

Inspector General

United States
Department of Defense



American Recovery and Reinvestment Act Project to
Construct Military Family Housing at Eielson
Air Force Base, Alaska

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 11 JUL 2011		2. REPORT TYPE		3. DATES COVERED 00-00-2011 to 00-00-2011	
4. TITLE AND SUBTITLE American Recovery and Reinvestment Act Project to Construct Military Family Housing at Eielson Air Force Base, Alaska				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Department of Defense Inspector General, 400 Army Navy Drive, Arlington, VA, 22202-4704				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 35	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

Additional Copies

To obtain additional copies of this report, visit the Web site of the Department of Defense Inspector General at <http://www.dodig.mil/audit/reports> or contact the Secondary Reports Distribution Unit at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Audits

To suggest or request audits, contact the Office of the Deputy Inspector General for Auditing by phone (703) 604-9142 (DSN 664-9142), by fax (703) 604-8932, or by mail:

ODIG-AUD (ATTN: Audit Suggestions)
Department of Defense Inspector General
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704



Acronyms and Abbreviations

AFB	Air Force Base
AFCEE	Air Force Center for Engineering and the Environment
DFAS	Defense Finance and Accounting Service
FAR	Federal Acquisition Regulation
FBO	Federal Business Opportunities
FPDS	Federal Procurement Data System
IAPS	Integrated Accounts Payable System
MFH	Military Family Housing
MILCON	Military Construction
OMB	Office of Management and Budget
QMAD	Quantitative Methods and Analysis Division
USAF/ A7CPA	Air Force Office of the Civil Engineer, Programs Division



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

July 11, 2011

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
COMMANDER, AIR FORCE OFFICE OF THE CIVIL
ENGINEER
DIRECTOR, AIR FORCE CENTER FOR ENGINEERING
AND THE ENVIRONMENT

SUBJECT: American Recovery and Reinvestment Act Project to Construct Military Family
Housing at Eielson Air Force Base (Report No. D-2011-082)

We are providing this report for review and comment. The Air Force could have improved planning, funding, and initial project execution of the Military Family Housing project, valued at \$53.9 million, at Eielson Air Force Base. The Air Force did not respond to the draft report; however, we considered comments from the Director, Defense Finance and Accounting Service, when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request comments from the Commander, Air Force Office of the Civil Engineer, on Recommendations A.1, A.2, and A.3; and from the Director, Air Force Center for Engineering and the Environment, on Recommendations B.1 and B.2 by August 10, 2011.

If possible, please send a .pdf file containing your comments to audacm@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9071 (DSN 664-9071).

Bruce A. Burton
Deputy Assistant Inspector General
Acquisition and Contract Management



Results in Brief: American Recovery and Reinvestment Act Project to Construct Military Family Housing at Eielson Air Force Base, Alaska

What We Did

We reviewed an Eielson Air Force Base (AFB) Military Family Housing (MFH) project, valued at \$53.9 million, to determine whether the efforts of the Air Force complied with Recovery Act requirements, Office of Management and Budget (OMB) guidance, the Federal Acquisition Regulation (FAR), and DoD and Air Force implementing guidance.

What We Found

Air Force personnel did not comply with Recovery Act requirements; they could have improved planning, funding, and initial project execution. The Air Force did not adequately plan the project with respect to the number of MFH units required or the initial programmed funding amount, because the Air Force allowed only a 48-hour time frame to prepare the DD 1391 and lacked personnel to implement mandated Recovery Act contracting requirements. As a result, the project risk increased due to DD 1391 data accuracy.

The Air Force Center for Engineering and the Environment (AFCEE) allowed the contractor to use foreign construction materials without approving an exception to the Buy American Act. This occurred because AFCEE relied on prior determinations from other projects without doing a formal exception analysis for the current project. As a result, AFCEE technically violated the Buy American Act for 13 construction materials.

In addition, the Defense Finance and Accounting Service (DFAS) incorrectly paid \$4,910 in interest on 4 contractor invoices for

Recovery Act work and \$44,080 in interest on 28 invoices for non-Recovery Act work to the same contractor. Before passage of the Recovery Act, DFAS incorrectly paid \$41,045 in interest on 50 contractor invoices. This occurred because DFAS personnel miscoded contract payment terms as "net 14 days" instead of "net 30 days." As a result of these errors, DFAS may continue to overpay contractors.

What We Recommend

Air Force officials should develop a definition of an urgent MFH requirement to ensure a minimum number of days to prepare and submit DD 1391 estimates and require supporting documentation; identify and manage requirements to properly scope the number of units needed for each housing project; and document the need for project continuation if total base unit requirements are significantly reduced during the award process. AFCEE officials should strengthen procedures for approving contractor Buy American Act exception requests. DFAS officials should improve procedures for including payment terms in payment records for AFCEE contracts and train technicians accordingly.

Management Comments and Our Response

The Air Force did not comment on the draft of this report issued on May 5, 2011. We request that the Air Force provide comments by August 10, 2011. Comments from the Director, Standards and Compliance, DFAS Headquarters, were responsive. Please see the recommendations table on page ii.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Finance and Accounting Service		C.1, C.2, C.3
Commander, Air Force Office of the Civil Engineer	A.1, A.2, A.3	
Director, Air Force Center for Engineering and the Environment	B.1, B.2	

Please provide comments by August 10, 2011.

Table of Contents

Introduction	1
Audit Objectives	1
Recovery Act Background	1
Eielson Air Force Base	3
Air Force Center for Engineering and the Environment	4
Defense Finance and Accounting Service	4
Internal Controls at Eielson AFB, AFCEE, and DFAS	4
Finding A. Air Force Personnel Did Not Comply With Recovery Act Requirements	5
Planning	5
Funding	8
Initial Execution	9
Conclusion	10
Recommendations	10
Management Comments Required	11
Finding B. AFCEE Allowed Contractor to Use Foreign Construction Materials Without an Exception to the Buy American Act	12
Buy American Act Criteria	12
Eielson AFB MFH Foreign Items	13
Lack of AFCEE Contracting Officer Determination	13
Conclusion	14
Recommendations	14
Management Comments Required	15
Finding C. DFAS Incorrectly Paid Interest on Contractor Invoices	16
Guidance on Improper Payments	16
DFAS Prompt Payment Act Process	17
DFAS Prompt Payment Act Interest	17
DFAS Actions to Collect Incorrectly Paid Interest	19
Conclusion	19
Recommendations, Management Comments, and Our Response	19

Table of Contents (cont'd)

Appendices

A. Scope and Methodology	21
Scope	21
Methodology	21
Use of Computer-Processed Data	22
Use of Technical Assistance	22
Prior Audit Coverage	22
B. Recovery Act Criteria and Guidance	23

Management Comments

Defense Finance and Accounting Service	25
--	----

Introduction

Audit Objectives

The primary objective of the audit was to determine whether DoD and its Components were planning and implementing the American Recovery and Reinvestment Act of 2009 (Recovery Act) by meeting the requirements in the Recovery Act, Office of Management and Budget (OMB) Memorandum M-09-10, “Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009,” February 18, 2009, and subsequent related guidance. For this audit, we reviewed the planning, funding, and initial project execution (contracting) of a Military Family Housing (MFH) project at Eielson Air Force Base (AFB), Alaska, to determine whether the efforts of the Air Force and the Air Force Center for Engineering and the Environment (AFCEE) complied with Recovery Act requirements, OMB guidance, the Federal Acquisition Regulation (FAR), and DoD implementing guidance. See Appendix A for a discussion of our scope and methodology.

