DUSD[ES]). The DUSD(ES) is responsible for environmental security policy, oversight, and advocacy representation of environmental programs for DoD, including the relationship between the environmental and military missions of the DoD.

The DUSD(ES) designated the Army as the executive agent for NDCEE in 1991. The Secretary of the Army further delegated NDCEE responsibility to the Army Materiel Command (AMC). The Industrial Ecology Center of the Tank-automotive and Armaments Command Armament Research, Development and Engineering Center (TACOM-ARDEC) is assigned both program and financial management responsibility for the NDCEE.

NDCEE Program. The NDCEE is managed by Concurrent Technologies Corporation (CTC), a nonprofit corporation, with headquarters in Johnstown, Pennsylvania, and regional field offices throughout the United States. In July 1991, CTC was awarded the startup cost reimbursable contract to operate and manage the NDCEE program. In April 1993, CTC was awarded a noncompetitive cost reimbursable contract (DAAA21-93-C-046) for 60 months for the continued operation of the NDCEE. CTC operates NDCEE under research and development contract DAAE30-98-C-1050 awarded April 30, 1998. The contract is a noncompetitive, cost-plus-fixed-fee, level of effort contract for 60 months with a ceiling price of $150 million.

Contracting Officials. The TACOM-ARDEC Acquisition Center provides procuring contracting officer support for the NDCEE prime contract, while the TACOM-ARDEC Industrial Ecology Center provides the contracting officer's technical representative for the NDCEE contract. The Defense Contract Management Agency[1] provides contract administration services and the Defense Contract Audit Agency has contract audit responsibility for CTC. We requested audit assistance from the Defense Contract Audit Agency in support of this evaluation. The Defense Contract Audit Agency will review the following elements of CTC compliance with the Federal Acquisition Regulation (FAR) and the cost accounting standards: lease terms and space utilization of the leased commercial facilities in Johnstown, Pennsylvania, and Edgefield,

[1] Effective March 27, 2000, the Defense Contract Management Command was redesignated as the Defense Contract Management Agency.

South Carolina; and the billing system procedures and internal controls. Both the Defense Contract Management Agency and Defense Contract Audit Agency have offices in Pittsburgh, Pennsylvania.

Materials and Processes Partnership for Pollution Prevention. The National Defense Authorization Act for FY 1999 (the Act) directed that DoD use funds to develop new materials and manufacturing processes for the purpose of validating technology for installation of pollution abatement, enhancing weapons systems performance, and reducing life cycle operations and maintenance costs. The Act directed accomplishment of this work, known as the Materials and Processes Partnership for Pollution Prevention (MP4), by exploiting the capabilities of the NDCEE. The FY 1999 Conference Report appropriated $15 million research and development funds for MP4. The MP4 task proposal contract states that the MP4 effort will be accomplished in a facility in Edgefield, South Carolina.[2]

Edgefield Facility. In early 1998, CTC merged with Enterprise Development, Incorporated, a nonprofit professional services firm that performed environmental work with offices located in South Carolina. The CTC negotiated with Hoffman Enterprises of Albany, New York (now Mcladnek LP), and an associated construction company to renovate the 100-year old vacated mill located in Edgefield, South Carolina. After the renovations were complete, CTC leased the building from Mcladnek LP. Appendix B discusses the Edgefield facility specifications and associated costs.

Environmental Technology Facility. The NDCEE Environmental Technology Facility administers the NDCEE contract in Johnstown, Pennsylvania. The facility has high-bay process demonstration space, laboratory areas, and administrative office areas. The administrative office areas of the Environmental Technology Facility are near maximum capacity while the process demonstration space has room for additional equipment demonstrations. The administrative office areas are occupied at 93 percent with 4,516 square feet of available office space. The administrative office area occupancy rate is close to the Government average utilization rate for a commercial office facility. A review by the Defense Contract Management Agency found process space to be underutilized, but took no exception to the utilization based on CTC plans for the facility. Appendix C provides the Defense Contract Management Agency review for CTC buildings in Johnstown, Pennsylvania.

[2] In this report, the term "task proposal" describes the contractual documentation of the task development process. The task proposal consists of the task statement of work, the Government cost estimate, and the Cost Agreement Memorandum. The task proposal was developed between CTC and the Government as a joint proposal and negotiation process as required by the NDCEE contract.

Objective

The overall evaluation objective was to evaluate the effectiveness of the National Defense Center for Environmental Excellence in developing and disseminating environmental technologies for the DoD. This report discusses the Army program management and the contracting procedures used for the Materials and Processes Partnership for Pollution Prevention program. Subsequent reports will discuss the benefits of the National Defense Center for Environmental Excellence and the management control program as it relates to the National Defense Center for Environmental Excellence.

A. Lease Analysis and Facility Renovations

The Army did not require CTC to conduct a lease analysis for a leased facility in Edgefield, South Carolina (Edgefield facility), under contract DAAE30-98-C-1050, modification P00011. The failure to conduct a lease analysis occurred because TACOM-ARDEC contracting officials did not adequately evaluate the MP4 task proposal negotiated with CTC. As a result, TACOM-ARDEC inappropriately paid $3.0 million for leased facility renovations as a direct charge to a research contract.

Contracting Requirements

United States Code. Section 2353, title 10, United States Code (10 U.S.C. 2353) prohibits new construction or improvements of a general utility building for research and development facilities operated under DoD contracts. Facilities that can not be removed or separated without unreasonable expense or loss of value will not be installed or constructed on property not owned by the Government. The Government will be reimbursed for the fair value of the facilities constructed on property not owned by the Government at the completion of the contract or within a reasonable time thereafter, or the Government will be given the option to acquire the underlying land.

Federal Acquisition Regulation Supplement (FAR). Army FAR Supplement, part 35.014, "Government Property and Title" states:

> Prior to entering into a contract for research or development or both which provides for the acquisition or construction by, or furnishing to, the contractor of research, development, or test facilities and equipment, the Secretary of the Army must determine that the facilities and equipment are necessary for the performance of the contract (10 U.S.C. 2353).

The authority to approve such requests was delegated to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology (formerly the Assistant Secretary of the Army for Research, Development, and Acquisition).

Office of Management and Budget (OMB). The OMB Circular A-122, "Cost Principles for Non-Profit Organizations," June 1, 1998, includes provisions for facilities acquired by nonprofit organizations.

Lease Analysis. Attachment B, paragraph 23b, requires that "For facilities costing over $500,000, the non-profit organization prepares, prior to the acquisition or replacement of the facility, a lease/purchase analysis . . . ." In a March 19, 1996, memorandum from the Defense Contract Management Agency Pittsburgh, CTC was notified not to enter into any new facility leases or modify any existing leases without consideration of the OMB provisions.

Special Purpose Equipment. Attachment B, paragraph 15a, defines special purpose equipment as, ". . . usable only for research, medical, scientific, or technical activities." The attachment further defines general purpose equipment as office equipment, air conditioning, and automatic data processing equipment.

