July 29, 2005

Acquisition

DoD Purchases Made Through the General Services Administration
(D-2005-096)

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Acronyms

CODB	Contract Order Database
ESC/FD	Electronics Systems Center Force Protection Command and Control System Program Office
FMR	Financial Management Regulation
FTS	Federal Technology Service
GSA	General Services Administration
IT	Information Technology
MIPR	Military Interdepartmental Purchase Request
OMIS	Operational Management Information System
O&M	Operation and Maintenance
PM/DCATS	Program Manager, Defense Communications and Army Transmission Systems
RDT&E	Research, Development, Test, and Evaluation
USD(C)	Under Secretary of Defense (Comptroller)/Chief Financial Officer

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202–4704

July 29, 2005

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGISTICS
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISITCS AGENCY
DIRECTOR, DEFENSE MANPOWER DATA CENTER
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on DoD Purchases Made Through the General Services Administration (Report No. D-2005-096)

We are providing this report for review and comment. We received comments from the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. The Director, Defense Manpower Data Center also provided unsolicited comments. All comments were considered in preparing the final audit report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Comments from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer were responsive to the recommendations. The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics comments were partially responsive. We request additional comments on Recommendation 1.a. by August 30, 2005.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Audcm@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

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

Francis E. Reardon
Deputy Inspector General
for Auditing

cc: Inspector General, General Services Administration

Office of the Inspector General of the Department of Defense

Report No. D-2005-096 **July 29, 2005**
(Project No. D2004-D000CF-0238)

DoD Purchases Made Through the General Services Administration

Executive Summary

Who Should Read This Report and Why? DoD contracting officials, program managers, and financial managers should read this report because it discusses widely misunderstood DoD guidance on planning, reviewing, and funding purchases made through the General Services Administration Federal Technology Service Information Technology Fund. This report discusses 38 potential Antideficiency Act violations.

Background. This report is the first in a series of reports on DoD purchases made through non-DoD activities. This report discusses DoD purchases through General Services Administration Client Support Centers. The audit was made in accordance with the requirements of Public Law 108-375, the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, section 802, "Internal Controls for Department of Defense Procurements Through GSA Client Support Centers."

The General Services Administration Federal Technology Service assists Federal agencies in identifying, acquiring, and managing technical solutions. The General Services Administration Federal Technology Service provides the Federal Government a comprehensive range of information technology products and assisted services on a fully cost-reimbursable basis. The General Services Administration procures information technology with the Information Technology fund and procures professional services using its General Supply Fund.

In FY 2004, DoD sent approximately 24,000 Military Interdepartmental Purchase Requests to the General Services Administration, representing more than 85 percent of the business contracted by the Client Support Centers. The General Services Administration Federal Technology Service received approximately $8.5 billion for the Network Service Program, the client support centers, and other miscellaneous programs to purchase information technology equipment and services. In the fourth quarter of FY 2004, DoD sent more than $1 billion.

We reviewed 75 purchases funded by 144 Military Interdepartmental Purchase Requests valued at about $406 million, which occurred primarily in the fourth quarter of FY 2004.

Results. General Services Administration contracting officials and DoD management officials did not comply with the U.S. Constitution, appropriations law, and the Federal Acquisition Regulation when making purchases through the General Services Administration. Of the 75 purchases reviewed:

- 68 lacked acquisition planning to determine that contracting through the General Services Administration was the best alternative available;

- 74 did not have adequate interagency agreements outlining the terms and conditions of the purchases;

- 38 were funded improperly, the requesting DoD organization either did not have a bona fide need for the requirement in the year of the appropriation or did not use the correct appropriation to fund the requirement; and

- 44 were not supported by an adequate audit trail.

The mismanagement of funds and lack of acquisition planning for the funds transferred to the General Services Administration over the last 5 years has caused from $1 billion to $2 billion of DoD funds to either expire or otherwise be unavailable to support DoD operations.

The Under Secretary of Defense for Acquisition, Technology, and Logistics needs to establish requirements to ensure that all purchases using non-DoD contracts are evaluated by a qualified contracting officer prior to the purchase leaving the DoD. A contracting official should sign and be involved in the purchase and should document that the use of interagency contracting is the best option for DoD. Also, the Under Secretary for Acquisition, Technology, and Logistics needs to establish requirements so that assisted acquisitions are conducted under specific interagency agreements that define roles and responsibilities regarding contract administration and surveillance duties. The Under Secretary of Defense (Comptroller)/Chief Financial Officer needs to revise DoD Financial Management Regulation, volume 11A, chapter 3 and work with the General Services Administration to develop a system to track appropriation funds by type and year that were transferred by DoD to the General Services Administration using Military Interdepartmental Purchase Requests. The Under Secretary of Defense (Comptroller)/Chief Financial Officer needs to publish guidance that prescribes the general policies that apply to both Economy Act orders as well as non-Economy Act orders. In addition, the Under Secretary of Defense (Comptroller)/Chief Financial Officer needs to publish clear guidance to all DoD organizations on the funding of non-DoD contracts and the necessity to track funds from the origination of the initial Military Interdepartmental Purchase Requests to the invoice payment that reimburses the Information Technology Fund. The Under Secretary of Defense (Comptroller)/Chief Financial Officer also needs to require the Defense Finance and Accounting Service to report all payments made to non-DoD agencies by appropriation type and year. Lastly, the Under Secretary of Defense (Comptroller)/Chief Financial Officer needs to direct the DoD Components to initiate preliminary reviews to determine whether the use of Government funds for the 38 purchases listed in Appendix C was improper and resulted in Antideficiency Act Violations or other funding violations in accordance with DoD 7000.14-R, "Financial Management Regulations."

Management Comments and Audit Response. The Director of Defense Procurement and Acquisition Policy, answering for the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics nonconcurred with our recommendation that a contracting officer determine whether it is in the best interest of the DoD to use interagency support. The Director also felt that documenting the decision via a determination and finding was unnecessary. The Director of Defense Procurement and Acquisition Policy stated that its recently developed policy allows each of the Services and Defense agencies to determine who evaluates the various purchase options. The Director stated that this policy has not been in effect long enough to determine whether a change is warranted. However, the policy will be supplemented to ensure DoD activities evaluate the fees of assisting agencies. The Director of Defense Procurement and Acquisition Policy is developing an umbrella Memorandum of Agreement to assist

agencies that will address the roles and responsibilities of each party with regard to contract administration and contract surveillance. In addition, Director of Defense Procurement and Acquisition Policy disagreed with establishing a policy requiring classified work to be processed through DoD contracting offices. However, the Director agreed to issue a policy memorandum to ensure contracting officers have appropriate clearances for services involving classified information.

The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer generally concurred with our recommendations stating that the office will revise the DoD Financial Management regulations to clarify the requirements for use of the Economy Act and Other Interagency Orders. In addition, DoD is participating in a government-wide effort to address intergovernmental transactions. DoD will review standardization of information requirements for intragovernmental order forms. Also, the Military Department Assistant Secretaries (Financial Management and Comptroller) and the Deputy Comptroller (Program/Budget) will confirm that detailed reviews of commitments and unliquidated obligations occurred. The Deputy Chief Financial Office directed the Components to initiate preliminary reviews of the 38 potential Antideficiency Act violations.