Recovery Act Background

The President signed the Recovery Act into law on February 17, 2009. It is an unprecedented effort to jump-start the economy and create or save jobs.

The purposes of this Act include the following:

- (1) To preserve and create jobs and promote economic recovery.
- (2) To assist those most impacted by the recession.
- (3) To provide investments needed to increase economic efficiency by spurring technological advances in science and health.
- (4) To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.
- (5) To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

... The heads of Federal departments and agencies shall manage and expend the funds made available in this Act so as to achieve the purposes specified ... including commencing expenditures and activities as quickly as possible consistent with prudent management.

Recovery Act Requirements

The Recovery Act and implementing OMB guidance require projects to be monitored and reviewed. We grouped these requirements into the following four phases: (1) planning, (2) funding, (3) execution, and (4) tracking and reporting. The Recovery Act requires that projects be properly planned to ensure the appropriate use of funds. Review of the funding phase is to ensure the funds were distributed in a prompt, fair, and reasonable manner. Review of the project execution phase is to ensure that contracts awarded with Recovery Act funds were transparent, competed, and contain specific FAR clauses; that Recovery Act funds were used for authorized purposes; and that instances of fraud, waste, error, and abuse were mitigated. Review of the execution phase also ensures that program goals were achieved, including specific program outcomes and improved results

on broader economic indicators; that projects funded avoided unnecessary delays and cost overruns; and that contractors or recipients of funds reported results. Review of the tracking and reporting phase ensures that the recipients' use of funds was transparent to the public and that benefits of the funds were clearly, accurately, and timely reported.

Recovery Act Contracting Requirements

The Recovery Act establishes transparency and accountability requirements. Federal Acquisition Circular 2005-32, March 31, 2009, provides policies and procedures for the Government-wide implementation of the Recovery Act and guidance on special contract provisions. Federal Acquisition Circular 2005-32 amended the FAR and provided interim rules that made FAR solicitation provisions and contract clauses immediately available for inclusion in contracts for Recovery Act work.

The specific FAR Recovery Act requirements are for:

- buying American construction material,
- protecting contractor whistleblowers,
- publicizing contract actions,
- reporting, and
- giving the Government Accountability Office and agency Inspectors General access to contracting records.

Federal Government organizations meet requirements for Recovery Act contract actions by posting information on the Federal Business Opportunities (FBO) and Federal Procurement Data System (FPDS) Web sites. FAR Subpart 5.7, "Publicizing Requirements Under the American Recovery and Reinvestment Act of 2009," directs contracting officers to use the Government-wide FBO Web site (<http://www.fbo.gov>) to:

- identify the action as funded by the Recovery Act,
- post pre-award notices for orders exceeding \$25,000,
- describe supplies in a clear narrative to the general public, and
- provide the rationale for awarding any contracting actions that were not both fixed-price and competitive.

FBO is the Federal Government's central source of Federal procurement opportunities. FBO is a Web-based portal that allows agency officials to post Federal procurement opportunities and contractors to search and review those opportunities. Agencies also post contract award notices on FBO. In addition, to provide transparency, FBO has a separate section identifying Recovery Act opportunities and awards.

FPDS is the Federal Government's central source of procurement information. Contracting officers enter information, to include the Treasury Account Symbol, in the FPDS for all Recovery Act contract actions. The Treasury Account Symbol enables FPDS to provide transparency by generating and posting a report containing all Recovery Act contract actions.

OMB Recovery Act Guidance

Criteria for planning and implementing the Recovery Act continue to change as OMB issues additional guidance, and DoD and the Components issue their implementation guidance. OMB has issued 11 memoranda and 1 bulletin to address the implementation of the Recovery Act. See Appendix B for Recovery Act criteria and guidance.

DoD Recovery Act Program Plans

Under the Recovery Act, Congress appropriated approximately \$12 billion to DoD for the following programs: Energy Conservation Investment; Facilities Sustainment, Restoration, and Modernization; Homeowners Assistance; Military Construction (MILCON); Near Term Energy-Efficient Technologies; and U.S. Army Corps of Engineers Civil Works.

Table 1. DoD Agency-Wide and Program-Specific Recovery Act Programs

Program	Amount (in millions)
Energy Conservation Investment	\$120
Facilities Sustainment, Restoration, and Modernization	4,260*
Homeowners Assistance	555
Military Construction	2,185
Near Term Energy-Efficient Technologies	300
U.S. Army Corps of Engineers Civil Works	4,600
Total	\$12,020*

*On August 10, 2010, Public Law 111-226, Title III, "Rescissions," rescinded \$260.5 million of funds from DoD Operations and Maintenance Accounts supporting the Recovery Act. This reduced the DoD Recovery Act Facilities Sustainment, Restoration, and Modernization amounts to approximately \$4 billion and total DoD Agency-wide and Program-Specific Recovery Act program funding to approximately \$11.76 billion.

The Recovery Act divides the approximately \$12 billion among 33 DoD and U.S. Army Corps of Engineers line items of appropriations.

Eielson Air Force Base

Eielson AFB, Alaska, is home to the 354th Fighter Wing of the 11th Air Force. The wing supports operations, maintenance, mission support, and medical group functions and is host to 10 on-base tenant organizations. The 11th Air Force, headquartered at Elmendorf AFB, Alaska, falls under the major command of the Pacific Air Forces, Hickam AFB, Hawaii.

Eielson AFB has 28 Recovery Act projects, including 1 MILCON project and 27 Facilities Sustainment, Restoration, and Modernization projects.¹ We reviewed the MILCON project, an MFH project funded at \$53.9 million, to demolish 72 inadequate housing units and build 76 units of single-family housing at the current building standard. This project represents the fourth phase of an ongoing MFH effort at Eielson AFB.

Air Force Center for Engineering and the Environment

The AFCEE, headquartered at Lackland AFB, Texas, is a field operating agency of the Air Force Civil Engineer. AFCEE provides integrated engineering and environmental management, execution, and technical services with a goal to optimize Air Force and joint force capabilities through sustainable installations. For Eielson AFB, AFCEE served as the construction agent and managed the contracting and surveillance of the MFH project.

Defense Finance and Accounting Service

Defense Finance and Accounting Service (DFAS) provides accounts payable services to DoD Components such as Eielson AFB. The DFAS Accounts Payable (formerly Contract Pay and Vendor Pay) functional area is responsible for entitlement determination and payment to all businesses that have provided goods or services to the DoD.