Material Improvements. Attachment B, paragraph 15d, states, ". . . capital expenditures for improvements to land and buildings that materially increase their value or useful life are unallowable as direct costs except with the prior approval of the awarding agency."

Rental Costs. Attachment B, paragraph 46a, provides that ". . . rental costs are allowable to the extent that rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased."[3]

Lease Analysis

The Army did not require CTC to conduct a lease analysis for the Edgefield facility leased under the contract.

Commercial Space Analysis. The CTC did not conduct a commercial office space lease analysis as required by OMB Circular A-122 provisions for commercial office space in Edgefield, South Carolina. The lease analysis data would have been used by the TACOM-ARDEC contracting officials to ensure that the Army was receiving minimum lease costs for office space required for the MP4 staff of CTC. A lease analysis would have provided TACOM-ARDEC contracting officials an objective basis for determining whether it was in the best interest of the Government to fund renovations in the Edgefield facility with a 3-year lease. Appendix B discusses the facility specifications.

Subcontract Proposal. On December 8, 1998, CTC issued a request for proposal (RFP) for construction management services to Barry, Bette and Led Duke, Incorporated (BBL), a general construction contractor. The RFP requires BBL to provide construction management services for renovating the Edgefield facility into useable commercial office space. In the documentation supporting its RFP, CTC stated that the renovations to the entire building were necessary to support the MP4 program.

On December 24, 1998, BBL responded with a firm-fixed-price proposal of $3.0 million. The proposal included Standard Form 1411, "Contract Pricing Proposal Cover Sheet," that identified the effort as facility renovation management and stated that Government contract financing was necessary to perform the proposed work. Despite the proposed renovation costs, CTC did not include a lease analysis in its RFP or supporting documentation.

[3] The Defense Contract Management Agency considers this rental cost evaluation for cost reasonableness to the government as a lease analysis.

Task Proposal Completion. On February 10, 1999, TACOM-ARDEC issued a cost agreement memorandum to CTC that authorized work on the MP4 task for $13.6 million that included a subcontract estimate of $2.9 million. The only supporting documentation for this subcontract cost was the BBL construction management services proposal of $3.0 million. The TACOM-ARDEC contracting officials requested no additional information on the subcontract cost before authorizing CTC to proceed with work on the task. If a lease analysis had been provided, the contracting officer could have determined whether other cost-effective alternatives were available for commercial office space in South Carolina.

Facility Construction. In February 1999, BBL started renovating the Edgefield facility after the MP4 cost agreement memorandum was signed. The scope of work included complete renovations of the 100-year old facility. The facility renovations included: plumbing, electrical, heating and cooling, fire alarms and a sprinkler system, interior and exterior carpentry, exterior site work, and telecommunications capabilities.

Facility Lease. On May 24, 1999, CTC entered into a 3-year Edgefield facility agreement with McLadnek LP (the lessor). The lease requires a monthly rent of $60,000 for permitted use as an office facility, which includes a termination clause when the Government contract expires. Although the entire building was renovated, only the second floor of the Edgefield facility is occupied for the MP4 program. CTC began occupying the second floor of the building in July 1999 and BBL completed construction in October 1999.

Contractor Justification. In an August 1999 memorandum, CTC states that unique Government requirements in the MP4 task proposal justified billing the facility construction as a direct cost to the NDCEE contract. When asked what specific contract terms had these unique requirements, CTC cited the MP4 task proposal clause that requires electronic submissions of all contract data deliverables.

Task Requirements. Paragraph 3.3 of the MP4 task proposal requires only that, ". . . the Contractor shall deliver all data items generated as a result of this SOW using 'soft media' that is compatible with standard computer protocol," and does not contain unique requirements that would justify facility construction costs.[4] Further, the Edgefield facility lease between CTC and the lessor did not discuss any unique requirements within the building for the Government contract, and only specifies the permitted use as an office facility.

Site Visit. On September 2, 1999, we visited the Edgefield facility. Based on this visit, we concluded that the MP4 office space requirements were not unique, and that the MP4 task facility requirements could have been met in any commercial office space with the required square footage. The OMB Circular A-122 defines telecommunications equipment as general purpose equipment that is not unique for office facility renovations.

[4] The acronym SOW in the quotation means Statement of Work.

Contract Management

The failure to conduct a lease analysis occurred because the TACOM-ARDEC contracting officials did not adequately evaluate the MP4 task proposal negotiated with CTC.

Procurement Modification. Because the CTC MP4 task proposal did not include a lease analysis, TACOM-ARDEC contracting officials did not perform an adequate technical review of the MP4 task proposal negotiated with CTC. A complete technical review should have included an evaluation of the CTC planned construction costs and the lease costs associated with the Edgefield facility. The TACOM-ARDEC contracting officials recognized that renovations were planned for the Edgefield facility but took no action to determine the scope, or cost effectiveness prior to approving the MP4 task proposal.

Subcontract Supporting Documentation. The TACOM-ARDEC procuring contracting officer did not request supporting information for the MP4 task subcontract until July 12, 1999, 5 months after approval of the MP4 task proposal. The following information was provided to the TACOM-ARDEC procuring contracting officer on July 16, 1999:

- the CTC RFP given to BBL in December 1998;
- the BBL estimate on Standard Form 1411, "Contract Pricing Proposal Cover Sheet," that was included in the CTC submission for the MP4 task proposal; and
- the CTC purchase order that included a $3.0 million cost for renovating the Edgefield facility into commercial office space. The purchase order included price analysis documentation justifying the sole source use of BBL as the subcontractor for the Edgefield facility.

Construction Approval. TACOM-ARDEC did not request construction approval for the Edgefield facility from the Assistant Secretary of the Army for Acquisition, Logistics, and Technology, as required by the Army FAR supplement. Each request for Secretarial determination must contain a detailed description of the research, development or test facilities, and the associated equipment and specialized housing that will be acquired or constructed by the contractor. The request must also include estimated property costs along with an explanation of the need for the property.

Contract Administration Services

Delegation of Contract Administration Services. The TACOM-ARDEC procuring contracting officer did not require that the Defense Contract Management Agency Administrative Contracting Officer evaluate the contract task proposals to ensure cost reasonableness and compliance with the FAR. On May 6, 1998, the TACOM-ARDEC procuring contracting officer delegated

most nontechnical administrative functions to the administrative contracting officer at the Defense Contract Management Agency, Pittsburgh, Pennsylvania. One of the delegated administrative functions includes reviewing subcontract proposals by the prime contractor, CTC, for consent to the placement of subcontracts. Since the delegation of authority, the administrative contracting officer has had limited contact with TACOM-ARDEC and consequently, there has been minimum support on this contract as required by FAR, part 302(a), "Contract administration functions."

Contract Administrative Review. The procuring contracting officer did not notify the administrative contracting officer of planned subcontracts on the MP4 task. The TACOM-ARDEC procuring contracting officer stated that he did not request this input, even though the authority to approve subcontracts had been delegated to the administrative contracting officer. The administrative contracting officer, therefore, did not review the subcontracts for compliance with contract terms. A review of the subcontract by the administrative contracting officer may have disclosed the inappropriate use of research and development funds for the construction subcontract.