Comments from Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics were partially responsive. Although the Director of Defense Procurement and Acquisition Policy recently developed policy that allows each of the Services and Defense agencies to determine who evaluates the options for interagency support, we still believe a contracting office has a more global understanding of the different purchase options and the market place. Accordingly, we request that the Director of Defense Procurement and Acquisition Policy reconsider the recommendation. We also believe this determination should be documented in writing. Comments on all other recommendations were responsive. Comments from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Office were responsive. We request that the Under Secretary of Defense for Acquisition, Technology, and Logistics reconsider its position and provide comments on the final report by August 30, 2005. A discussion of management comments is in the Finding section of the report and the complete text is in the Management Comments section.

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Public Law 108-375, the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, section 802, "Internal Controls for Department of Defense Procurements Through GSA Client Support Centers," directs the Inspectors General for the Department of Defense (DoD) and the General Services Administration (GSA) to jointly assess whether the policies, procedures, and internal controls of each GSA Client Support Center were in place and administered so that they complied with Defense procurement requirements and then report the findings to Congress. To comply with the FY 2005 National Defense Authorization Act, the Offices of the Inspectors General (OIG) of DoD and GSA conducted an interagency audit of DoD purchases made by GSA. We were required to evaluate each of the 12 GSA client support centers. Overall, we determined that most of the centers were not compliant with DoD procurement requirements but were making significant progress towards becoming compliant. This report addresses problems noted in DoD during the review. The GSA OIG addressed acquisition problems found at GSA in its report titled, "Compendium of Audits of Federal Technology Service Client Support Center Controls," June 14, 2005. The OIGs of DoD and GSA transmitted a summary of the joint review to Congress on March 15, 2005, and provided briefings to staff of the Senate Armed Services Committee on March 17, 2005, and staff of the House Armed Services Committee on March 30, 2005.

Background

The GSA Federal Technology Service (FTS) assists Federal agencies in identifying, acquiring, and managing technical solutions. GSA FTS provides the Federal Information Technology (IT)[1] community a comprehensive range of IT products and assisted services on a fully cost-reimbursable basis. Twelve client support centers[2] perform the acquisition duties. To fund the acquisition of IT equipment and services, GSA FTS uses the IT Fund. This revolving fund is reimbursed by funds from Federal agencies for whom the equipment and services are being acquired. Similarly, GSA FTS uses the General Supply Fund, another revolving fund used to purchase professional services. Because of problems identified in the IT procurement process, GSA instituted the "Get It Right" campaign during July 2004 to ensure proper use of GSA contracting vehicles and compliance with Federal Acquisition Regulations.

Federal Technology Service. The GSA FTS mission is to deliver best value and innovative solutions in IT to support Government agency missions worldwide. GSA FTS works with Federal government agencies offering assisted acquisition services on a fee-for-service basis. Services offered include developing the

[1]Information Technology is equipment or an interconnected system or subsystem of equipment that is used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information. Information Technology includes computers, ancillary equipment, software, firmware and similar procedures, services (including support services) and related resources.

[2]The 12 client support centers include New England (1), Northeast and Caribbean (2), Mid-Atlantic (3), Southeast Sunbelt (4), Great Lakes (5), Heartland (6), Greater Southwest (7), Rocky Mountain (8), Pacific Rim (9), Northwest/Arctic (10), the National Capital Region (11), and European Region (12). For large, complex Federal IT projects, GSA has the Federal Systems Integration and Management Center (FEDSIM).

acquisition strategy, preparing the statement of work, determining the best solicitation approach; conducting the acquisition; signing contracting documents; providing legal support if required; acting as the contracting officer's technical representative on each task order; and managing contract milestones, schedules, and costs as necessary. According to the GSA Web site, GSA Client Support Centers select from fully competed, national, multiple award contracts and other Government-wide sources, including GSA Federal Supply Schedules, to identify and acquire best value solutions to meet customer requirements.

According to the GSA FY 2004 Performance and Accountability Report, in FY 2004, GSA employed 12,577 personnel of which 11 percent (1,482) worked for the Federal Technology Service. GSA FY 2004 IT Solutions revenue and expenses both totaled approximately $7.2 billion, resulting in no significant profit.

"Get It Right" Campaign. GSA launched the "Get It Right" Campaign on July 13, 2004. The campaign reaffirms the GSA commitment to ensuring proper use of GSA contracting vehicles and services in order to fully comply with Federal Acquisition Regulations and best practices. The objectives of the campaign include ensuring compliance with Federal acquisition policies, regulations, and procedures; ensuring integrity of GSA contract vehicles and services; improving competition in the marketplace when using those contract vehicles and services; and ensuring that taxpayers receive the best value for their tax dollar when GSA contract vehicles or services are used. DoD fully embraced the "Get It Right" Campaign.

Before the "Get It Right" Campaign, the GSA FTS Commissioner and Chief Financial Officer implemented internal controls in a June 7, 2004, memorandum, "Guidance and Information Concerning Interagency Transactions and Proper Management of Reimbursable Agreements in Revolving Funds" (the GSA June 7, 2004, memorandum). The memorandum states that FTS may not perform acquisitions or services until an interagency agreement is properly executed and funded. The scope in interagency agreements must be clearly and sufficiently detailed. The customer agency must have a current specific need for IT goods or services. The memorandum also provides examples of what is acceptable under the IT Fund as IT.

The GSA FTS Commissioner and Deputy Chief Acquisition Officer also issued an August 27, 2004, memorandum, "Acquisition of Technology Services" (the GSA August 27, 2004, memorandum). The memorandum stated "Effective October 1, 2004, interagency agreements for IT services between FTS and customer agencies will first be subjected to the principles outlined in the GSA June 7, 2004 memorandum and the statutes cited therein."

In addition, the GSA Senior Procurement Executive issued an October 1, 2004, memorandum, "Purchases on Behalf of Other Agencies" (the GSA October 1, 2004, memorandum) stating, "it is imperative that when purchasing on behalf of a requiring agency that GSA contracting activities apply the regulatory and statutory requirements applicable to the requiring agency for which the order is placed."

Clinger-Cohen Act. The Information Technology Management Reform Act of 1996, also known as the Clinger-Cohen Act (the Act) defines IT. The Act assigns overall responsibility for the acquisition and management of IT to the Director, Office of Management and Budget. The primary purposes of the Act were to streamline IT acquisitions and emphasize life-cycle management of IT as a capital investment. The Clinger-Cohen Act also provides specific statutory authority for the IT Fund.

IT Fund. Section 757, U.S. Code, title 40 (40 U.S.C. 757) establishes the GSA IT Fund. The IT Fund allows GSA to efficiently provide IT resources to Federal agencies. As a revolving fund, the IT Fund provides a financial mechanism for GSA to pay vendors for IT and telecommunication costs, bill the Federal agency that received the IT goods and services, and then receive reimbursement for the costs billed. Once a requesting agency enters into a binding reimbursable agreement with FTS, the requesting agency may record an obligation in its accounting system. The agreement must be specific, definite, and certain at the time it is made, and must then reflect a bona fide need of the DoD. Acceptance of DoD funds into the IT Fund does not permit DoD to place new orders for goods or services after the DoD appropriation has expired.