Internal Controls at Eielson AFB, AFCEE, and DFAS

We determined that Air Force internal control weaknesses existed regarding the Eielson AFB and AFCEE planning and initial execution of the Recovery Act MFH project as defined by DoD Instruction 5010.40, “Managers’ Internal Control Program (MICP) Procedures,” July 29, 2010. Inadequate internal controls included lack of Eielson AFB supporting documentation for planning and cost estimation of MFH project base unit requirements and neglect by AFCEE of reviewing, pricing, and determining contractor requests for exceptions to FAR Buy American Act requirements. DFAS lacked internal controls to identify payment term contract requirements for Eielson AFB MFH contracts and properly code those requirements for automatic payments to the contractor. We will provide a copy of this report to the senior officials responsible for internal controls at Eielson AFB, AFCEE, and DFAS.

¹ See Air Force Audit Agency report F2010-0027-FBN000, “ARRA of 2009 Program Requirements 354 Fighter Wing Eielson AFB AK,” December 11, 2009, for results of the audit of the 27 Eielson Recovery Act FSRM projects reviewed.

Finding A. Air Force Personnel Did Not Comply With Recovery Act Requirements

AFCEE and Eielson AFB officials did not comply with Recovery Act requirements for planning, funding, and initially executing the MFH construction project. The Air Force did not adequately plan the project in regard to several aspects of the DD 1391, “Military Construction Project Data.” Specifically, project management officials did not

- have a predetermined rationale for the number of units needed,
- include supporting documentation for cost estimate calculations,
- adequately develop the initial programmed amount for the form, and
- reconsider or rejustify the need for 76 housing units after the total base MFH requirement was reduced by 10 percent (108 units) 1 month before contract award.

In addition, the Air Force inadvertently left out required Recovery Act Treasury Account funding codes in the FPDS. The DD 1391 project planning errors occurred because Air Force Office of the Civil Engineer officials allowed only a 48-hour time frame for preparation of the form. In addition, the Air Force did not reconsider the need for the Eielson 76 MFH unit requirement because Congress already had approved the programming for the Recovery Act project. The FPDS coding error occurred because the Air Force did not follow procedures to implement Recovery Act contracting action reporting requirements. As a result, the Recovery Act MFH project experienced increased program risk related to DD 1391 data accuracy and whether Recovery Act funds were spent on a needed requirement and included transparency on funding classification.

Planning

Overview of Project Justification

The Air Force justified the funding authorization for this project through preparation of the DD 1391. We reviewed the adequacy of the DD 1391 and supporting documentation, including the economic analysis and analysis of alternatives. DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 2B, chapter 6, requires DoD Components to prepare a DD 1391 when requesting authorization of both new construction and urgent unforeseen projects using an emergency or contingency authorization. Two sections of the DD 1391 detail the requirements for proposed projects and how the proposed projects would benefit the mission. Specifically, the “Description of Proposed Construction” section, according to the Financial Management Regulation, requires the DD 1391 to have a clear and concise description of the proposed construction, including a complete outline of all principal features of the project. The Financial Management Regulation also requires the “Requirement” section of the DD 1391 to provide a detailed, informative statement concerning why the project was needed, how and under what conditions the requirements are presently being met, and the manner and extent to which mission accomplishment would be affected if the project were not approved.

The “Description of Proposed Construction” and “Requirement” sections provided an adequate description of the proposed Recovery Act MFH construction and an adequate outline of all principal features of the project, including the rationale for the project. The DD 1391 stated that “this project replaces housing that was constructed in 1962. They require major renovation and repair to correct deterioration resulting from age and heavy use.”

The “Housing Community Profile Report, Eielson AFB, Alaska,” October 10, 2008, documented the final condition assessment matrix scores for demolished MFH units to be replaced by the Recovery Act MFH construction project.² According to the report, “adequate units have a matrix score of 3.75 or greater.” The report defined color coding of “RED” as “deteriorated,” for matrix scores in the range from zero to 2.24, the lowest rating. The report showed that 72 units built in 1962 scored a rating of 1.40 to 1.45 with a color code of RED and should be demolished. The Air Force subsequently contracted to demolish all 72 units. Figure 1 depicts the housing units that were demolished.

Figure 1. Eielson AFB Housing Units Before Demolition



MFH Requirement Determination

The Air Force Office of the Civil Engineer, Programs Division (USAF/A7CPA) oversees Air Force MILCON. On February 24, 2009, the USAF/A7CPA directed that the Eielson AFB 354th Civil Engineering Squadron prepare and submit within 48 hours a new Recovery Act MFH DD 1391, which included a programmed amount of \$53.9 million. The USAF/A7CPA also directed that the scope of the project include “as many units as possible to achieve or continue to approach the existing Family Housing Master Plan.”

The Air Force relied on the “Housing Requirements and Market Analysis for Eielson AFB, 2005-2010,”³ December 9, 2005, to justify the number of units needed for the

² The Housing Community Profiles are developed to assist in planning and programming of the MFH construction and to ensure current Air Force standards are met and maintained. The Housing Community Profile identifies specific deficiencies and needs of the MFH at each installation based on the requirements identified by the current, approved Housing Requirements and Market Analysis.

³ The Housing Requirements and Market Analysis determined the total MFH Eielson AFB requirement. The Housing Requirements and Market Analysis is a formalized method used to estimate current and

Recovery Act project. The purpose of the family housing market analysis was to evaluate the availability of housing in the Eielson AFB area that could meet Air Force standards for affordability, location, quality, and number of bedrooms. The family housing market analysis projected a family housing requirement of 1,082 units for active-duty military personnel stationed at Eielson AFB.

The Air Force scoped the 76-unit Recovery Act project to build as many units needed to satisfy the 2005-2010 Eielson AFB total projected housing requirement of 1,082 units. In deriving the 76 units, Eielson AFB officials used MFH units originally planned but not funded for construction in two previous MFH project phases:

- 16 MFH units proposed for Phase 3 (non-Recovery Act MFH construction project) but unfunded due to Phase 3 contract cost limitations and
- 60 MFH units proposed from Phase 2 (non-Recovery Act MFH construction project) but unfunded due to Phase 2 appropriation cost limitations.⁴

Eielson AFB officials provided detailed supporting justification for how the Air Force derived the Phase 4 Recovery Act DD 1391 primary cost estimates, including the unit cost. We verified that the primary cost figures traced to appropriate Air Force criteria and other MILCON supporting documents.

DD 1391 Supporting Cost Estimates

According to the Recovery Act DD 1391, the construction project included supporting cost estimates for site improvements, landscaping, utility maintenance, streets, recreation, demolition, environmental concerns, and design/build-design. The Air Force calculated each supporting cost estimate based on a unique variable percentage factor. Eielson AFB Civil Engineering officials were unable to provide a documented rationale for each of the above mentioned supporting cost percentages. An assessment by our Technical Assessment Directorate of the DD 1391 cost estimates concluded that the percentages the Air Force used to derive the supporting costs needed further supporting documentation.

