

*Audit*



*Report*

DEFENSE REUTILIZATION AND MARKETING SERVICE  
PUBLIC/PRIVATE COMPETITION

Report No. D-2002-043

January 25, 2002

Office of the Inspector General  
Department of Defense

| Report Documentation Page                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                            |                                        |
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| <b>Supplementary Notes</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                            |                                        |
| <b>Abstract</b><br><p>The audit was performed in response to a request from Congressman John M. McHugh of New York. Congressman McHugh asked us to review a constituents allegations relating to the Office of Management and Budget Circular A-76 public/private competition to provide logistics services at 10 Defense Reutilization and Marketing Service offices. The constituent alleged that the selection process was biased and designed to support the award of a contract to Resource Consultants, Incorporated, because the contractors program director was a close friend of the Commander of the Defense Reutilization and Marketing Service. The constituent also alleged that the contractor was not sufficiently staffed to perform the required logistics functions and intended to default on the contract.</p> |                                                            |                                        |
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### **Acronyms**

|       |                                             |
|-------|---------------------------------------------|
| AFGE  | American Federation of Government Employees |
| DLA   | Defense Logistics Agency                    |
| DRMOs | Defense Reutilization and Marketing Offices |
| DRMS  | Defense Reutilization and Marketing Service |
| OMB   | Office of Management and Budget             |
| RCI   | Resource Consultants, Incorporated          |



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

January 25, 2002

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY  
COMMANDER, DEFENSE REUTILIZATION AND  
MARKETING SERVICE

SUBJECT: Audit Report on Defense Reutilization and Marketing Service  
Public/Private Competition (Report No. D-2002-043)

We are providing this report for your information and use. We conducted the audit in response to a request from Congressman John M. McHugh to review allegations from a constituent relating to the Office of Management and Budget Circular A-76 public/private competition to provide logistics services at 10 Defense Reutilization and Marketing Service offices. No written response to this report was required, and none was received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Henry F. Kleinknecht at (703) 604-9324 (DSN 664-9324) (hkleinknecht@dodig.osd.mil) or Mr. Kent E. Shaw at (703) 604-9228 (DSN 664-9228) (kshaw@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

*David K. Steensma*

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Acting Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

**Report No. D-2002-043**

**January 25, 2002**

(Project No. D2000CH-0076.002)

### **Defense Reutilization and Marketing Service Public/Private Competition**

#### **Executive Summary**

**Introduction.** The audit was performed in response to a request from Congressman John M. McHugh of New York. Congressman McHugh asked us to review a constituent's allegations relating to the Office of Management and Budget Circular A-76 public/private competition to provide logistics services at 10 Defense Reutilization and Marketing Service offices. The constituent alleged that the selection process was biased and designed to support the award of a contract to Resource Consultants, Incorporated, because the contractor's program director was a close friend of the Commander of the Defense Reutilization and Marketing Service. The constituent also alleged that the contractor was not sufficiently staffed to perform the required logistics functions and intended to default on the contract.

**Objectives.** The objective of the audit was to determine the merit of the allegations.

**Results.** We did not substantiate the allegation that the contract award to Resource Consultants, Incorporated, was biased because their program director was friends with the then Commander, Defense Reutilization and Marketing Service. We determined that the Commander, Defense Reutilization and Marketing Service knew the Resource Consultants, Incorporated program director, but they were not friends, and the Commander did not participate in the award process. The Commander, Defense Logistics Support Command, made the award decision. The allegation that Resource Consultants, Incorporated, was not sufficiently staffed to perform the required logistics functions also was not substantiated. As of September 2001, performance levels were being met, and there were no indications that the contractor would default on its obligations. See the Summary of Allegations and Audit Results section for a discussion of the allegations.

**Management Comments.** We provided a draft of this report on December 21, 2001. No written response to this report was required, and none was received. Therefore, we are publishing this report in final form.

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## Background

The audit was performed in response to Congressman John M. McHugh's request that we review allegations from a constituent relating to the Office of Management and Budget (OMB) Circular A-76 public/private competition to provide logistics services at 10 Defense Reutilization and Marketing Service (DRMS) offices. The constituent alleged that the selection process was biased and designed to support the award of a contract to Resource Consultants, Incorporated (RCI) and that the contractor was not sufficiently staffed to perform the required logistics functions and intended to default on the contract.