General Supply Fund. Section 321, title 40, U.S. Code, establishes the General Supply Fund. The General Supply Fund is also a revolving fund that allows full cost recovery for GSA. The General Supply Fund is the GSA mechanism for acquiring professional services (non-IT) contracts. The fund is also available for procuring personal property and nonpersonal services for Federal agencies.

DoD Use of GSA. DoD uses DoD Form 448, Military Interdepartmental Purchase Request (MIPR) to transfer funds within the Services and to other Federal agencies. A MIPR is a request for materiel, supplies, or services. DoD sends reimbursable MIPRs to procure services and supplies from GSA. MIPRs are usually used to transfer funds to other Federal agencies under the authority of the Economy Act and in compliance with the DoD FMR, volume 11A, chapter 3, "Economy Act Orders." However, DoD issues MIPRs to GSA requesting IT goods and services under the Clinger-Cohen Act. Accordingly, the MIPRs sending funds to the GSA IT Fund are reimbursable orders and not Economy Act Orders.

In FY 2004, DoD sent approximately 24,000 MIPRs to GSA, representing more than 85 percent of the business transacted by Regional Client Support Centers. GSA FTS received approximately $8.5 billion for the Network Services Program, client support centers, and other miscellaneous programs. In the fourth quarter of FY 2004, DoD sent more than $1 billion. See Table 1 for details of the fourth quarter FY 2004 use of GSA.

Table 1. FY 2004 DoD 4th Quarter Use of GSA* (in millions)

Army	$366.8
Navy	295.9
Air Force	234.2
DoD	122.4
Total	**$1,019.3**

*DoD values were provided by GSA Operational Management Information System (OMIS) and GSA Contract Order Database (CODB) databases which, when reconciled at DoD activities, were found to be inaccurate.

Objectives

Our overall audit objective was to evaluate the internal control over DoD purchases through GSA. Specifically, we examined whether there was a legitimate need for DoD to use GSA, whether DoD requirements were clearly defined, and whether funds were properly used and tracked. See Appendix A for a discussion of the scope and methodology. See Appendix B for prior coverage related to the objectives.

DoD Use of GSA Federal Technology Services

GSA contracting officials and DoD management officials did not comply with the U.S. Constitution, appropriations law, and the Federal Acquisition Regulation (FAR) when making purchases through GSA. Of the 75 purchases reviewed that were funded by 144 MIPRs valued at about $406 million, 74 were either hastily planned or improperly funded. Specifically,

- On 68 of 75 purchases, or 91 percent, DoD organizations lacked acquisition planning to determine that contracting through GSA was the best alternative available.
- On 74 of 75 purchases, or 99 percent, DoD organizations did not have adequate interagency agreements with GSA outlining the terms and conditions of the purchase.
- On 38 of 75 purchases, or 51 percent, either GSA or the requesting activity improperly used Government funds. DoD organizations either did not have a bona fide need or funded the purchase with an incorrect appropriation.
- On 44 of 75 purchases, or 59 percent, DoD did not maintain an audit trail of the funds used to make the purchase.

Before GSA and DoD initiated the "Get It Right" Campaign, guidance on the use of the GSA Information Technology Fund was widely misunderstood. In addition, DoD funding guidance and the use of interagency agreements for non-DoD purchases was unclear. Consequently, DoD organizations have numerous potential Antideficiency Act violations. Additionally, the mismanagement and lack of planning for the funds transferred to GSA over the last 5 years has resulted in from $1 billion to $2 billion of DoD funds to either expire or otherwise be unavailable for use. Lastly, DoD organizations making purchases through GSA had no assurance that GSA based purchases on best value.

Criteria

The United States Constitution. Realizing the importance of providing for accurate accounting of public monies spent for the defense of the United States of America, the framers of the Constitution addressed the area of appropriated funds in two different sections of Article I of the United States Constitution. Article I, section 8, clause 12, states that Congress shall have the power "To raise and support Armies, but no Appropriation of Money to that Use shall be for a longer Term than two Years." Article I, section 9, clause 7, states that, "No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all

public Money shall be published from time to time." Current appropriation acts shepherd the requirements of the Constitution to the present day.

The Antideficiency Act. The Antideficiency Act is codified in a number of sections of Title 31 of the United States Code (such as 31 U.S.C. 1341(a), 1342, 1349-1351, 1511(a), 1512-1519). The purpose of these statutory provisions, known collectively as the Antideficiency Act, is enforcing the Constitutional powers of the purse residing in Congress with respect to the purpose, time, and amount of expenditures made by the Federal Government. Violations of other laws may trigger violations of the Antideficiency Act provisions (for example, the "bona fide needs rule," 31 U.S.C. 1502(a); the "purpose statute," 31 U.S.C. 1301(a); and violations of various statutory spending limitations such as, 10 U.S.C. 2805, "Unspecified minor construction"). Where this audit finds potential violations of the Antideficiency Act, the report is referring specifically to 31 U.S.C. 1341(a)(1)(A) and 1341(a)(1)(B).

Bona Fide Needs Rule. To use appropriated funds, there must be a bona fide need for the requirement in the year the appropriations are available for obligation. Section 1502(a), title 31, United States Code states,

> The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title. However, the appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law.

To meet bona fide need rule requirements, the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C))has specified that funds for severable services[3] must be obligated in the year of the appropriation funding the services, and the contract period of the services cannot exceed 1 year. Ordered goods must be received in the year of the appropriation unless there is a known production or delivery lead-time, or unforeseen delays in delivery.

DoD Financial Management Regulation (FMR) Guidance. Annual appropriation acts define the uses of each appropriation and set specific timelines for use of the appropriations. However, the DoD FMR, volume 2A, chapter 1, provides guidelines on the most commonly used DoD appropriations for determining the correct appropriation to use when planning acquisitions.

Research, Development, Test, and Evaluation (RDT&E). USD(C) memorandum, "Clarification of Policy – Budgeting for Information Technology and Automated Information Systems," October 26, 1999, further clarifies the use of RDT&E funds for IT purchases. DoD organizations fund development, test, and evaluation requirements, including designing prototypes and processes, with RDT&E appropriations. DoD organizations use RDT&E funds to develop major system upgrades, to purchase test articles, and to conduct developmental testing

[3]Most service contracts are severable. A non-severable contract would have a primary deliverable such as a prototype system or a completed report at the end of the performance period.

and initial operational testing and evaluation before they accept systems and have them produced. In general, RDT&E funds should be used for all developmental activities involved with new systems or major upgrades. RDT&E funds are available for obligation for 2 years.

Operation and Maintenance (O&M). Expenses incurred in continuing operations and current services are funded with O&M appropriations. The USD(C) considers all modernization costs under $250,000 to be expenses, as are one-time projects such as developing planning documents and conducting studies. O&M funds are available for obligation for 1 year.