Reduction in Family Housing Requirements

On July 14, 2009, after the Eielson AFB submission of the DD 1391 to Air Force headquarters on February 26, 2009, but before the AFCEE contract award on August 28, 2009, the Air Force reduced the Eielson AFB total MFH requirement by 10-percent from 1,082 units to 974 units.

projected housing deficits or surpluses at any given installation. Professional economists trained in social sciences and familiar with principal data sources and analysis techniques conduct these analyses working as independent consultants. The economists justify the need for the Air Force to acquire or construct new MFH units, replace existing MFH units, or undertake whole-house or whole-neighborhood improvement projects.

⁴ The Eielson AFB Recovery Act MFH project is also referred to as the Phase 4 project.

The AFCEE project management plan, for the Eielson MFH project at section 2.1.5, stated that AFCEE, in coordination with Pacific Air Forces, is responsible for authorizing the project scope and approving all Air Force changes in project scope. We believe that the 10-percent reduction of the total base requirement represents a possible change in scope.

According to section 3.4.2 of Air Force Instruction 32-6002, “Family Housing Planning, Programming, Design, and Construction,” January 15, 2008, major Air Force commands must review, validate, and update programming, design, and construction information. Section 3.4.2 also requires the Air Force to identify projects under design that exceed the programmed amount and increase or decrease the scope within the programmed amount or revise military rank and bedroom mix to USAF/A7CPA for review of programming options. Therefore, Pacific Air Forces, as the major command for Eielson AFB, and the USAF/A7CPA was responsible for reviewing, validating, and updating Eielson MFH information made available before the contract award.

The Air Force should have either delayed the award or formally determined that the 76 units were still needed before the August 28, 2009, task order award.

The Air Force did not produce an approved and signed justification for continuing the project after the 10-percent reduction in the Eielson AFB housing requirement derived from the Housing Requirements and Market Analysis.⁵ The lack of a justification effectively left in place information that contradicted the DD 1391 as the basis for the project. As a result, the Air Force committed to construction of the

76 replacement units, valued at \$53.9 million, without a documented and approved affirmation of the need to continue with the project after the reduction in the overall housing requirement. The Air Force should have either delayed the award or formally determined that the 76 units were still needed before the August 28, 2009, task order award.

Funding

The Air Force distributed Recovery Act funds to the Phase 4 military family housing project in a timely manner but did not adequately plan for the initial development of the programmed funding amount (and the associated units needed) for the project. On July 17, 2009, the Air Force issued an approved budget authorization and allocation for \$53.9 million in MILCON Recovery Act funding. The Air Force included the appropriate Recovery Act Air Force MILCON funding designations in the approved funding authorization in the Air Force Automated Civil Engineering System and in the funding lines of accounting contained in the Recovery Act contracting actions. On March 9, 2009, AFCEE prepared an independent Government cost estimate for \$49.2 million.

⁵ On December 29, 2009, Pacific Air Forces formally recommended in the housing community profile that the Air Force continue with the awarded Phase 4 replacement project.

According to Air Force headquarters officials, the initial Air Force plan (before actual passage of the Recovery Act) was to obtain the \$54 million for this MFH construction project through reprogramming of existing MILCON funding from two other Air Force MFH projects, including \$10.2 million from an FY 2006 project and \$43.7 million from an FY 2007 project. However, passage of the Recovery Act authorized separate and distinct funding for all Air Force MILCON projects covered by the Act, including \$53.9 million for the Eielson MFH project. Associated implementing OMB Recovery Act guidance required that Recovery Act funds not be co-mingled with non-Recovery Act funds. As a result, the Air Force could not reprogram existing MILCON funding from the two projects. Air Force headquarters officials stated that the Air Force revised its plan to use the Recovery Act funding.

Initial Execution

AFCEE officials generally performed initial project execution properly, except they did not include a Treasury Account funding code in the FPDS as required for Recovery Act transparency. We reviewed whether the contracting actions were competitively solicited, awarded with full transparency, and whether AFCEE included the required FAR clauses related to the Recovery Act.

The Eielson MFH Recovery Act project presolicitation was properly posted to the FBO website on March 13, 2009. On June 9, 2009, AFCEE officials issued a competitive request for proposals limited to four incumbent 8(a) small business contractors under the Air Force's Heavy Engineering Repair and Construction multi-award contract. Each of the four 8(a) bidders acknowledged solicitation receipt; however, only one solicited bidder submitted a proposal. The bidder, Lakeshore Engineering, was the incumbent contractor for the previous three phases of Eielson MFH work. AFCEE personnel determined that the Lakeshore Engineering proposal provided the best value to the Government and determined it acceptable based on a proposal technical evaluation and a price reasonableness review. Lakeshore Engineering is registered on the Central Contractor Registration Web page, and the Excluded Parties List System did not include Lakeshore as a debarred contractor.

On August 28, 2009, AFCEE awarded contract FA8903-06-8505-0019 as a firm-fixed-price task order for \$49.4 million. The contract award met the target month of award as stated in the "American Recovery and Reinvestment Act of 2009 Department of Defense Military Construction Program Plan," May 15, 2009. In addition, the awarded task order was \$4.5 million less than the Recovery Act \$53.9 million programmed amount and was categorized by the Air Force as bid savings. Under provisions of the DoD Comptroller memorandum, "Project Cost Variations During Execution of American Recovery and Reinvestment Act Expenditure Plans for Infrastructure Investments," May 7, 2009, the Air Force can use the bid savings (after project completion) to offset cost growth on this or other Recovery Act-funded projects.

The Recovery Act task order was subsequently modified on April 29 and May 11, 2010. Modification 01 incorporated a revised statement of work and provided an additional \$505,280 for construction efforts. Modification 02 incorporated a second revised

statement of work and provided an additional \$149,264 for construction efforts. The modifications brought the total amount of Recovery Act funds obligated to \$50.0 million. However, AFCEE contracting personnel did not include in the FPDS system a required Treasury Account Symbol for modification 01 to identify the modification as a Recovery Act action. This occurred because AFCEE officials did not follow the procedures in the August 19, 2009, Director, Defense Procurement and Acquisition Policy Memorandum, "Posting and Reporting Requirements for the American Recovery and Reinvestment Act of 2009." As a result, modification 01 was not transparently represented as a Recovery Act contracting action. On June 24, 2010, in response to our inquiries, AFCEE officials took corrective action by adding the missing Treasury Account Symbol to the FPDS entry for modification 01.

Conclusion

The Eielson AFB Recovery Act MFH project planning lacked supporting documentation for percentages used to derive some DD 1391 costs. Air Force officials did not adequately plan for the initial development of the programmed funding amount (and the associated units needed) for the project. In addition, Eielson and AFCEE officials initially planned the Recovery Act contract without reconsidering or rejustifying the need for the 76 MFH unit requirements in lieu of a 10-percent (108-unit) reduction in the total Eielson MFH requirement made 1 month before the contract award.