Occupancy Costs

The TACOM-ARDEC paid CTC $3.0 million for leased facility renovations that resulted in allocated Government costs of $108 per square foot for occupied office space compared to the nation-wide standard of $17 per square foot for leased commercial space.[5]

Fair Market Rate. In an April 1999 report to the Senate Armed Services Committee, CTC listed a cost per square foot of $8.47 for the Edgefield facility. This facility cost was based on the annual lease cost of $720,000 for a total building area of 85,000 square feet. This calculation did not include the following considerations.

- The facility space included the basement that is not configured as office space.
- The facility renovation cost was not included in the calculation.
- The CTC Southern Division staff assigned to the MP4 task will only occupy the second floor of the facility. CTC representatives stated that CTC plans to either sublet the first floor and basement to a commercial tenant or utilize the idle space for other CTC staff not associated with the MP4 task work.

[5] The General Services Administration Office of Real Property report, "Governmentwide Real Property Performance Report," December 1998, provides baseline estimates of Federal real property performance and includes private sector benchmark data for comparative purposes. A number of metrics are provided, to include real estate (occupancy) cost per square feet, cost per person, and leased cost per square foot. The report states that leased office space averages $17 per square feet in the United States.

Total Facility Cost. To determine the Government's annual occupancy cost for the first year of the Edgefield facility lease, we added the $3.0 million facility renovation costs to the annual lease costs charged to the Government. The annual lease and renovation costs are divided by the second floor area, which is the only facility office space occupied by the CTC staff assigned to the MP4 task. The table shows the costs per square foot for the entire facility.

Edgefield Facility Costs
(per square foot)

	Facility Space (square feet)	Annual Lease ($720,000)	Facility Renovations ($3.0 million)	Annual Occupancy Costs (square feet)
Edgefield Facility	85,000	$ 8.47	$35.29	$43.76
Office Space (1st and 2nd floor	69,000	10.44	43.48	53.92[6]
MP4 Space (2nd floor)	34,500	20.87	86.97	107.83[6]

The MP4 costs allocated to the occupied second floor office space is about $108 per square foot for the first year of the 3-year lease. The annual occupancy cost may be reduced if CTC sublets the first floor to another tenant. Even if CTC sublets the space, the Army's lease cost would still remain significantly higher than the average commercial lease rate of $17 per square feet reported by the General Services Administration.

Government Consideration. The Government did not receive contract consideration from CTC or the lessor for the $3.0 million invested in the Edgefield facility. The Edgefield facility was significantly improved to meet commercial office space requirements through infrastructure improvements paid by the Government. As discussed previously, the Defense Contract Audit Agency is reviewing the Government lease costs allocated to the facility space requirements in the Edgefield facility. The Government funded improvements, however, are the property of McLadnek LP per the terms of the Edgefield facility lease.

[6] The annual occupancy cost does not include the basement space cost.

Conclusion

The TACOM-ARDEC contracting officials failed to require a lease analysis of the Edgefield facility because they did not adequately evaluate the MP4 task proposal negotiated with CTC. An evaluation would have shown the extent of the leased facility renovations and that Army Secretariat approval was necessary for a project with a Government cost of $3.0 million.

Recommendations, Management Comments, and Evaluation Response

Revised Recommendation. As a result of management comments, we revised draft Recommendation A.2.b to state that, rather than a lease/purchase analysis, a lease analysis will be performed to ensure reasonableness of costs for present and future leased space requirements for the National Defense Center for Environmental Excellence contracts.

A.1. We recommend that the Commanding General, Army Tank-automotive and Armaments Command:

a. Request construction approval from the Assistant Secretary of the Army for Acquisition, Logistics, and Technology for the Concurrent Technologies Corporation facility in Edgefield, South Carolina.

b. Review the $3.0 million charged as direct costs for the facility construction in Edgefield, South Carolina, and take appropriate action.

c. Review the performance of the procuring contracting officer and the contracting officer's technical representative appointed to contract DAAE30-98-C-1050, and take appropriate action.

Management Comments. The Army Materiel Command concurred with Recommendations A.1.b. and A.1.c. but did not concur with Recommendation A.1.a. to request construction approval for the Edgefield facility. Based upon a technical review of space utilization at the Edgefield facility, the Army cites an audit by the Defense Contract Audit Agency which questioned the allocability and allowability of incurred costs at the facility. From this audit, TACOM-ARDEC is taking action to eliminate the $3.0 million in direct charges to the contract. The Army also states that section 2353, title 10, United States Code, does not allow research and development funds as a direct charge to a construction contract for buildings of "general utility" use; therefore, this approval is not applicable since the facility modification was neither required nor authorized by contract.

Evaluation Response. Although the Army partially concurred, the comments are responsive to the recommendations. We agree that the 10 U.S.C. 2353 citation does not allow "general utility" building construction using research and development funds, but such construction did occur and was charged as a direct cost to the research and development contract. We agree that, if the construction

costs are disallowed as direct costs to the contract and instead applied as an indirect cost, there is no requirement to obtain construction approval from the Assistant Secretary of the Army. The Army response meets the intent of our recommendation.

A.2. We recommend that the Tank-automotive and Armaments Command Armament Research, Development and Engineering Center procuring contracting officer appointed to contract DAAE30-98-C-1050:

a. Direct Concurrent Technologies Corporation to comply with all provisions of Office of Management and Budget Circular A-122, "Cost Principles for Non-Profit Organizations," June 1, 1998, for National Defense Center for Environmental Excellence contracts.

b. Direct Concurrent Technologies Corporation to perform a lease analysis for present and future leased space requirements for the National Defense Center for Environmental Excellence contracts.

c. Comply with the Delegation of Contract Authority Terms with the Contract Administrative Office, Defense Contract Management Agency, for contract DAAE30-98-C-1050.

Management Comments. The Army concurred with Recommendations A.2.a. and A.2.c. and will prepare a letter directing Concurrent Technologies Corporation to comply with all applicable provisions of OMB Circular A-122. The Army did not concur to have Concurrent Technologies Corporation perform a lease/purchase analysis for future space requirements for the National Defense Center for Environmental Excellence contracts, since both the Defense Contract Audit Agency and the Administrative Contracting Office state that Concurrent Technologies Corporation is not required to perform such an analysis. The Army states that cost reasonableness for the Government will be determined by having lease analysis documents prepared by Concurrent Technologies Corporation.

B. Executive Agency and DoD Working Group

The Army did not properly plan, program, or manage the Materials and Processes Partnership for Pollution Prevention project selection process. The inadequate management of the MP4 project selection process occurred because the Army executive agent was not actively involved in the process and there was a lack of coordination and agreement between the DoD Working Group members that oversee project selection for NDCEE. As a result, CTC expended 59 percent of the $13.6 million program funds without an approved final project list from the Army.