Procurement. The acquisition and deployment of a complete system or the modification of a system with a cost of $250,000 or more is an investment and should be funded with a procurement appropriation. Complete system cost is the aggregate cost of all components (for example, equipment, integration, engineering support, and software) that are part of, and function together, as a system to meet an approved documented requirement. For modification efforts, count only the cost of the upgrade (for example, new software, hardware, and technical assistance) towards the investment threshold. Procurement funds are available for obligation for 3 years.

Defense Working Capital Fund. The Defense Working Capital Fund is a revolving fund, which means that it relies on sales revenue instead of direct appropriations to finance its operations. A DoD organization that has a Defense Working Capital Fund receives reimbursements from another organization for the goods purchased or the services rendered. The revolving fund operates on a break-even basis over time, that is, the DoD organization operating the Defense Working Capital Fund neither makes a profit nor incurs a loss. Rates are adjusted annually to keep the fund in balance. Defense Working Capital Funds do not have a restriction on the time they are available for obligation.

Military Construction. A military construction project includes the cost of all military construction work to produce a complete and usable facility or a complete and usable improvement to an existing facility. Section 2802, title 10, United States Code, states that the Secretary of Defense and the Secretaries of the Military Departments may carry out such military construction projects as are authorized by law. Section 2805, title 10, United States Code, states that the Secretary of Defense and the Secretaries of the Military Departments may carry out unspecified minor construction projects equal to or less than $1.5 million. If the project is to correct a deficiency that is life, health, or safety threatening, then the Secretary may approve the project to cost up to $3 million. Military construction funds are available for obligation for 5 years.

Agency Agreements. Section 1535, title 31, United States Code, (31 U.S.C. 1535), "Agency Agreements," allows the head of an agency or major organizational unit within an agency to place an order with another agency for goods or services if amounts are available, it is in the best interest of the U.S. Government, the other agency can fill the order, and the order cannot be provided by contract as conveniently or economically by a commercial enterprise.

Economy Act Orders. The Economy Act authorizes agencies to enter into mutual agreements to obtain supplies or services by interagency or intra-agency acquisition. The Economy Act applies when more specific statutory authority does not exist. Each Economy Act order must be supported by a Determination and Finding. The Determination and Finding must state that the use of an interagency acquisition is in the best interest of the U.S. Government and the supplies or services cannot be obtained as conveniently or economically by contracting directly with a commercial enterprise. A contracting officer of the requesting agency with authority to contract for the supplies or services to be ordered, or another official designated by the agency head must approve the Determination and Finding.

DoD Policy on Interagency Agreements. DoD Instruction 4000.19, "Interservice and Intragovernmental Support," August 9, 1995, implements policies, procedures, and responsibilities for intragovernmental support as a result of agreements among Federal Government activities. DoD organizations may enter into interagency agreements with non-DoD Federal activities when funding is available to pay for the support, the agreement is in the best interest of the Government, the supplying activity is able to provide the support, the support cannot be provided as conveniently or economically by a commercial enterprise, and the agreement does not conflict with any other agency's authority. Determinations must be approved by the head of the major organizational unit ordering the support and must be attached to the agreement.

Recent DoD Guidance on Interagency Agreements. The Acting Under Secretary of Defense for Acquisition, Technology, and Logistics issued an October 29, 2004, memorandum, "Proper Use of Non-DoD Contracts" (the DoD October 29, 2004, memorandum) directing the Military Departments and Defense agencies to establish procedures for reviewing and approving the use of non-DoD contract vehicles by January 1, 2005. The program manager or requirements official has primary responsibility to ensure compliance with the policy. The procedures must include:

- evaluating whether using a non-DoD contract is in the best interest of DoD,
- determining whether the tasks are within the scope of the contract to be used,
- reviewing funding to ensure that it is used in accordance with appropriation limitations, and providing unique terms, conditions, and requirements to the assisting agency for incorporation into the order or contract to comply with all applicable DoD-unique requirements.

The Navy and the Air Force both issued memoranda entitled "Proper Use of Non-DoD Contracts." Both memoranda implemented guidance and policy for the Acting Under Secretary for Acquisition, Technology, and Logistics. The Air Force and Navy memoranda were dated December 6 and December 20, 2004, respectively.

The DoD Deputy Chief Financial Officer issued a March 24, 2005, memorandum, "Proper Use of Interagency Agreements for Non-Department of Defense Contracts Under Authorities Other Than the Economy Act" (the DoD Deputy Chief Financial Officer March 24, 2005, memorandum). This memorandum, in conjunction with the DoD October 29, 2004, memorandum establishes DoD policy on assisted acquisitions such as those completed by GSA FTS and ensures that interagency agreements (under other than the Economy Act) for non-DoD contracts are used in accordance with existing laws and DoD policy. To save Government resources, the DoD Deputy Chief Financial Officer March 24, 2005, memorandum directs the following actions:

- For services ordered through an interagency agreement, funds provided to the servicing agency that have expired must be deobligated and returned from the servicing agency unless the request for services was made during the period of availability of the funds; the order was specific, definite, and certain, with specificity similar to contractual orders; and severable services were ordered with a period of performance that does not exceed one year.

- For goods ordered through an interagency agreement, funds provided to the servicing agency that have expired must be deobligated and returned from the servicing agency unless the request for goods was made during the period of availability of the funds and was for goods that solely because of delivery, production lead time, or unforeseen delays, could not be delivered within the period of availability of those funds.

FAR Criteria. FAR Part 7, "Acquisition Planning" details the Federal requirements for acquisition planning. FAR Subpart 7.102(b) states that agencies must perform acquisition planning for all acquisitions.

> This planning shall integrate the efforts of all personnel responsible for significant aspects of the acquisition. The purpose of this planning is to ensure that the Government meets its needs in the most effective, economical, and timely manner.

FAR Subpart 7.105 requires organizations to consider acquisition alternatives and prospective sources of supplies and services that will meet their need.

FAR Part 10, "Market Research," requires that agencies use the results of market research to determine the sources capable of satisfying the agency's requirements. Acquisition planning should indicate the prospective sources of supplies and services that can meet the DoD requirement.

DoD Planning for GSA Goods and Services

DoD auditors visited 16 organizations that sent funds to GSA using MIPRs for the purchase of goods and services. Results among the 16 DoD organizations reviewed included that the organizations did not:

- perform a basic market analysis to determine whether GSA was the best option to fulfill the requirement;

- enter into interagency agreements with GSA that were specific, definite, and certain;

- properly complete the MIPRs used to fund their purchases; and,

- ensure that GSA personnel held security clearances needed to manage classified projects.

Acquisition Planning. Of 75 GSA purchases reviewed at 16 different DoD activities, 68 were not supported by documentation showing that making the purchase through GSA was in the best interest of the Government. DoD organizations should decide to purchase goods or services through a non-DoD activity such as the GSA IT Fund during initial acquisition planning. Assisted acquisitions such as those done by GSA FTS include a surcharge usually of from 2 to 5 percent. Since DoD transferred approximately $8.5 billion to GSA FTS in FY 2004, DoD is providing GSA between $170 million to $425 million in surcharges that might have been put to better use in DoD if a DoD contracting officer had been a viable option instead of GSA.