Recommendations

A. We recommend that the Commander, Air Force Office of the Civil Engineer:

- 1. Develop a definition of an urgent military family housing requirement to include a minimum number of days needed for preparing and submitting a DD 1391, "Military Construction Project Data," and require a review to ensure all cost elements in the DD 1391 have a documented supporting rationale.**
- 2. Issue a memorandum for Air Force personnel involved with developing military housing requirements, emphasizing the importance of having written justification for any changes to Military Family Housing requirements that could impact the total housing requirements.**
- 3. Perform an administrative review within 90 days to determine accountability within Pacific Air Forces regarding Eielson Air Force Base Recovery Act Military Family Housing project planning including predetermined rationale for the number of Military Family Housing units needed. The review should include accountability for identifying and managing requirements to properly scope the number of units needed for each housing project; and document the need for Eielson Military Family Housing project continuation if total base unit requirements were significantly reduced during the award process.**

Management Comments Required

The Air Force did not comment on a draft of this report. We request that the Air Force provide comments on the final report.

Finding B. AFCEE Allowed Contractor to Use Foreign Construction Materials Without an Exception to the Buy American Act

AFCEE allowed the Eielson AFB MFH contractor to use foreign construction materials without approving an exception to the Buy American Act. The lack of compliance occurred because AFCEE relied on prior determinations from other projects without doing a formal exception analysis for the current project. As a result, AFCEE may have violated the Buy American Act for 13 construction items in the Eielson MFH contract.

Buy American Act Criteria

AFCEE may have violated the Buy American Act for 13 construction items in the Eielson MFH contract.

The Recovery Act states that appropriated funds must comply with the Buy American Act. Therefore, award recipients must comply with the Buy American Act in performing their work, and contracts must include a clause mandated by FAR Subpart 25.6, “American Recovery and

Reinvestment Act—Buy American Act—Construction Materials.” However, FAR subpart 25.6 grants Buy American Act exception authority to the contracting officer for use during both pre-award (contract negotiation) and post-award (contract administration).

FAR subpart 25.6 states if a Buy American Act exception applies, then the contracting officer may allow the contractor to incorporate foreign construction materials without regard to the restrictions of section 1605 of the Recovery Act or the Buy American Act. FAR subpart 25.6 allows the contracting officer, before award, to evaluate all exception requests based on information provided and supplement this information with other readily available information. In such cases, FAR subpart 25.6 requires the contracting officer to perform a price comparison between foreign manufactured goods and domestic manufactured goods using a 25-percent differential to determine if the domestic goods are too expensive.

FAR 25.604, “Preaward Determination Concerning the Inapplicability of Section 1605 of the Recovery Act or the Buy American Act,” discusses pre-award determination concerning the inapplicability of section 1605 of the Recovery Act or the Buy American Act. Specifically, FAR 25.604(a) states the following:

For any acquisition, an offeror may request from the contracting officer a determination concerning the inapplicability of section 1605 of the Recovery Act or the Buy American Act for specifically identified construction materials. The time for submitting the request is specified in the solicitation.

FAR subpart 25.6 also allows for a contracting officer Buy American Act exception determination after contract award. In such cases, the contracting officer must negotiate

adequate consideration and modify the contract to allow use of the foreign construction material. FAR 25.603(b) states the following:

When a determination is made, for any of the reasons stated in this section, that certain foreign construction material may be used: (1) the contracting officer shall list the excepted material in the contract; and, (2) the head of the agency shall publish a notice in the Federal Register within two weeks after a determination is made.

The FAR requirement for listing the excepted materials in the contract is also underscored by FAR 25.605, "Evaluating Offers of Foreign Construction Material."

Eielson AFB MFH Foreign Items

On July 17, 2009, the eventual Eielson MFH project contractor (Lakeshore Engineering) proposed to use 13 material items, valued at \$111,014, obtained by the contractor from nondomestic item suppliers in execution of the Recovery Act MFH project. These items included ceiling fans, exterior wall mount lights, air scoops for heating systems, collated screws, thread screws, hand rail brackets, door hinge pin stops, spool insulators, a clamp, an attachment, and ground fault circuit interrupt receptacles.

The Lakeshore Engineering proposal requested that the AFCEE contracting officer make a determination of Buy American Act inapplicability. The Lakeshore Engineering request for determination was consistent with FAR clause 52.225-24, which states:

An offeror requesting a determination regarding the inapplicability of section 1605 of the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act) or the Buy American Act should submit the request to the Contracting Officer in time to allow a determination before submission of offers. The offeror shall include the information and applicable supporting data required by paragraphs (c) and (d) of FAR clause 52.225-23 in the request.

Lack of AFCEE Contracting Officer Determination

The purchase of construction materials for Recovery Act projects must comply with the Buy American Act unless the head of the Federal department or agency grants a waiver. To meet FAR requirements, AFCEE should have published a *Federal Register* notice within 2 weeks of making a Buy American Act exception determination and modified the Recovery Act contract action to note that a Buy American Act exception had been made. We concluded, based on review of the contracting file, that the AFCEE contracting officer did not act on Lakeshore Engineering's request to make a Buy American Act inapplicability determination regarding the Recovery Act MFH proposal. The AFCEE contracting officer also inserted language within contract clause 52.225-23 in Recovery Act task order FA8903-06-D-8505-0019 to erroneously state that there were no excepted Buy American Act materials in the task order. The inserted contract clause required the contracting officer to list applicable excepted materials or indicate "none."

The AFCEE contracting officer agreed that no formal Buy American Act inapplicability determination was made. The contracting officer stated that a Buy American Act

determination was not issued because the Lakeshore Engineering request showed “continuity” of similar requests made for each of three previous Eielson MFH construction phases performed by the offeror as incumbent contractor.

The contracting officer stated that Lakeshore Engineering had documented to the contracting officer’s satisfaction its inability to comply with Buy American Act requirements in the MFH phases performed before the Recovery Act project. For example, on October 19, 2009, Lakeshore Engineering notified the AFCEE contracting officer that it was unable to locate acceptable domestic manufacturing sources for seven bathroom fixtures connected to work performed on Phase 1 Eielson MFH task order FA8903-06-D-8505-0015. In an undated AFCEE Determination and Finding response to the contractor request, the contracting officer stated the following:

The undersigned cognizant Contracting Officer hereby determines that an exception to the “Buy American Act” is appropriate... The subject task order FA8903-06-D-8505-0015 shall be modified to identify that the Government has determined an exception to the Buy American Act applies and the Contracting Officer accepts [contractor’s] proposed consideration for the exception.

On January 7, 2010, AFCEE issued modification 05 for task order FA8903-06-8505-0015. We concluded that the contracting officer response on task order FA8903-06-D-8505-0015 was in compliance with FAR subpart 25.6. However, the contracting officer relied on unrelated determinations and failed to issue a similar exception relating to separate items for Recovery Act task order FA8093-06-8505-0019.