Program Guidance

Executive Agent Responsibilities. In a March 20, 1991, memorandum, the Deputy Assistant Secretary of Defense (Environment)[7] tasked the Army as the executive agent for the NDCEE. The memorandum also provided operational guidance on appropriate areas for the NDCEE. In an April 11, 1991, memorandum, the Secretary of the Army delegated executive agent responsibilities for the NDCEE to AMC. The memorandum states that ". . . work products should relate to industrial pollution prevention and hazardous waste minimization," and directed coordination ". . . with the Navy, Air Force, and appropriate Defense agencies."

DoD Working Group. The 1998 NDCEE 5-Year Business Plan includes a requirement to develop a DoD Working Group charter to oversee NDCEE projects. The group ". . . functions as a clearinghouse of information and results for the Services, and provides integration with Service and OSD Programs." The group consists of representatives from the Deputy Under Secretary of Defense (Environmental Security), each of the Military Departments, and the Defense Logistics Agency.

Program Management

The Army did not properly plan, program, or manage the MP4 project selection process. On February 10, 1999, TACOM-ARDEC issued a cost agreement memorandum with CTC that authorized work on the MP4 task for $13.6 million. As of January 2000, however, the Army had not authorized funding for a list of projects submitted in the February 1999 cost agreement memorandum.

Initial Review. The 1998 NDCEE 5-Year Business Plan and the DoD Working Group Charter describe the project selection process for the NDCEE. During June 1999, the initial DoD Working Group MP4 in-progress review evaluated the MP4 project proposals submitted as a result of the May 1999 call for

[7] Renamed the Deputy Under Secretary of Defense (Environmental Security)

proposals. The DoD Working Group members discussed the projects before providing a quantitative assessment of each proposal's merits. These assessments ranked the proposals and determined which projects would be funded. From the 56 project proposals received, the DoD Working Group approved 15 proposals for task plan development.

September 1999 Update. This same project review procedure was used for the next in-progress reviews conducted by the Army in September 1999. During this second meeting on MP4 proposals, Military Department stakeholders and CTC task managers presented briefings on the proposed projects. The DoD Working Group refined the list of approved projects by combining some task proposals and requiring rework of others.

Task Proposal Cancellations. During the third MP4 in-progress review in October 1999, five of the nine reworked or new task proposals presented to the DoD Working Group were cancelled. The DoD Working Group members cancelled the projects because the tasks duplicated other initiatives or were no value to the DoD. As a result, these cancellations caused the Industrial Ecology Center to issue another call to the Military Department stakeholders for additional MP4 task proposals that address environmental pollution prevention requirements of DoD.

Leadership and Coordination

The inadequate management of the MP4 project selection process occurred because the Army executive agent was not actively involved in the process and there was a lack of coordination and agreement among the DoD Working Group members that oversee project selection for the NDCEE.

Executive Agent Responsibility. During our evaluation, we discussed executive agent responsibilities for the NDCEE with the Office of the DUSD (ES), the Military Departments, and the Industrial Ecology Center. While these representatives stated that AMC did not meet NDCEE needs and did not comply with current Army policy on executive agency, there was no consensus on which DoD organization could best execute executive agent responsibilities for the NDCEE.

MP4 Proposals. In a June 16, 1999, memorandum, the Deputy Chief of Staff for Research, Development and Acquisition for AMC recommended that the MP4 call for proposals be rescinded. The memorandum cited the need for the executive agent to coordinate MP4 projects with the Services and to ensure that NDCEE programs were well planned and fully coordinated. Despite this effort, AMC took no action to rescind or modify the MP4 call for proposals.

Military Department Input. In a September 17, 1999, memorandum, the Deputy Assistant Secretary of the Navy (Environment and Safety) recommended ". . . that the NDCEE/CTC establish a formal relationship with the Joint Group on Pollution Prevention (JG-PP) and the Environmental Security Technology Certification Program (ESTCP)." The memorandum also recommends establishing an MP4 Joint Advisory Group to coordinate efforts and resources.

Recent Congressional Direction. Section 321 of Senate Report 106-50, "National Defense Authorization Act for Fiscal Year 2000," directs the creation of an environmental technology investment control process for the DoD and provides specific guidance on the mechanisms in the investment control process. The report designates the Deputy Assistant Secretary of the Army (Environment, Safety, and Occupational Health) as the official for this process for " . . . any environmental program technology for which the Army is the executive agent." This additional congressional direction emphasizes the need for a strong and effective executive agent for the NDCEE.

Secretariat Status. In an October 15, 1999, memorandum to the Deputy Under Secretary of Defense (Science and Technology), the Deputy Assistant Secretary of the Army (Research and Technology) proposes moving the executive agent responsibilities to the Office of the Deputy Assistant Secretary of the Army (Environment, Safety, and Occupational Health). The Office of the Deputy Assistant Secretary of the Army (Environment, Safety, and Occupational Health) forwarded this request to the Secretary of the Army for approval in October 1999.

Coordination and Agreement. We attended all three DoD Working Group in-progress reviews on the MP4 and also several other NDCEE management meetings. We noted a lack of coordination and agreement between the DoD Working Group members because there was no continuity of the Military Department representatives attending the working group meetings. Also, the working group representatives had no consistent procedural approach to the project approval process.

Project Status

As of January 2000, the project review and approval process had not been completed since the call for proposals issued in October 1999. The Industrial Ecology Center had not received an approved list of projects, although the contractor has expended $8.0 million of the $13.6 million (59 percent) appropriated for the MP4 program.

Summary

The Army has staffed a proposal to realign executive agent functions to conform to Army Secretariat policy and to address known deficiencies with the current executive agency appointment. When implemented, the proposal should allow better coordination and agreement between the Military Department environmental secretariats that use NDCEE to support their environmental program requirements.

Recommendations and Management Comments

B.1. We recommend that the Secretary of the Army review program executive agent responsibilities and reappoint the executive agent for the National Defense Center for Environmental Excellence.

B.2. We recommend that the executive agent for the National Defense Center for Environmental Excellence establish a methodology to ensure coordination and agreement within the DoD Working Group.

Management Comments. The Army concurred and agreed to reappoint the executive agent for the National Defense Center for Environmental Excellence. The Secretary of the Army reassigned the responsibility to the Assistant Secretary of the Army (Installations and Environment) on March 14, 2000. The Army also stated that, even though the process was cumbersome, they have been coordinating proposals; the charter for the Working Group was under revision; and 21 projects were briefed and approved in January and February 2000.

Appendix A. Evaluation Process

This is the first in a series of reports being issued by the Inspector General, DoD, on the NDCEE program.

Scope

We reviewed the NDCEE research and development contract DAAE30-98-C-1050 awarded April 30, 1998, as a noncompetitive, cost-plus-fixed-fee, level of effort contract with a ceiling price of $150 million. We limited our evaluation to contract modification P00011, issued for $13.6 million research and development funds for the MP4 task. For the MP4 requirements, we evaluated the CTC lease terms and space utilization for commercial facilities in Johnstown, Pennsylvania, and Edgefield, South Carolina.