**Defense Logistics Agency.** The Defense Logistics Agency (DLA) provides worldwide logistics support for the Military Departments and the Unified Combatant Commands under conditions of peace and war. It also provides logistics support to other DoD Components and certain Federal agencies, foreign governments, international organizations, and others as authorized. Headquartered in Battle Creek, Michigan, DRMS is a DLA primary-level field activity.

**DRMS Function and Structure.** The DRMS disposes of excess property received from DoD Components. Property that is not reutilized by DoD, transferred to other agencies, or donated to state or local governments is sold to the public as surplus. DRMS accomplishes this through reutilization, transfer, donation, or sale of the property. Excess property is transported to collection points called Defense Reutilization and Marketing Offices (DRMOs).

**Public/Private Competition for Logistics Services at DRMOs.** In June 1998, DLA announced the OMB A-76 public/private competition for logistics functions of receiving, storing, and issuing excess and surplus useable property; inventory accountability; and customer assistance at 10 DRMOs. The DRMOs are located in the New England and Mid-Atlantic states: Portsmouth, New Hampshire; Groton, Connecticut; Watertown, New York; Lakehurst, New Jersey; Tobyhanna, Pennsylvania; Chambersburg, Pennsylvania; Mechanicsburg, Pennsylvania; Fort Meade, Maryland; Richmond, Virginia; and St. Juliens, Virginia. The objective of the A-76 competition was to reduce DLA operating costs while preserving the quality of the output at the DRMOs. In June 1999, Defense Supply Center Columbus issued solicitation SPO700-99-R-7004 requesting proposals for performance of the DRMO logistics functions for a 3-year base period and two 1-year option periods. The solicitation provided that a "best value" offer would be selected, based on four evaluation factors: cost/price (which was approximately equal to the remaining three evaluation factors), technical, past performance, and socioeconomic factors. The solicitation further provided that the best value contractor offer would be compared to the Government's in-house cost estimate in accordance with the terms of the OMB Circular A-76 to determine if the contractor or in-house performance of the services was more cost-effective. The solicitation closed on October 1, 1999.



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**DRMS A-76 Award.** Four offers were received, all of which were determined to be in the competitive range: RCI; Systems Support Alternatives, Inc.; VSE Corporation; and Morrison Knudsen Corporation. After a formal selection process, based on the four evaluation factors, RCI was selected as the best value offeror. In accordance with OMB Circular No. A-76 cost comparison procedures, a final comparison was made between the Government in-house cost estimate and the best value industry offeror. The comparison resulted in the award to RCI. The adjusted total cost to contract with RCI for the services was \$17,515,555, approximately \$1 million less than the Government's offer, \$18,517,760, over the 5 year period.

**Appeals to Cost Comparison Decision.** The DLA received four administrative appeals challenging the decision to award the contract to RCI. American Federation of Government Employees (AFGE) Local 702, AFGE Council 169, two DRMO employees together, and RCI submitted an appeal to preserve its right to address several issues during the A-76 administrative appeals period. On June 14, 2000, the appeals were denied. The Administrative Appeal Authority sustained three items that were not substantial enough to change the tentative decision to award to RCI.

## **Objective**

The objective of this audit report was to determine the merit of the allegations in an October 5, 2000, complaint through Representative John M. McHugh, of New York. See Appendix A for a discussion of the audit scope and methodology. See Appendix B for prior coverage related to the audit objectives.

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## Summary of Allegations and Audit Results

A summary of the allegations and our audit results are discussed below.

**Allegation 1.** The selection process was biased and designed to support the award of a contract to RCI because the RCI program director was a close friend of the DRMS Commander at time of the complaint.

**Audit Results.** The allegation was not substantiated. The DRMS Commander did not play a role in the award of the contract to RCI. The Source Selection Authority, which was the Commander, Defense Logistics Support Command, made the award decision. Both the Commander of the DRMS and the Program Director for RCI were contacted and both stated that although they knew each other, there was no personal relationship or friendship.

**Allegation 2.** The contractor was not sufficiently staffed to perform the required logistics functions and intended to default on the contract.