Conclusion

The Air Force did not adequately comply with the FAR requirement for granting an exception to the Buy American Act for the Recovery Act MFH project at Eielson AFB. AFCEE still needs to address the offeror request for a Buy American Act exception determination as it applies to Recovery Act work on task order FA8903-06-D-8505-0019 and, if approved, properly modify the contract as required by the FAR.

Recommendations

B.1. We recommend that the Director, Air Force Center for Engineering and the Environment, either:

a. Modify task order FA8903-06-D-8505-0019 to replace the 13 foreign material items with American-made equivalents and compensate the contractor accordingly through Federal Acquisition Regulation requirements or

b. Issue a Determination and Finding response to the contractor request to approve an exception to the Buy American Act for 13 foreign material line items; issue an administrative modification to task order FA8903-06-D-8505-0019 noting Buy American Act excepted items, in accordance with Federal Acquisition Regulation 25.605(d); and publish the excepted item list in the *Federal Register*, in accordance with Federal Acquisition Regulation requirements.

B.2. We recommend that Director, Air Force Center for Engineering and the Environment, issue a memorandum re-emphasizing Federal Acquisition Regulation requirements and procedures regarding consideration, and determinations and findings regarding Buy American Act requirements.

Management Comments Required

The Air Force did not comment on a draft of this report. We request that the Air Force provide comments on the final report.

Finding C. DFAS Incorrectly Paid Interest on Contractor Invoices

DFAS incorrectly paid \$4,910 in interest on four contractor invoices from November 2009 through October 2010 for Eielson AFB MFH Recovery Act work. DFAS incorrectly paid the same contractor \$44,080 in interest on 28 invoices for non-Recovery Act work from July 2009 through November 2010. Prior to passage of the Recovery Act, DFAS incorrectly paid \$41,045 in interest on 50 invoices to eight AFCEE contractors from February 2007 through February 2009. The incorrect payments occurred because DFAS technicians miscoded contract payment terms as “net 14 days,” as noted in a FAR clause in the basic contract, instead of “net 30 days,” as included in the relevant task order. DFAS technicians did not input the correct payment terms because they did not identify task order payment terms as being different from contract payment terms. Because of these errors, DFAS may continue to overpay contractors.

Guidance on Improper Payments

DoD Financial Management Regulation, volume 10, chapter 7, “Prompt Payment Act,” states that DoD Components may make progress payments under construction contracts at intervals determined by the contract. In the case of task order FA8903-06-D-8505-0019, payments were required 30 days after the date on which the designated activity received an invoice. According to the Financial Management Regulation, when DoD components fail to make payment by the payment due date, interest accrues from the day after the payment due date through the payment date and is automatically paid.

Congress has mandated detection and prevention of improper payments in the Federal Government. Public Law 107-300, “Improper Payments Information Act of 2002,” states the following:

The head of each agency shall, in accordance with guidance prescribed by the Director of the Office of Management and Budget, annually review all programs and activities that it administers and identify all such programs and activities that may be susceptible to significant improper payments.

Public Law 107-300 defines improper payment as “any payment that should not have been made or that was made with an incorrect amount (including overpayments).” More recently, Exec. Order No. 13520, 74 *Fed. Reg.* 62201 (2009) created policies to increase transparency of significant payment errors throughout the Federal Government, identify and eliminate the highest improper payments, and increase accountability for reducing improper payment among Executive Branch agencies and officials.

The Prompt Payment Act, sections 3901 through 3904, title 31, United States Code (31 U.S.C. §3903 [2007]) codifies prompt payment of obligations to the contractor. The Prompt Payment Act requires that the Government pay invoices 30 days after it receives them or by the payment date established in the contract.

DFAS Prompt Payment Act Process

DFAS uses the Integrated Accounts Payable System (IAPS) to process invoice payments. IAPS is an interactive menu-driven system, which provides automatic processing for accounting and payment functions related to commercial vendor disbursements. IAPS performs automatic reconciliation of contract, invoice, and receipt data by line item or by appropriation. IAPS schedules and processes payments in accordance with the Prompt Payment Act and cash management requirements. For purposes of Eielson MFH project invoice payments, both DFAS and AFCEE use the IAPS. The DFAS IAPS training manual includes procedures to process invoice payments.

DFAS Prompt Payment Act Interest

For task order FA8903-06-D-8505-0019, payments are required 30 days after the date on which the designated activity receives an invoice.⁶ However, DFAS miscoded the contract payment terms as net 14 days instead of net 30 days, resulting in incorrect payment of interest of \$4,910, to the contractor on the task order (see Table 3).

Table 3. Incorrect Payments Related to Eielson MFH Recovery Act Project

Contractor Invoice Number	Payment Date	Interest Paid to Contractor	Date of DFAS Overpayment Notification to Contractor	Contractor Refunded Overpayment?
0002	Nov. 24, 2009	\$2,417	July 9, 2010	Yes
0003	Dec. 3, 2009	1,830	July 8, 2010	Yes
0005	Feb. 16, 2010	441	Nov. 10, 2010	Yes
0014	Oct. 27, 2010	222	Nov. 3, 2010	Yes
Total		\$4,910		

DFAS officials stated that the payment errors occurred because DFAS technicians entered “net 14 days” as the payment terms based on clause 52.232-27 information in the basic contract. DFAS officials further stated that DFAS technicians obtained this clause from DFAS’s Electronic Document Access system. The Web-based Electronic Document Access system provides secure online access, storage, and retrieval of contracts and other documents. DFAS officials noted that in some instances, the Standard Procurement System may use “net 14 days” as a default, but they could not confirm this because such payment details were not available beyond 12 months after

⁶ The indefinite-delivery, indefinite-quantity contract FA8903-06-D-8505, awarded April 12, 2006, in “Section I - ADDENDUM,” included FAR contract clause 52.232-27, “Prompt Payment for Construction Contracts (Oct 2003),” which stated, “The due date for making such payments is 30 days after the designated billing office receives a proper payment request.”

payment. The Standard Procurement System⁷ comprises procurement applications that DoD contracting professionals use, and the system captures all the elements necessary for the creation and administration of DoD contracts and related documents. The Standard Procurement System enables accurate tracking and reporting of financial data through the budgeting, requisition, contracting, contract administration, payment and, contract closeout processes. The Standard Procurement System standardizes procurement business processes and automates contract writing and administration of all the Military Departments and Defense agencies.

We found that the DFAS miscoding also affected a number of other AFCEE Heavy Engineering and Construction task orders issued under eight indefinite-delivery, indefinite-quantity contracts, prior to the Recovery Act, in addition to the contract discussed in this report. From February 22, 2007, through February 6, 2009, DFAS incorrectly paid \$41,045 in interest on 50 invoices from eight contractors. DFAS requested and received refunds from the contractors for the \$41,045.