DoD-Wide Corporate Level Government Performance and Results Act Coverage. In response to the Government Performance Results Act, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal and subordinate performance goal.

FY 2001 DoD Corporate Level Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs and reengineer the Department to achieve a 21st century infrastructure. (01-DoD-2) **FY 2001 Subordinate Performance Goal 2.3:** Streamline the DoD infrastructure by redesigning the Department's support structure and pursuing business practice reforms. (01-DoD-2.3).

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

Methodology

Use of Computer-Processed Data. We did not used computer-processed data for this evaluation.

Evaluation Type, Dates, and Standards. We performed this program evaluation from July through December 1999, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

Contacts During the Evaluation. We visited or contacted individuals and organizations within DoD and Concurrent Technologies Corporation located in

Johnstown, Pennsylvania, and Edgefield, South Carolina. Further details are available upon request.

Prior Coverage

During the last 5 years, there were no audits or evaluations performed that related specifically to the Army NDCEE program and the associated procurement contracts.

Appendix B. Edgefield Facility Specifications

Renovation Categories

Edgefield Facility Project Costs. In the September 4, 1998, "Project Cost Distribution," CTC shows a total Edgefield facility renovation cost of $7 million. The costs included $3.2 million for the facility lessor, $3.2 million for Army MP4 funding, and $623,000 designated as an "Other" category. Utility categories include $2.1 million of the program budget funds. Networking, furniture, and telecommunication categories account for $600,000 of the "Other" category.

Construction Estimate. A December 10, 1998, CTC memorandum shows a projected cost of $3.2 million for general construction in the Edgefield facility for 66,000 square feet of net usable floor space. In the estimate, CTC included $430,000 in management, overhead, profit, and contingency costs. CTC used this cost estimate to justify awarding the subcontract on a sole source basis.

Facility Renovation Areas. The former Addison Mill facility, located at 100 CTC Drive in Edgefield, South Carolina, is a large, two-story turn of the century factory building with a basement that has been extensively renovated. All utilities, including plumbing, electrical, heating/ventilation, and air conditioning were replaced within the renovation scope of work. The building renovations included replacing windows with insulated glass and replacing the roof with a commercial rubberized fabric guaranteed for 10 years. The existing oak floors were sanded, finished, and sealed.

Electronic Capabilities. The electronic data capability in the facility consisted of a T1 telecommunications line to a computer room. The computer room ties the T1 line to a router that feeds into the data terminals of the facility. Nothing within the data capability construction appeared unique for an office building being renovated in 1999.

Lease Terms

Lease Options. The facility lease term is for 3 years, from July 1, 1999 through June 30, 2001. The lease commencement date was defined as the date that construction of the premises was substantially completed with permitted use as an office facility. The lease includes a provision that allows CTC to terminate the lease with a 30-day written notice provided that Government funding is not available, and that documentation is provided that shows the unavailability of Government funding.

Appendix C. Johnstown Facility Specifications

DEFENSE LOGISTICS AGENCY
DEFENSE CONTRACT MANAGEMENT COMMAND
PITTSBURGH
1612 WILLIAM S. MOORHEAD FEDERAL BUILDING
1000 LIBERTY AVENUE
PITTSBURGH, PENNSYLVANIA 15222-4190

FEB 16 2000

REPLY TO
ATTENTION OF: DCMDE-GPOE (Spresser, J/304-728-6058)

Date: 11 February 2000

SUBJECT: Space Utilization Technical Review
Concurrent Technologies Corporation
Johnstown, PA

1. REFERENCES:

a. DCMDE-GPOE ACO memo, subject as above, dated 9 November 1999.

b. Supporting data furnished by Concurrent Technologies Corporation (CTC)

2. PURPOSE:

As requested by DCMC Pittsburgh Price Analyst's memo dated 9 Nov 99, a technical review of CTC's facilities located in Johnstown, PA was accomplished by DCMDE-GPOE General Engineer, James P Spresser This report is to provide an analysis of the necessity, quantity and reasonableness of the utilization of the space being occupied by CTC in Johnstown, PA

3. BACKGROUND:

CTC is organized as an independent nonprofit corporation to serve as a resource to assist the nation's industrial base through an ongoing relationship with government, industry, and academia. Through research, development, deployment, training and education activities aimed at the solution of manufacturing problems, CTC serves a broad range of clients Through a unique concurrent engineering framework, CTC provides comprehensive solutions to improve clients' product quality, productivity, and cost effectiveness. CTC pursues these goals through the operation of five Science and Technology Centers:

- Mid Atlantic Regional Consortium for Advanced Vehicles
- National Applied Software Engineering Center
- National Center for Excellence in Metalworking Technology
- National Defense Center for Environmental Excellence
- National Electronic Commerce Resource Center

1

4. PLANT VISIT:

a. The following contractor personnel were contacted during the course of obtaining information

Margaret DiVirgilio	Executive Director & Treasurer
Mark Funyak	Manager, Facility Operations
Dave William	Facilities Engineer
Al Steffey	CAD Engineer

b During the course of the plant visit, a tour of the facilities was made The five Science and Technology Centers are managed through three operating divisions:

- Environmental Technology Facility (ETF) – Environment & Energy
- Manufacturing Technology Facility (MTF) – Manufacturing & Materials
- Systems Technology Facility (STF) – Systems & Software

In addition, some corporate office space is being utilized in East Hills Facility (EHF)

Each of these facilities was reviewed.

5. TECHNICAL ANALYSIS:

a. **ATTACHMENT I** is a map of the locations of CTC's facilities in the Johnstown, PA area CTC Annex is no longer utilized and was turned back to the landlord when their lease expired. Also attached are drawings of the various buildings where space is being used in Johnstown. **ATTACHMENT II** outlines the space occupied by use: Process, Office Areas, Common Areas, Special Purpose Areas, and areas subleased. **ATTACHMENT III** summarizes the space occupied and analysis of office space.

b. Space occupied was reviewed for all buildings by all categories. These categories are summarized in **ATTACHMENT II.** Process area consists of actual workshop and demonstration areas comprising of established machine tools and other equipment Common areas consists of reception areas, break rooms, restrooms, etc. Special Purpose areas are made up of conference rooms, computer workshops, communication rooms, etc.

c **System Technology Facility (STF)** consists of 126,212 square feet, which is primarily being used for office space (54,252 sq. ft). **Refer to ATTACHMENT II.** Approximately 30,000-sq. ft of the Special Purpose area is under renovation for a new top secret program The remainder is made up of conference rooms, workshops, etc. The common areas consist of 10,049 square feet 18,157 sq.ft (Approximately 14% of the building space) is being subleased to a local community college for classroom space. The occupancy of office space was reviewed both by floor space and number of offices. It was determined that the offices are 88% occupied by number of offices and 95%by floor space **Refer to ATTACHMENT III.** No exception is taken.