Basic acquisition planning ensures that requiring organizations consider procuring alternatives before acquiring the goods and services. Agency planning should address specific requirements through a preliminary statement of need or statement of work. In addition, thorough acquisition planning provides realistic delivery and performance schedules, identifies planned management responsibilities for contract performance, and develops a tentative cost basis for the purchase.

Acquisition Alternatives. DoD purchases through GSA consistently lacked basic acquisition planning including planning for and considering acquisition alternatives. For example, on September 24, 2004, the Army Reserve Command sent funds to GSA, including a 5 percent surcharge, to purchase steam cleaners costing $48,629. The GSA contracting officer simply procured the steam cleaners from a GSA Federal Supply Schedule. A DoD contracting officer could have purchased the steam cleaners from the GSA Federal Supply Schedule as easily as the GSA contracting officer and saved the 5 percent surcharge.

The Space and Naval Warfare Systems Command Task Order Administrator stated that command project office personnel liked to use the GSA Millennia contract because they could select the contractor to perform specific task orders. The Space and Naval Warfare Systems Command used the GSA Federal Systems Integration and Management Center Millennia contract extensively to procure IT services. GSA competitively awarded the Millennia contract as a Government-wide Acquisition Contract. The Space and Naval Warfare Systems Command used GSA to place task orders against the Millennia contract with 1 prime contractor that teamed with 127 subcontractors. The Space and Naval Warfare Systems Command encouraged program office personnel to request this contract for miscellaneous items, even with the GSA fee, because of the flexibility and past experience with the contractor. The DoD Task Order

Administrator stated that GSA can award a task order on the Millennia contract faster than DoD contracting offices can award task orders.

Improper Use of IT Fund. Of the 75 purchases reviewed, the MIPRs for 50 purchases were sent and accepted as funds to reimburse the GSA IT Fund under the Clinger-Cohen Act. The MIPRs for 3 purchases were to reimburse the GSA General Supply Fund, and the MIPR acceptances for 22 purchases did not specify the fund to be reimbursed. Of the 50 GSA IT Fund purchases, 8 were for goods or services that were not related to IT. Among non-IT purchases, DoD sent MIPRs to GSA FTS to fund the construction of buildings, to develop marketing tools, to receive aerial gunnery training services, and to purchase furniture. For example, the Program Office at the Air Combat Command used the GSA IT Fund to acquire combat banner targets for fighter aircraft training. The combat banners contract was awarded in July 2002 and is used to provide live aerial gunnery training to the Air National Guard F-15 and F-16 pilots. The Air National Guard sent $327,000 in FY 2004 O&M funds to GSA on August 19, 2004, to purchase from this contract. Aside from GSA having very little, if any, experience in acquiring combat banner targets, the whole idea was inappropriate for using the IT Fund. Initially, the contract was in the IT Fund, but in December 2004, GSA FTS officials determined that the General Supply Fund should be used for the contract. This purchase did not constitute an information technology buy and was not proper under the Clinger-Cohen Act.

Interagency Agreements. Of 75 purchases reviewed, 53 had no related interagency agreement, and 21 had inadequate interagency agreements because the agreement did not address the specific purchase. The interagency agreements available were incomplete because they do not include information required by DoD Instruction 4000.19 such as detailed descriptions of the goods and services being procured and the terms and conditions for the procurement services being provided by GSA. For example, the Deputy Director, Defense Manpower Data Center signed a Service Agreement with GSA. The "boilerplate" agreement lists the GSA authority for use of the IT Fund, the required scope for using GSA, general information that should be provided on a MIPR, and GSA and DoD points of contact. However, the interagency agreement lacks specific information about individual purchases, funding for purchases, or management oversight of purchased services. The agreement does not state program management office or GSA contracting officer responsibilities. Some DoD organizations used the MIPR funding document without an additional interagency agreement. However, the MIPRs reviewed for this audit did not meet the DoD criteria for required information within interagency agreements.

MIPR Preparation. Of 144 MIPRs reviewed, none was found to contain the required information necessary for interagency transactions. DoD organizations issued MIPRs that either lacked a specific, detailed description of the goods or services to be acquired or failed to specify the period of performance that purchased services would occur. For example, the National Guard Bureau issued a MIPR for services related to a Weapons of Mass Destruction First Response Equipment purchase totaling $7.0 million. The MIPR description is broad and general and lacked specifics to support the basis for the funds. The MIPR omitted any reference to the statement of work containing the purpose and

detailed requirements. Additionally, the MIPR lacked the period of performance during which the contractor would supply the services.

Section 1501, title 31, United States Code, (31 U.S.C. 1501), "Documentary Evidence Requirement for Government Obligations," requires a binding agreement between two agencies in writing that will report the specific goods to be delivered, real property to be bought or leased, or work or services to be provided. DFARS 253.208-1, "Military Interdepartmental Purchase Requests," requires reporting a realistic time of delivery or performance on each MIPR. When preparing a MIPR, DoD organizations should include a reference to an interagency agreement, statement of work, task order, modification or other contractual document that contains a specific description of goods and services being procured including the expected periods of performance to provide a sound basis for the use of DoD funds.

Security Requirements. DoD requested contracting services from GSA for secure programs, and GSA awarded contracts for secure services when reviewing officials did not have the necessary level of clearances to review significant portions of contract products. The Federal Systems Integration and Management Center disclosed that contracting officials assigned contract oversight functions did not have the appropriate clearances to monitor contractor performance. OIG GSA reported another example in Report No. A040126/T/3/Z05005, "Audit of Federal Technology Service's Client Support Center Mid-Atlantic Region," December 9, 2004. The Air Force Air Combat Command used GSA to contract for national security work that would support intelligence, surveillance, and reconnaissance operations and planning for the Senior Year (U-2) Program, valued at more than $12 million. OIG GSA reported that about 30 percent of the documentation generated under the contract task order was classified and could only be reviewed by individuals possessing a Secret clearance. About 3 to 5 percent of the work required a Top Secret clearance before it could be examined. Neither the GSA IT manager or the contracting officer responsible for the contract task order possessed either type of clearance.

Improper Use of Government Funds

On 38 of 75 purchases, or 51 percent, the requesting activity improperly used Government funds. DoD organizations either did not have a bona fide need in the year of the appropriation used or funded the purchase with an incorrect appropriation. On 44 of 75 purchases, or 59 percent, DoD did not maintain an audit trail of the funds used to make the purchase. DoD auditors reviewed the procedures and controls related to 144 MIPRs, valued at approximately $406 million, that went to 8 separate GSA Client Support Centers or the National GSA Office predominately during the fourth quarter of FY 2004. Preliminary acquisition planning involving a qualified DoD contracting officer and early communication with GSA can prevent the improper use of Government funds, ensure that DoD purchases made through GSA and other non-DoD activities are made in the best interest of DoD, prevent future Antideficiency Act violations,

prevent the loss of DoD funds through improper spending, and help ensure that DoD receives best value acquisitions.