DFAS provided us additional data showing that they had incorrectly paid interest to Lakeshore Engineering Services for six additional task orders on 28 invoices from July 2009 through November 2010 not funded by the Recovery Act, totaling \$44,080. DFAS requested and received refunds from Lakeshore Engineering Services for the \$44,080.

Table 4. Other Incorrect Payments to the Recovery Act Contractor

Contractor Task Order Number¹	Number of Invoices	Total Interest Payments to Contractor	Contractor Refunded Payments?
0015	2	\$10,803	Yes
0016	21	29,630	Yes
0020	1	1,202	Yes
0022	1	1,632	Yes
0024	1	561	Yes
0025	2	253	Yes
Total	28	\$44,080²	
¹ These are indefinite-delivery, indefinite-quantity contract FA8903-06-D-8505 task orders not funded by Recovery Act.			
² Because of rounding, column does not sum.			

⁷ Technically, the Standard Procurement System is the name of the joint DoD program, and Procurement Desktop Squared is the name of the currently deployed procurement software system.

DFAS Actions to Collect Incorrectly Paid Interest

DFAS provided collection evidence showing that all of the contract overpayments we identified have been paid back. In July and November 2010, DFAS Limestone issued demand letters to the Recovery Act contractor to recover interest payments. In August and December 2010, DFAS Limestone collected the four interest payments totaling \$4,910 from the Recovery Act contractor. DFAS also collected the 28 interest payments totaling \$44,080 from the Recovery Act contractor for non-Recovery Act work. DFAS also collected the 50 interest payments totaling \$41,045 from eight indefinite-quantity, indefinite-delivery contractors for non-Recovery Act work.

Conclusion

DFAS did not identify that the Government was making improper overpayments of interest to the contractors. Therefore, Eielson MFH project payments are subject to increased risk of improper payments on the Recovery Act and non-Recovery Act work.

Recommendations, Management Comments, and Our Response

C. We recommend that the Director, Defense Finance and Accounting Service, establish the following internal control procedures to identify and implement proper payment terms and prevent miscoding related to the Air Force Center for Engineering and the Environment contracts:

1. Within 90 days, conduct a review of progress payments for task order FA8903-06-D-8505-0019 invoices from August 28, 2009, to date to identify all incorrect interest payments due to miscoding of contract terms and take action to collect all incorrectly paid interest.

Management Comments

The Director, Standards and Compliance, Defense Finance and Accounting Service, agreed and stated that DFAS is reviewing 17 payments made to the Recovery Act contractor for task order FA8903-06-D-8505-0019. The Director stated that DFAS will complete the review within 90 days and will take immediate corrective action on any additional improper overpayments of interest identified during this review.

2. Within 90 days, conduct internal control reviews of progress payments for impacted AFCEE contracting actions from August 28, 2009, forward, and annually thereafter, to ensure compliance with Public Law 107-300.

Management Comments

The Director, Standards and Compliance, Defense Finance and Accounting Service, agreed and stated that DFAS will begin a comprehensive review on the accuracy of accrued interest on payments to all AFCEE-related contractors, starting from August 2008 on through to the latest payments. The Director indicated that DFAS will

complete the review within 90 days and will use the results when performing statistical sampling reviews.

3. Within 90 days, provide training to accounting technicians on proper coding of payment terms.

Management Comments

The Director, Standards and Compliance, Defense Finance and Accounting Service, agreed and stated that DFAS held training in March 2011 on the proper coding of the payment terms for technicians at DFAS Limestone and DFAS Columbus in their respective Funds Requirement and Entitlement Branches. The Director stated that DFAS updated each area's standard operating procedures to ensure that the technicians properly identify and code payment terms into the appropriate entitlement system.

Our Response

Comments from the Director, Standards and Compliance, Defense Finance and Accounting Service, were responsive, and we require no additional comments.

Appendix A. Scope and Methodology

We conducted this performance audit from May 2010 through March 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Scope

We selected the only Recovery Act Military Construction project at Eielson AFB for review. It was one of 83 DoD-wide high-risk Recovery Act projects identified through use of the modified Delphi technique as noted below. Specifically, the construction project is for MFH and was estimated and funded for \$53.9 million. The Recovery Act project is Phase 4 of four construction project phases and was awarded as task order 0019 of existing multi-award contract FA8903-06-D-8505.

We visited Eielson AFB, Alaska, and AFCEE at Lackland AFB, Texas, for the MFH project. Our review at Eielson AFB included interviewing personnel of the 354th Civil Engineering Squadron, along with AFCEE on-site personnel. Our review of AFCEE at Lackland AFB, Texas, included interviewing contract and program personnel from AFCEE. We used this supporting documentation to determine whether contract solicitations and awards met OMB, FAR, and DoD Recovery Act implementation and transparency requirements. At both locations, we reviewed requirements, contracting and financial documentation from March 2005 through February 2011. We also contacted, interviewed, and obtained financial documentation from DFAS Columbus and DFAS Limestone officials regarding progress payment data on the Eielson MFH contract from July 2010 through March 2011.

Methodology

Our overall audit objective was to evaluate DoD's implementation of plans for the Recovery Act of 2009. To accomplish our objective, we audited the planning, funding, and execution of one Recovery Act project to determine whether efforts of the 354th Fighter Wing at Eielson AFB, Alaska, and AFCEE complied with Recovery Act requirements, OMB guidance, the FAR, and DoD implementing guidance. Specifically, we determined whether:

- the selected projects were adequately planned to ensure the appropriate use of Recovery Act funds (Planning);
- funds were awarded and distributed in a prompt, fair, and reasonable manner (Funding); and
- contracts contained required Recovery Act FAR clauses and codes (initial Project Execution).

Before selecting DoD Recovery Act projects for audit, the Quantitative Methods and Analysis Division (QMAD) of the DoD Office of Inspector General analyzed all DoD agency-funded projects, locations, and contracting oversight organizations to assess the risk of waste, fraud, and abuse associated with each. QMAD selected most audit projects and locations using a modified Delphi technique, which allowed us to quantify the risk based on expert auditor judgment, and other quantitatively developed risk indicators. QMAD used information collected from all projects to update and improve the risk assessment model. QMAD selected 83 projects with the highest risk rankings; auditors chose some additional projects at the selected locations.

We did not use classical statistical sampling techniques that would permit generalizing results to the total population because there were too many potential variables with unknown parameters at the beginning of this analysis. The predictive analytic techniques employed provided a basis for logical coverage not only of Recovery Act dollars being expended, but also of types of projects and types of locations across the Military Departments, Defense agencies, State National Guard units, and public works projects managed by U.S. Army Corps of Engineers.