d **Manufacturing Technology Facility (MTF)** consists of 199,946 square feet Process (80,498), Special Purpose (29,590) and Labs (14,424) use 62% of the building **Refer to ATTACHMENT II.** These categories were reviewed for utilization and no exception is taken. The office space was reviewed was reviewed, both by floor space and number of offices. Occupancy was determined to be at 81% by number of offices and 93% by floor space. 14,424 Sq. Ft (approximately 15%) has been categorized as Common Space Approximately 50% of this is poorly utilized and is questioned. No exception is taken on the remaining floor space

e. Environmental Technology Facility (ETF) consists of 295,132 square feet and is by far the largest of CTC's buildings in Johnstown. The office space (61,786), Labs (7,804) and the common areas (12,305) take up approximately 28% of the building floor space They were reviewed and no exception is taken. The occupancy of the office space is 85% by number of offices and 93% by floor space. The Process Areas (169,158) and the Special Purpose Areas (40,819) take up approximately 71% of the building space. A high percentage of this space appears to be underutilized, some as open floor space and much of the area with idle equipment. CTC's response to these questions is outlined in ATTACHMENT IV (CTC letter dated 21 Jan 00) Based on CTC's response, no exception is taken

f East Hills Facility (EHF). CTC occupies 6,727 square feet of space to house their President & CEO and their Executive Vice President & COO as well as their executive staff. No exception is taken

6. SUMMARY

As indicated in the technical analysis above, the evaluating engineer did take exception to the utilization of Process Areas and Special Purpose Areas in Manufacturing Technology Facility (MTF) and the Environmental Technology Facility (ETF), however, CTC has set forth justification based on pending plans (see attachment IV). Since the areas in question make up approximately 30% of CTC's total space, it is suggested that a follow-up visit be made in approximately one year to review these plans Office space accounts for 26% of their total space. On the overall, the percent of office space occupied is 85% by number of offices and 94% by floor space 85% is considered reasonable, allowing for additional personnel as major programs and contracts are received In addition, with proper planning, as leases expire, much of the space presently subleased, 22,292 square feet (3.5%of the total), could be made available for CTC's use

It is recommended that acceptance of utilization as is be given, based on the plans outlined in Attachment IV with the reservation for a follow-up review in approximately one year

Attachments (5)

JAMES P SPRESSER
General Engineer
DCMDE-GPOE

LIST OF ATTACHMENTS

Attachment I	Map of CTC Locations in Johnstown, PA*
Attachment II	Summary of Space Utilization
Attachment III	Analysis of Office Space
Attachment IV	CTC Letter, dated 21 Jan 2000 *
Attachment V	Drawings – Site plans (8 dwgs) *

* Attachments omitted because of length. Copies will be provided upon request.

ATTACHMENT II

SUMMARY OF SPACE UTILIZATION
CTC JOHNSTOWN, PA FACILITIES

LOCATION/USE	PROCESS	OFFICE	LAB	COMMON	SPECIAL PURPOSE	SUBLEASE	TOTAL
System Technology Facility (STF)							
First Floor	3,660	20,200	334	4,540	30,557	5,645 *	64,936
Second Floor	-	34,052	2,473	5,509	6,730	12,512	61,276
Subtotal	3,660	54,252	2,807	10,049	37,287	18,157	126,212
Manufacturing Technology Facility (MTF)							
First Floor	80,498	24,730	14,424	13,148	9,800	875	143,475
Second Floor	-	20,158	-	16,523	19,790	-	56,471
Subtotal	80,498	44,888	14,424	29,671	29,590	875	199,946
Environmental Technology Facility (ETF)							
Ground Floor	89,855	3,827	-	2,461	24,237	2,925	123,305
First Floor	79,303	38,042	2,657	6,848	10,472	335	137,657
Second Floor	-	19,917	5,147	2,998	6,110	-	34,170
Subtotal	169,158	61,786	7,804	12,305	40,819	3,260	295,132
East Hills Facility (EHF)	-	3,427	112	3,188	-	-	6,727
TOTAL	253,316	164,353	25,147	55,213	107,696	22,292	628,017

* Renovation/Construction of existing building space for new Top Secret Program

ATTACHMENT III

ANALYSIS OF OFFICE SPACE

ANALYSIS BY NUMBER OF OFFICES

	TOTAL	OCCUPIED	VACANT	PERCENT OCCUPIED
System Technology Facility (STF)	243	214	29	88%
Manufacturing Technology Facility (MTF)	181	146	35	81%
Environmental Technology Facility (ETV)	239	202	37	85%
East Hills Facility (EHF)	8	7	1	88%
TOTAL	671	569	102	85%

ANALYSIS BY OFFICE FLOOR SPACE

	TOTAL	OCCUPIED	VACANT	PERCENT OCCUPIED
System Technology Facility (STF)	54252	51611	2641	95%
Manufacturing Technology Facility (MTF)	44888	41818	3070	93%
Environmental Technology Facility (ETV)	61786	57270	4516	93%
East Hills Facility (EHF)	2685	2685	0	100%
TOTAL	163611	153384	10227	94%

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
  Director, Defense Logistics Studies Information Exchange
  Director, Defense Research and Engineering
  Deputy Under Secretary of Defense (Environmental Security)
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)

Department of the Army

Assistant Secretary of the Army (Acquisition, Logistics, and Technology)
Assistant Secretary of the Army (Financial Management and Comptroller)
Assistant Secretary of the Army (Installations, Logistics, and Environment)
Army Materiel Command
  Commander, Tank-Automotive and Armaments Command, Army Research and Development Center
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Installations and Environment)
Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations and Environment)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Contract Management Agency

Non-Defense Federal Organizations and Individuals

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

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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 Reform
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

Department of the Army Comments

DEPARTMENT OF THE ARMY
ASSISTANT SECRETARY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

April 13, 2000

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit of the National Defense Center for Environmental Excellence DODIG, Report No. 9CB-5016, February 1, 2000

In reference to the audit, subject as above, you recommended that the DOD Executive Agency be changed from the U.S. Army Materiel Command to the Army Secretariat. On March 14, 2000, subsequent to the release of your report, the Secretary of the Army reassigned the DOD Executive Agency responsibility to my office This action is concurrent with the report recommendations and the direction given to my Deputy Assistant for Environment, Safety and Occupational Health by the Deputy Under Secretary of Defense (Environmental Security) and the Deputy Under Secretary Defense (Science & Technology).

Since my staff has met twice with your team to review, in detail, the findings and recommendations, we have no objections to the first report. We await your findings and recommendations for the two follow-on reports and completion of your investigation. Upon completion of your investigation, my office will develop a plan to address concerns raised by the report in accordance with guidance received from the Deputy Under Secretary of Defense (Environmental Security).

Mahlon Apgar, IV

Enclosure

cf:
DUSD(ES)

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SECRETARY OF THE ARMY
WASHINGTON
March 14, 2000

MEMORANDUM THRU DIRECTOR OF THE ARMY STAFF

FOR COMMANDER, U.S. ARMY MATERIEL COMMAND

SUBJECT: The National Defense Center for Environmental Excellence

Over the past few years, the Army has made a conscious effort to place its DOD Executive Agency responsibilities within the purview of the highest staff level office within the Secretariat, ensuring that these critical missions are carried out to the fullest level of success.