Use of Government Funds. Because 40 U.S.C. 757, the law that establishes the IT Fund, states that the fund "shall be available without fiscal year limitation," both GSA and DoD officials thought that funds accepted by GSA into the revolving IT Fund were available without limitation by fiscal year or use. This lead to the idea that expiring funds could be "parked" or "banked" at GSA for future purchases. To the contrary, the statement "shall be available without fiscal year limitation" applies to the capitalized fund itself. The funds reimbursing the capitalized fund must follow appropriations law. By not following the legal restriction on appropriations to have a bona fide need for the funds in the year appropriated, GSA and DoD organizations incorrectly used the GSA IT Fund to extend the time period funds were available for use. The GSA acceptance of funds into the IT Fund did not allow an agency to extend the periods of availability of appropriations or change the restrictions of appropriations beyond that which Congress enacted in annual appropriations acts.

Bona Fide Need. For 30 purchases of the 75 reviewed, DoD funding authorities violated the bona fide needs rule by using the annual O&M appropriation to fund the purchase of severable services that met a bona fide need in the following fiscal year, or goods that were received after the year of the appropriation but could not be justified because of delivery time, production lead-time, or unforeseen delays. For example, the Air Force Medical Supply Agency sent two MIPRs, with FY 2004 O&M funds cited, valued at approximately $2 million, to GSA for Web management design services. GSA awarded the contract on January 28, 2004, with the period of performance from January 26, 2004, through January 25, 2005, and four option years.

To evade the requirements of the GSA June 7, 2004, memorandum before its effective date of October 1, 2004, DoD and GSA officials decided to exercise the FY 2005 option year for the Web management design services on September 29, 2004. The funds used to exercise the option came from eight MIPRs GSA had received from the Air Force Medical Supply Agency in FYs 2002 and 2003. Residual funds valued at approximately $200,000 remained on the two FY 2002 MIPRs. Residual funds valued at approximately $1 million remained on the six FY 2003 MIPRs. DoD and GSA officials used the residual funds from FYs 2002 and 2003 to fund the Web management design contract FY 2005 option year at a cost of approximately $1.2 million. A GSA contracting officer memorandum to the file states, "Per funding guidance, FY 2003 funds needed to be obligated by 9/30/04, or be lost. Based on this guidance, the first option year was exercised early." The file also contains e-mails from the GSA contracting officer to DoD officials advising that all prior year funding on MIPRs would have to be returned if not placed on task orders by September 30, 2004. The GSA contracting officer provided DoD officials a listing of MIPRs with residual funds to be awarded by September 30, 2004, or be lost. The GSA contracting officer requested that DoD officials review the MIPRs to determine whether the language allowed for funding to be used on the existing task, and if so, option year 1 could be exercised early and awarded by September 30, 2004. DoD officials correctly funded the FY 2004 base year with FY 2004 O&M funds. However, DoD officials funded the FY 2005 option year with a combination of FYs 2002 and 2003 O&M funds.

In accordance with appropriation law and the GSA June 7, 2004, memorandum, the FY 2002 and FY 2003 funds were no longer available. DoD and GSA officials should have been aware that the requirements of the memorandum were based on legal restrictions placed on appropriations and should have returned the funds to DoD instead of ignoring legal requirements until the effective date of the memorandum. Also, the Air Force Medical Support Agency used O&M funds to purchase developmental type equipment. RDT&E funds should have been used. See number 32. Web Management Design in Appendix C page 44 for additional details.

In addition, in August 2003, the Air Force Air and Space Operations approved and sent $351 million of Global War on Terrorism funds to the Electronic Systems Center Force Protection Command and Control System Program Office (ESC/FD) to support force protection operations. ESC/FD sent three MIPRs, valued at $171 million, with FY 2003 O&M funds, to GSA to purchase unmanned "smart gates" on five planned contracts to achieve this objective. See figure 1 for a picture of the smart gate.

Figure 1. Unmanned Smart Gate with vehicle barrier.

GSA awarded two of the five planned contracts in FY 2004. One was for thermal imager equipment awarded on December 12, 2003, funded for approximately $4 million; and the second was for vehicle barriers awarded on April 30, 2004, funded for approximately $37 million. GSA awarded the vehicle barriers contract a full 7 months after the funds expired. GSA has not awarded the remaining three contracts worth approximately $130 million. The ESC/FD FY 2003 O&M funds used to fund this GSA purchase expired on September 30, 2003. In addition, ESC/FD expected the contractor to have the test vehicle barrier fully installed and tested at Eglin Air Force Base by the end of October 2004; more than 1 year after GSA accepted the MIPRs, and the installation schedules clearly show that the requirement was severable in that the contractor would deliver and install the barriers over several years with the last installation occurring in FY 2006. There

was no interagency agreement made during the period of availability of the funds other than the three MIPRs that funded the purchase. Those three MIPRs were not specific, definite, and certain with specificity similar to that found in contract orders. Further, ESC/FD never expected the contractor to deliver goods purchased within the period of availability of the funds. Awarding the remaining three contracts in FY 2005 citing FY 2003 O&M funds will violate the bona fide need rule. In accordance with the DoD Deputy Chief Financial Officer March 24, 2005, memorandum, ESC/FD needs to initiate actions immediately to coordinate with GSA and return the expired funds and begin a preliminary review to determine whether an Antideficiency Act violation occurred.

Wrong Appropriation. For 15 of the 75 purchases, DoD organizations used the wrong appropriation to fund the requirement. For example, the Program Manager, Defense Communications and Army Transmission Systems (PM/DCATS), sent 18 MIPRs citing O&M funds valued at approximately $44 million, to GSA for the Army Materiel Command Headquarter Relocation purchase. For that purchase, GSA contracted for the construction of two modular two-story office buildings totaling about 230,000 square feet at Fort Belvoir to serve as the new Headquarters of the Army Materiel Command and offices for about 1,400 civilian and military personnel. See figure 2 for a picture of the Headquarters.

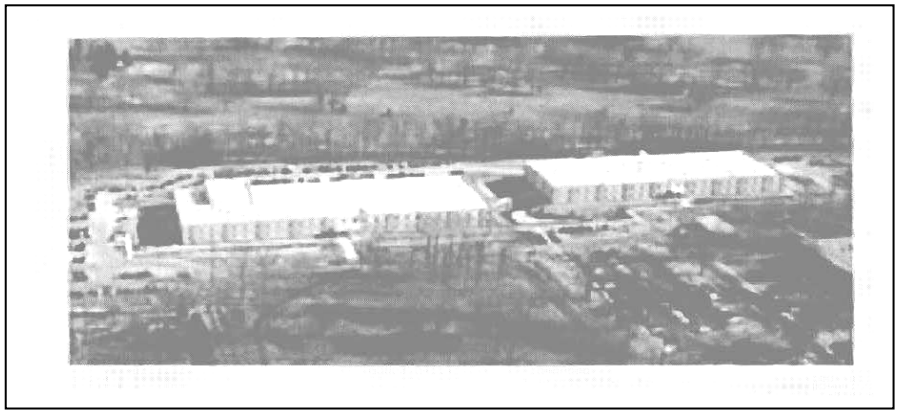

Figure 2. Army Materiel Command Modular Headquarters Building.