Use of Computer-Processed Data

We used notices posted on the FBO Web site, data reported in FPDS, the Air Force Recovery Act Financial and Activity Report, and contract documentation from the Electronic Document Access System posted from May 2009 through July 2010. We tested the accuracy of this data by comparing the project data reported on different systems for consistency and by meeting with program officials responsible for reporting on the applicable Recovery Act requirements. For Finding C, we used computer-processed data obtained from the Electronic Document Access system. We determined data reliability by comparing data of invalid AFCEE Heavy Engineering Repair and Construction indefinite-delivery, indefinite-quantity contract interest payments from the Electronic Document Access system with source documents such as Demand Letters and collection vouchers. Our results were not affected by not performing a complete reliability assessment of the Electronic Document Access System. Our audit was focused on the reporting of contract actions for a specific Air Force project. From these procedures, we concluded that the DoD data were sufficiently reliable for the purposes of our analysis and findings.

Use of Technical Assistance

An engineer from the DoD IG Technical Assessment Directorate assisted with the audit. The engineer supported the team in evaluating the need for the MFH project selected for review.

Prior Audit Coverage

The Government Accountability Office, the Department of Defense Inspector General, and the Military Departments have issued reports and memoranda discussing DoD projects funded by the Recovery Act. You can access unrestricted reports at <http://www.recovery.gov/accountability>.

Appendix B. Recovery Act Criteria and Guidance

The following list includes the primary Recovery Act criteria and guidance (notes appear at the end of the list):

- U.S. House of Representatives Conference Committee Report 111-16, “Making Supplemental Appropriations for Job Preservation and Creation, Infrastructure Investment, Energy Efficiency and Science, Assistance to the Unemployed, and State and Local Fiscal Stabilization, for the Fiscal Year Ending September 30, 2009, and for Other Purposes,” February 12, 2009
- Public Law 111-5, “American Recovery and Reinvestment Act of 2009,” February 17, 2009
- OMB Memorandum M-09-10, “Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009,” February 18, 2009
- OMB Bulletin No. 09-02, “Budget Execution of the American Recovery and Investment Act of 2009 Appropriations,” February 25, 2009
- White House Memorandum, “Government Contracting,” March 4, 2009
- White House Memorandum, “Ensuring Responsible Spending of Recovery Act Funds,” March 20, 2009
- OMB Memorandum M-09-15, “Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009,” April 3, 2009¹
- OMB Memorandum M-09-16, “Interim Guidance Regarding Communications With Registered Lobbyists About Recovery Act Funds,” April 7, 2009
- OMB Memorandum M-09-19, “Guidance on Data Submission under the Federal Funding Accountability and Transparency Act (FFATA),” June 1, 2009
- OMB Memorandum M-09-21, “Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009,” June 22, 2009²
- OMB Memorandum M-09-24, “Updated Guidance Regarding Communications with Registered Lobbyists About Recovery Act Funds,” July 24, 2009
- OMB Memorandum M-09-30, “Improving Recovery Act Recipient Reporting,” September 11, 2009

- OMB Office of Federal Procurement Policy, “Interim Guidance on Reviewing Contractor Reports on the Use of Recovery Act Funds in Accordance with FAR Clause 52.204-11,” September 30, 2009²
- OMB Memorandum M-10-08, “Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, Reporting of Job Estimates,” December 18, 2009²
- OMB Memorandum M-10-14, “Updated Guidance on the American Recovery and Reinvestment Act,” March 22, 2010²
- White House Memorandum, “Combating Noncompliance With Recovery Act Reporting Requirements,” April 6, 2010²
- OMB Memorandum M-10-17, “Holding Recipients Accountable for Reporting Compliance under the American Recovery and Reinvestment Act,” May 4, 2010²
- OMB Memorandum M-10-34, “Updated Guidance on the American Recovery and Reinvestment Act,” September 24, 2010²

Notes

¹ Document provides Government-wide guidance for carrying out programs and activities enacted in the American Recovery and Reinvestment Act of 2009. The guidance states that the President’s commitment is to ensure that public funds are expended responsibly and in a transparent manner to further job creation, economic recovery, and other purposes of the Recovery Act.

² Document provides Government-wide guidance for carrying out the reporting requirements included in section 1512 of the Recovery Act. The reports will be submitted by recipients beginning in October 2009 and will contain detailed information on the projects and activities funded by the Recovery Act.

Defense Finance and Accounting Service Comments



**DEFENSE FINANCE AND ACCOUNTING SERVICE
ARLINGTON**
1851 SOUTH BELL STREET
ARLINGTON, VA 22240-5291

JUN 06 2011

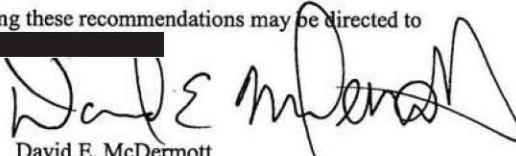
DFAS-JJ

MEMORANDUM FOR DIRECTOR, AUDIT FOLLOW-UP AND GAO AFFAIRS, OFFICE
OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Management Comments to Draft Report, Project No. D2009-D000AB-0169.008,
"American Recovery and Reinvestment Act Project to Construct Military Family
Housing at Eielson Air Force Base, Alaska" Dated May 5, 2011,

Attached are the management comments to recommendations C1-3 of the subject report.

Questions your staff may have concerning these recommendations may be directed to



David E. McDermott
Director, Standards & Compliance

Attachment:
As stated

Management Comments to Draft Report, Project No. D2009-D000AB-0169.008, "American Recovery and Reinvestment Act Project to Construct Military Family Housing at Eielson Air Force Base, Alaska" Dated May 5, 2011

We recommend the Director, Defense Finance and Accounting Service:

Recommendation C: Establish the following internal control procedures to identify and implement proper payment terms and prevent miscoding related to the Air Force Center for Engineering and the Environment contracts:

Recommendation C1: Within 90 days, conduct a review of progress payments for task order FA8903-06-D-8505-0019 invoices from August 28, 2009, to date to identify all incorrect interest payments due to miscoding of contract terms and take action to collect all incorrectly paid interest.

Management Comment: Concur. Review of 17 payments on task order FA8903-06-D-8505-0019 is in process and will be complete prior to the 90 day mark. If additional erroneous interest payments are identified collection action will commence on each payment immediately.

Estimated Completion Date: August 31, 2011

Recommendation C2: Within 90 days, conduct internal control reviews of progress payments for impacted AFCEE contracting actions from August 28, 2009, forward, and annually thereafter, to ensure compliance with Public Law 107-300.

Management Comment: Concur. DFAS will conduct a review of all AFCEE related payments from August 2008 and forward within 90 days to ensure interest is being charged and paid correctly and will provide the results to our established post payment commercial pay organization for future use in performing statistical sampling reviews.

Estimated Completion Date: August 31, 2011

Recommendation C3: Within 90 days, provide training to accounting technicians on proper coding of payment terms.

Management Comment: Concur. DFAS Limestone and Columbus technicians residing in both Funds Requirement and Entitlement Branches received training on the proper coding of payment terms in March 2011. Updates to each area's Standard Operating Procedure occurred to reflect the proper identification and coding of payment terms into the appropriate entitlement system.

Estimated Completion Date: Complete



Inspector General Department of Defense