To that end, I am reassigning the Executive Agency role of the DOD National Defense Center for Environmental Excellence (NDCEE) to the Assistant Secretary of the Army (Installations and Environment) (ASA(I&E)). The ASA(I&E) is responsible for the transfer and use of technology across all environmental quality areas Consistent with its role as Executive Agent, the ASA(I&E) will provide oversight in the areas of policy, budget and other areas of interservice concerns to NDCEE. As deemed appropriate, the ASA(I&E) will task the Army Staff to provide support in overseeing day-to-day operations at NDCEE. This supercedes the April 11, 1991, Secretary of the Army memorandum regarding the NDCEE.

To further promote and leverage the Army's Environmental Quality Technology program successes, I want the NDCEE to address technologies for all environmental quality (including pollution prevention, conservation, compliance, and restoration). The NDCEE has matured into a national asset chartered to promote the demonstration/ validation of innovative environmental technologies aimed at reducing the total ownership costs of DOD weapon systems.

Louis Caldera

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DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
5001 EISENHOWER AVENUE, ALEXANDRIA, VA 22333-0001

REPLY TO ATTENTION OF

AMCIR-A (36-2a) 28 April 2000

MEMORANDUM FOR MR. DONALD C. CRESS, PROGRAM DIRECTOR, ORGANIZATIONAL EFFECTIVENESS, U.S. ARMY AUDIT AGENCY, 3101 PARK CENTER DRIVE, ALEXANDRIA, VA 22302-1596

SUBJECT: DODIG Draft Report, Program Management of the Materials and Processes Partnership for Pollution Prevention, Project 9CB-5016 (AMC No. D9949)

1. We are enclosing our position on subject report IAW AR 36-2. We concur with the actions taken or proposed by the U.S Army Tank-Automotive and Armaments Command.

2. Point of contact for this action is Mr. Robert Kurzer, (703) 617-9025, e-mail - bkurzer@hqamc.army.mil.

3. AMC -- Your Readiness Command . . . Serving Soldiers Proudly!

FOR THE COMMANDER:

J. CTSEK
COL, GS
Assistant Chief of Staff
for CHARLES S. MAHAN, JR.
Major General, USA
Chief of Staff

Encl
as

DEPARTMENT OF THE ARMY
UNITED STATES ARMY TANK-AUTOMOTIVE AND ARMAMENTS COMMAND
WARREN, MICHIGAN 48397-5000

REPLY TO
ATTENTION OF

5 APR 2000

AMSTA-CM-PA (36-2b)

MEMORANDUM FOR Commander, U.S. Army Materiel Command, **ATTN:** **AMCIR-A,** 5001 Eisenhower Avenue, Alexandria, VA 22333-0001

SUBJECT: DoDIG Draft Report, Program Management of the Materials and Processes Partnership for Pollution Prevention, Project 9CB-5016 (AMC No. D9949)

1. Reference your memorandum, dated 9 February 2000, SAB.

2. In accordance with AR 36-2, we are attaching the TACOM position to the subject draft report. Our reply contains additional facts for the auditors' consideration. Also, we concur with four of the six recommendations made to TACOM. We do not agree with the audit recommendation which was to require us to request construction approval for the renovations made to Concurrent Technologies Corporation's facility in Edgefield, South Carolina. Further, we disagree with the recommendation that we direct Concurrent Technologies Corporation to perform a lease/purchase analysis for present and future leased space requirements. Our rationale for these two nonconcurrences, along with a description of our planned corrective actions regarding the other four recommendations, are contained in the reply.

3. The TACOM point-of-contact for this audit is Chuck Krulic, (DSN) 786-6158, or by Email at krulicc@tacom.army.mil.

Atch

GARY G. BISHOP
Colonel, GS
Chief of Staff

PROJECT No. 9CB-5016, Program Management of the
Materials and Processes Partnership for Pollution Prevention

Finding A: The Army did not require CTC to conduct a lease/purchase analysis for a leased facility in Edgefield, South Carolina (Edgefield facility), under contract DAAE30-98-C-1050, modification P00011. The failure to conduct a lease/purchase analysis occurred because TACOM-ARDEC contracting officials did not adequately evaluate the MP4 task proposal negotiated with CTC. As a result, TACOM-ARDEC paid $3.0 million for leased facility renovations that resulted in allocated Government costs of $108 per square foot for office space compared to the national average of $17 per square foot for leased commercial space.

Additional Facts: The following comments are submitted for clarification:

Lease/Purchase Analysis: The IG report cites OMB Circular A-122, "Cost Principles for Non-Profit Organizations", Attachment B, paragraph 23a, as the basis for determining that a lease/purchase analysis was required to be conducted. However, research by this office, the Administrative Contracting Officer and DCAA has determined that a lease/purchase analysis does not apply, in this instance for the following reasons:

a. Para 23a(1) "Interest" states that "...interest on debt incurred after the effective date of this revision to acquire or replace capital assets (including renovations, alterations, equipment, land and capital assets acquired through leases), and used in support of sponsored agreements is allowable, provided that ....(b) for facilities costing over $500,000 the non-profit organization prepares, prior to the acquisition or replacement of the facility, a lease/purchase analysis...". CTC has not claimed as an allowable cost "interest on debt" incurred to acquire or replace capital assets.

b. During the process of revising the interest provisions of OMB Circular A-122, OMB published the comments received to the proposed revision as well as the OMB responses. One of those responses stated "A lease/purchase analysis is not required for renovations or alterations under Para 19.a.(1)(b). (Note: Para 19.a.(1)(b) was re-numbered to Para 23.a. (1((b) in a subsequent revision to the Circular.)

Lease Costs: The IG Report states that the leased facility costs equate to $108 per square foot compared to the national standard of $17 per square foot. The IG Report arrived at the $108 figure by adding the $3M renovation costs to the annual lease costs ($720K) and dividing this sum by the facility's second floor area (34,500 s.f.), which is the only space currently being occupied by CTC. The IG report considers only the currently occupied space and only distributes the renovation costs over the first year of the three year lease. Appropriately applying years two and three of the lease term to the IG calculation would result in square footage costs of $20.87. However, a depiction of the lease costs that is even more accurate, should take into consideration the three year term of the lease, and should be based on the total USEABLE office

space, which for the Edgefield facility includes two floors, or 69,000 square feet. The fact that CTC currently occupies only one floor of the facility is relevant for the purposes of determining allowability of costs only. This fact is not germane when doing a comparison of lease costs to national averages. Therefore, a more reasonable method of calculating the square footage costs would be based on the 69,000 square feet of office space, and would distribute the $3M in renovations over the three year term of the lease. This method would result in lease costs of $24.93 for each year of the three year lease term.

Recommendation A.1: We recommend that the Commanding General, Army Tank-automotive and Armaments Command:

a. Request construction approval from the Assistant Secretary of the Army for Acquisition, Logistics, and Technology for the Concurrent Technologies facility in Edgefield, South Carolina.