Although building construction is not a line item in the contract, no modular building existed at the site prior to the contract. In addition to the cost of the buildings, the PM/DCATS contract contained a line for an annual charge of $7 million to use the buildings. PM/DCATS officials stated that using O&M funds for the use of the buildings was correct because the contractor is providing a service (the use of the buildings) and that because there will be no transfer of ownership at the end of the contract, the cost of the buildings is not a capital lease. Therefore, the officials believed that it is proper to use O&M funds for the building instead of Other Procurement, Army funds that would be used for a capital lease or Military Construction, Army funds that would be used for construction. The Army Materiel Command General Counsel stated that the use of funds was for facilities under an operations lease and, at the end of the lease, the buildings are removable and no ownership occurs. However, the contractor installed and assembled the building; performed welding on the plates and piers;

and carpenters, cement masons, electricians, and ironworkers worked on the interior. The procurement of these buildings was clearly a construction project and Military Construction, Army was the proper appropriation to use.

Section 2801(a), title 10, United States Code, defines military construction as "…any construction, development, conversion, or extension of any kind carried out with respect to a military installation." This applies to satisfy temporary or permanent requirements. The FMR, volume 2A, chapter 1 defines construction as "the erection, installation, or assembly of a new facility; the addition, expansion, alteration, conversion, or replacement of an existing facility; the acquisition of a facility or the relocation of a facility from one installation to another." Further, construction includes real property equipment installed and made an integral part of such facilities, related site preparation, and other land improvements. DoD prohibits planned acquisition or improvements to a facility through a series of minor construction projects to circumvent the use of Military Construction Funds. New buildings existed because of this purchase through the GSA. Therefore, this is a construction project requiring PM/DCATS to request Military Construction Funds from Congress for this purchase.

Audit Trail of Funds. DoD organizations did not track funds by MIPR to the payment of invoices on 44 of 75 purchases reviewed. DoD considers funds to be obligated when GSA returns a MIPR Acceptance document (DD Form 448-2), not when the funds are placed on contract. DoD officials often do not track funds past that point of obligation. However, DoD officials should be identifying funds sent to GSA now available for recoupment during required triannual reviews. DoD FMR, volume 3, chapter 8 requires triannual reviews of commitments and obligations for timeliness, accuracy, and completeness during each of the 4-month periods ending on January 31, May 31, and September 30 of each fiscal year. The requirement for reviews of commitments and obligations applies to all appropriations and funds of all DoD Components, including direct appropriations and reimbursable transactions. However, DoD will not be able to accurately account for funds available at GSA until GSA provides DoD officials with an accurate accounting of funds received, placed on contract, and available for recoupment on a periodic basis.

Though DoD transferred to GSA client support centers approximately $15.4 billion of reimbursable funds during the past 2 years for purchases, no central database existed at DoD or GSA to track the funds. GSA was able to identify DoD funds because DoD uses MIPRs with unique numbering systems to fund purchases. However, the different military services and even commands within each service have different methods of numbering MIPRs. The only standard is alphanumeric document number of at least 13 digits. Another complication in establishing an audit trails is the fact that one MIPR may contain the funds for several different projects or an incremental time period of one project. To add to the confusion, DoD financial personnel performed no checks and balances before paying a GSA invoice. One invoice from GSA may contain billings for payments against several purchases funded by several different MIPRs. Furthermore, it was GSA policy prior to the "Get It Right" campaign to bill DoD on a "First-In, First-Out" method meaning that the first MIPR received from DoD was the MIPR billed regardless of year of funds or appropriation type. When we asked a Defense Financial and Accounting Service office how DoD

monitored the payment of GSA invoices, we were told that "we pay as long as we got money."

The GSA databases are unreliable. GSA uses the Operational Management Information System (OMIS) for the national office and the Contract Order Database (CODB) for the regional client support centers to record funding documents. GSA is implementing a new system at 2 of its 12 regions, but at the time of this audit, the new system was being reworked. At 10 DoD organizations, DoD OIG compared the fourth quarter FY 2004 MIPRs listed from the GSA databases to the MIPRs the organization recorded as being sent to GSA. We did not compare MIPR information at the other six locations reviewed. At the 10 locations compared, the GSA databases were missing significant numbers of MIPRs and contained MIPRs from other locations. At the 10 locations, GSA records indicated that they had received 612 MIPRs. However, DoD organizations' records indicated that 667 MIPRs were sent to GSA with an overall monetary difference of more than $208 million. See Table 2 for locations and number of MIPRs at GSA and the DoD organizations for the fourth quarter of FY 2004.

Table 2. Comparison of MIPRs at GSA and DoD Commands

Command	GSA List	Command List	Absolute Value Difference($000)
Army Materiel Command	31	24	$80,085
Army Accession Command	16	48	$23,942
Army Reserve Command	22	15	$4,783
National Guard Bureau	51	52	$37,911
Naval Education and Training Command	29	30	$7,884
Naval Reserve Forces Command	19	20	$470
Space and Naval Warfare Systems Command	297	198	$15,504
Space and Naval Warfare Systems Center, New Orleans	87	183	$25,783
Air Combat Command	38	76	$10,560
U.S. Southern Command	22	21	$1,358
Total	**612**	**667**	**$208,281**

Discussion with GSA officials revealed several causes for the discrepancies. First, GSA does not uniformly input data. For example, different GSA regions may list the Army Accession Command as such, as the Army Recruiting Command (the former name of the command), as USAAC, or as ARC. GSA reported that they had received 16 MIPRs from the Army Accession Command, which reported that it had sent 48 MIPRs to GSA. Secondly, GSA may enter the name of many subordinate commands located throughout the country as the name of the primary command. For example, GSA reported that they had received 297 MIPRs from the Space and Naval Warfare System Command, which reported that they had sent 198 MIPRs to GSA. The auditors that reviewed the Space and Naval Warfare Systems Command determined that the difference came from subordinate commands. Additionally, the GSA databases do not contain real time data and according to where an individual MIPR is at any given point in the acceptance process, GSA may or may not have inputted the MIPR into the database. In addition, the databases cannot be queried by all data fields, for instance, GSA cannot query the databases by the MIPR date. The database information could not be reconciled with DoD organization records.

Contract Surveillance

For the 75 DoD purchases reviewed, there was no evidence of agreed upon procedures identifying the roles and responsibilities for performing contractor surveillance. Agreed upon procedures are important due to the confusion interagency contracting arrangements can cause where the contracting office is from one Federal agency that is providing a service for fee while the requiring office is from another Federal agency. GSA charges DoD a procurement surcharge of 2 to 5 percent to provide procurement services which can include contractor surveillance. However, without agreed upon procedures identifying the roles and responsibilities for performing contractor surveillance DoD could be paying GSA for surveillance services not performed.

DoD Contracting Officers' Representatives. Defense Federal Acquisition Regulation Subpart 201.6, "Contracting Authority and Responsibilities," states that contracting officers may designate qualified personnel as their authorized representatives to assist in either technical monitoring or administration of a contract. GSA contracting officers identified DoD personnel as contracting officers' representatives for 37 of the 75 purchases. DoD requiring offices identified in-house technical points of contact for the remaining 38 purchases reviewed. However, there was no clear guidance explaining the specific surveillance steps DoD and GSA personnel should perform.