**Audit Results.** The allegation was not substantiated. We did not identify any attempts by RCI to default on the DRMS contract. The contract was awarded to RCI on June 14, 2000, and the transition period was to be completed by November 3, 2000. The administrative contracting officer stated that as of November 8, 2000, the contractor was at 91 percent of the proposed staffing level, but not in danger of defaulting on the contract although several requirements still needed to be implemented. The Portsmouth and Tobyhanna locations were non-operational, and requirements for new employee training of hazardous materials had not been fulfilled. As of February 2001, the administrative contracting officer stated that the Portsmouth and Tobyhanna locations were operational and contract default was not an issue. However, hazardous materials training for new employees had not been completed. As of September 2001, hazardous material training had been completed and the contractor was meeting performance levels.

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## Appendix A. Audit Process

### Scope and Methodology

**Work Performed.** We reviewed DLA and DRMS methodology and supporting documentation for the OMB Circular A-76 competition and award for the 10 DRMOs located in the New England and Mid-Atlantic states. The time frame for this A-76 competition ranged from the announcement in June 1998 to the final award decision in June 2000. We interviewed DLA, Defense Supply Center Columbus, and DRMS personnel involved in the OMB Circular A-76 competition and award process, including members of the Performance Work Statement Team, Most Efficient Organization study team, Source Selection Evaluation Board, Source Selection Advisory Council members, and the Contracting Officer.

**Limitation to Scope.** We did not review the management control program because the audit scope was limited to the allegations received.

**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.

**Use of Computer-Processed Data.** We did not use computer-processed data in the performance of this audit.

**Audit Type, Dates, and Standards.** We performed this program audit from October 2000 through December 2001, in accordance with generally accepted government auditing standards.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available on request.

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## **Appendix B. Prior Coverage**

### **General Accounting Office**

General Accounting Office, Report No. NSIAD-00-107 (OSD Case No. 2020), “DoD Competitive Sourcing: Savings Are Occurring, but Actions Are Needed to Improve Accuracy of Savings Estimates,” August 8, 2000

General Accounting Office, Report No. NSIAD-99-152 (OSD Case No. 1827), “DoD Competitive Sourcing Lessons Learned System Could Enhance A-76 Study Process,” July 21, 1999

General Accounting Office, Report No. NSIAD-99-44 (OSD Case No. 1725), “DoD Competitive Sourcing: Results of Recent Competitions,” February 23, 1999

General Accounting Office, Report No. NSIAD-99-46 (OSD Case No. 1727), “DoD Competitive Sourcing: Questions About Goals, Pace, and Risks of Key Reform Initiative,” February 22, 1999

General Accounting Office, Report No. NSIAD-98-82 (OSD Case No. 1535), “Base Operations: DoD’s Use of Single Contracts for Multiple Support Services,” February 27, 1998

General Accounting Office, Report No. NSIAD-97-86 (OSD Case No. 1301), “Base Operations: Challenges Confronting DoD as It Renews Emphasis on Outsourcing,” March 11, 1997

### **Inspector General, DoD**

Inspector General, DoD, Report No. D-2001-173, “Independent Review of the Defense Finance and Accounting Service Cost Comparison Study of Civilian Pay Function,” August 14, 2001

Inspector General, DoD, Report No. D-2001-167, “Independent Review of the Cost Comparison Study of Military Retired and Annuitant Pay Functions,” August 2, 2001

Inspector General, DoD, Report No. D-2001-023, “Implementation of Most Efficient Organization for the Defense Finance and Accounting Service Commissary Vendor Payment Function,” December 20, 2000

Inspector General, DoD, Report No. D-2000-117, “Independent Review of the Defense Finance and Accounting Service Competitive Sourcing Study of the Depot Maintenance Accounting Function,” April 28, 2000

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Inspector General, DoD, Report No. 99-244, "Independent Review of the Defense Finance and Accounting Service Competitive Sourcing Study of the Transportation Accounting Function," September 1, 1999

Inspector General, DoD, Report No. 99-236, "Independent Review of the Defense Finance and Accounting Service Competitive Sourcing Study of the Defense Commissary Agency Accounting Function," August 19, 1999

Inspector General, DoD, Report No. 99-208, "Defense Finance and Accounting Service Commercial Activities Program," July 8, 1999

Inspector General, DoD, Report No. 99-078, "Outsourcing of Defense Commissary Agency Operations," February 5, 1999

Inspector General, DoD, Report No. 97-128, "Evaluation of DoD Civilian Pay Outsourcing Study," April 15, 1997

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

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Director, Competitive Sourcing and Privatization  
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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 Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform  
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

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