Action Taken: Nonconcur. 10 U.S. Code Section 2353(a) indicates that a contract for R&D may provide for the acquisition or construction of research, developmental or test facilities and equipment that the Secretary of the Military Department determines to be necessary for the performance of the contract. That section further states that it does not authorize new construction or improvements having general utility. Since this modification to the Edge field facility is of a "general utility" use, the provisions of 10 U.S.C. Section 2353 are not applicable. The facility modification was neither required nor authorized by the contract. Resolution of this matter is currently being pursued with the contractor, as described in response to Recommendation A.1.b.

b: Review the $3.0 million charged as direct costs for the facility construction in Edgefield, South Carolina, and take appropriate action.

Action Taken: Concur. DCAA has performed an audit of costs incurred under the contract and has questioned $1.5M of the $3.0M as being unallocable and unallowable based upon a Government technical review of space utilization at the Edgefield facility. The technical review disclosed one floor of the two story building is unused and CTC's plans for the space are uncertain. DCAA considers 50% of the renovation costs to be unallocable and unallowable because no benefit is being derived from the unused space, and the space was not deemed necessary when acquired.

Since receipt of the DCAA audit, TACOM-ARDEC's contracting officials have visited the Edgefield facility, discussed CTC's plans for the facility, and met with DCMC, DCAA,and CTC concerning the audit results. The Government team's position is that the entire $3.0M questioned is unallowable as a direct charge to the contract. TACOM-ARDEC's contracting officials will be coordinating with DCMC and DCAA and negotiating with CTC to eliminate the $3.0M as a direct charge to the contract. Only those costs that are ultimately determined to be allowable will be an indirect charge to the contract. Estimated completion date is 20 April 00.

c: Review the performance of the Procuring Contracting Officer and the Contracting Officer's Technical Representative appointed to contract DAAE30-98-C-1050, and take appropriate action.

Final Report Reference

Action Taken: Concur. Pursuant to AR15-6, the actions of TACOM-ARDEC personnel in regard to the CTC contract are being reviewed. Completion of this review and assessment of its findings will determine whether any further action is required. Estimated completion date is 20 April 00.

It should be noted that contractual decisions made were based on data provided by the Contractor. In a very significant aspect of this review, the revelation that $3M was used to transform a mill into a general purpose office building, the Contractor not only failed to divulge their plans, but led contracting officials and management to believe that the facility renovations were needed in order to perform work of a technical nature. The task assignment process is currently under review which includes but is not limited to many of the concepts of partnering, teaming, IPT's, and ALPHA contracting. This process will be adjusted based on the results of that review. All affected CTC operating system approvals are being reviewed by the appropriate agency. That review should be complete and adjustments made, if appropriate, no later than 30 May 00.

Recommendation A.2: We recommend that the Tank-automotive and Armaments Command Armament Research, Development and Engineering Center procuring contracting officer appointed to contract DAAE30-98-C-1050:

a. Direct Concurrent Technologies Corporation to comply with all provisions of Office of Management and Budget Circular A-122, "Cost Principles for Non-Profit Organizations", June 1, 1998, for National Defense Center for Environmental Excellence contracts.

Action Taken: Concur. A letter will be prepared directing CTC to comply with all those provisions of the cited circular that apply. ACO instructions will be amended as appropriate. Estimated completion date is 20 April 00.

Revised

b: Direct Concurrent Technologies Corporation to perform a lease/purchase analysis for present and future leased space requirements for the National Defense Center for Environmental Excellence contracts.

Action Taken: Nonconcur: In accordance with research and advice from Defense Contract Audit Agency and the Administrative Contracting Officer, it has been determined that CTC is not required to perform a lease/purchase analysis. However, to determine reasonableness of costs, a letter is being staffed which will require CTC to prepare lease analysis documents. Both DCAA and ACO concurred in this approach.

c: Comply with the Delegation of Contract Authority Terms with the Contract Administrative Office, Defense Contract Management Command, for contract DAAE30-98-C-1050.

Action Taken: Concur. To clarify, pursuant to the normal Delegation of Contract

-3-

Administration procedure, the Administrative Contracting Officer was delegated the authority to approve or consent to the placement of subcontracts. Subject to the terms of that delegation, it is the Contractor's responsibility to provide notification to the ACO of a planned subcontract. In this case CTC did not comply with the notification requirement. As was noted above this system is being reviewed by the appropriate agency. Estimated completion date is 30 May 00.

Finding B: The Army did not properly plan program, or manage the Materials and Processes Partnership for Pollution Prevention project selection process. The inadequate management of the MP4 project selection process occurred because the Army executive agent was not actively involved in the process and there was a lack of coordination and agreement between the Department of Defense Working Group (DoD WG) members that oversee project selection for National Defense Center for Environmental Excellence (NDCEE). As a result, Concurrent Technologies Corporation (CTC) expended 59 percent of the $13.6 million program funds without an approved final project list from the Army.

Additional Facts: The following comments are submitted for clarification:

Program Guidance: The MP4 Project is a Congressional Interest item which has been the focus of extensive Senate Armed Services Committee (SASC) staff and Deputy Under Secretary of Defense (Environmental Security) DUSD(ES) interest. Limited guidance and related concerns on Congressional Intent resulted in delays in the normal NDCEE process and schedule. The established NDCEE project solicitation process would have gone out in Jan-Feb 99 time frame for a call for proposals through the DoD WG. The proposal process includes a two step methodology to evaluate and rank proposals based on addressing high priority environmental technology requirements and the project's technical merit.

The normal NDCEE process would have identified, evaluated, and recommended valid proposal candidates to the Executive Agent for final approval in the July-August 1999 time frame. This was successfully demonstrated in our second call for proposals, which was accomplished in four months.

Leadership and Coordination: Without guidance on the determination of Congressional intent, the TACOM-ARDEC program manager worked to ensure that the MP4 program was coordinated throughout the DOD. Using the DoD WG (with membership determined by the respective Agencies) an oversight group that had been established at the inception of the NDCEE program did this. During this period the program manager constantly coordinated the MP4 program with DoD WG attempting to gain a consensus of useful projects for the program. Therefore, even though the process has been more cumbersome than necessary the money has not been wasted and the program will produce positive results for the DOD.

Project Status: The Charter for the DoD WG has been revised/drafted in Dec 99 and will be finalized shortly. On January 21,2000 the first eight MP4 projects were briefed and approved by an Army Executive Board (ASA, IE; ASA ALT; AMC HQ; HQ COE; and TACOM-ARDEC). The second batch of candidate proposals was reviewed by the DoD WG on 25 Feb 00 and recommended 13 proposals for approval.

Executive Agent Status:
Secretary of the Army signed a memo dated 14 March 2000 stating that the Army has made a conscious effort to place its DoD Executive Agency responsibilities within the

purview of the highest staff level office within the Secretariat. To that end the Executive Agency Role of the NDCEE was reassigned to ASA (I&E).

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