DoD and GSA Combined Procedures for Performing Contractor Surveillance. GSA OIG recently identified and reported on problems occurring in contractor oversight. The GSA "Compendium of Audits of the Federal Technology Service Regional Client Support Centers," December 14, 2004 (the GSA Compendium Audit), identified that because of inadequate contract

administration and project management, GSA client support centers had problems related to

- payments made for substandard work,
- work that was incomplete or never delivered to the Government,
- bills that contained incorrect labor rates or did not adhere to the base contract pricing terms,
- unsubstantiated costs, and
- equipment substitutions with substantial markup costs.

The report also identified that the majority of contract files reviewed by GSA did not contain significant documents such as acquisition planning documents and independent Government cost estimates. Also missing were required letters of designation for contracting officers' representatives. Such letters document the understanding and acceptance of the contracting officers' representatives assigned duties and responsibilities relative to the task orders. The letters also include responsibilities for approving or recommending the approval of task order modifications, especially extensions of the period of performance and the exercise of contract options.

DoD Surveillance Efforts. In the absence of agreed upon procedures DoD officials were unable to show that they were effectively monitoring contractor performance against pre-established steps. They were also unable to describe specific surveillance steps performed by their GSA counterparts. This information would enable DoD requiring offices to determine the overall extent of surveillance being performed, areas of duplicated efforts, areas needing improvement, and most of all, whether DoD requiring offices requirements were being effectively monitored. According to the DoD technical points of contact, their surveillance usually consisted of reviewing contractor developed status reports, reviewing invoices, and tracking MIPR fund balances. In one situation, a DoD technical point of contact stated that the roles and responsibilities for contractor surveillance were unclear and resulted in the contractor requesting a special meeting after contract award to determine the roles and responsibilities for both the GSA and DoD officials performing surveillance. Without clear agreed upon roles and responsibilities for contractor surveillance, DoD may be paying GSA for contractor surveillance services, when in fact, GSA is not performing these services. In addition, establishing clear roles and responsibilities would ensure that persons reviewing contract files have the proper security clearance.

Confusing Guidance

Guidance on the use of the GSA IT Fund was widely misunderstood and Defense contractors advertised information that was simply wrong regarding the use of the IT Fund. In addition, the lack of planning and competent review of acquisition planning resulted in issues of whether DoD was selecting the best contracting

source and using the correct funds to procure goods and services. Exacerbating the problem was that the Clinger-Cohen Act allowed DoD to fund GSA contracts on a reimbursable basis without preparing a determination and finding to justify that the non-DoD purchase was in the best interest of the Government. Finally, as stated by the Principal Deputy Under Secretary of Defense (Comptroller) and Acting Under Secretary of Defense for Acquisition, Technology, and Logistics, non-DoD contracts are not a substitute for poor acquisition planning nor may DoD organizations use them to circumvent conditions and limitations placed on the use of appropriations.

DoD Guidance on Use of GSA. The Director Defense Procurement Memorandum, "General Services Administration Federal Supply Schedules as Preferred Sources of Supply," March 6, 1997, urges DoD organizations to take full advantage of GSA Schedule contracts for needed supplies or services that are covered under them. Although this memorandum only addresses GSA Schedule contracts, not assisted acquisitions such as when FTS is used, some DoD organizations may have thought no justification was necessary for using GSA because they were a "preferred source of supply."

Associate General Counsel, Department of the Air Force memorandum, "MIPRs to the GSA Under Authority of the Information Technology Reform Management Act," September 11, 2002, is an example of much of the legal guidance that exists within DoD on use of the IT Fund. The memorandum states,

> Funds obligated against the IT Fund are available without fiscal year limitation. When an agency transfers funds to GSA pursuant to an interagency agreement, those funds are obligated against the IT Fund. Therefore, those funds are not subject to deobligation if GSA is not able to provide the supplies or services until after the time in which those funds would have otherwise expired. However, the interagency agreement must comply with the requirements discussed below.

The requirements "discussed below" in the memorandum cover the bona fide need rule. However, the memorandum is not clear that the bona fide need rule applies to the appropriation that the DoD organization sent to reimburse the IT Fund. In other words, the same bona fide need requirements exist on the annual O&M funds used to reimburse the IT Fund as if DoD was using the O&M funds to make the purchase. Many DoD organizations mistakenly believed that use of the IT Fund did away with all fiscal year limitations on all funds used to purchase IT goods and services through GSA. DoD officials told auditors that the IT Fund exists to extend the time period that appropriations are available to use on the purchase of IT goods and services and that the IT Fund could be used until the appropriation reimbursing the IT Fund is closed[4] instead of when the appropriation is expired.

[4]An appropriation is "expired" when it is no longer available for new obligations; however, most appropriations are available for another 5 years for adjustment to, or payment of, existing obligations. At the end of that 5-year period, the appropriation is considered "closed." The bona fide need rule applies to when funds are obligated.

False Advertising. Contractors, with GSA contracts, advertised on Web sites as recently as June 2005 that customers by using the IT Fund, could "park" their expiring funds, meaning that the funds could be used later after the funds were past the time period they were available for obligation. The acceptance of funds into the Information Technology Fund does not alleviate the restrictions put on those funds under applicable appropriations acts. The GSA March 24, 2005, memorandum outlines the rare instances where goods or services may be received in a year other than the year of appropriation. In November 2004, a contractor advertised on their Web site that:

> Customers may utilize the GSA's Information Technology Fund to effectively "park" their expiring funds and to specifically obligate those funds within the next five years for future purchases of supplies or services.

Another contractor advertised in June 2005 on its Web site to "park" funds:

> Customers may utilize the GSA's Information Technology Fund to effectively "park" their expiring funds and to specifically obligate those funds within the next five years for future purchases of supplies or services. The Information Technology Fund was established by Congress in 1996; it effectively removes the fiscal year limitation funding constraints under normal appropriation law subject to certain limitations including:
>
> -the funds must be available for obligation
>
> -the funds must be sent to GSA (into GSA's Information Technology Fund)
>
> -the future use for these funds must be "Information Technology" related

Economy Act Orders. Because funding documents sent to the GSA Information Technology Fund are non-Economy Act orders[5], many DoD organizations believe that financial management policies that apply to Economy Act orders are not applicable. Current regulations are unclear on policies for non-Economy Act orders. However, a draft version of DoD FMR, volume 11A, chapter 3, "Economy Act Orders and Other Interagency Orders," March 2003, (although dated in 2003, this draft has not been signed and made effective as of April 2005) paragraph 030302.A. identifies the GSA IT Fund as a statutory authority other than the Economy Act for making interagency purchases. The draft DoD FMR paragraph 030303 states that the general policies that apply to Economy Act orders also apply to non-Economy Act orders.

> Just as with Economy Act orders, non-Economy Act orders must be clear, definite and certain. Funds must be appropriately obligated, and any limitations on those funds identified. All orders must identify a bona fide need arising, or existing, on the fiscal year or years for which the appropriation is available for obligation.

[5]DoD organizations normally use Economy Act orders to fund interagency acquisitions.

Draft DoD FMR paragraph 030203.B. states that Economy Act orders (and non-Economy Act orders in accordance with paragraph 030303) must be supported by Determinations and Findings stating that the use of interagency support capabilities is in the best interest of the Government and that the required goods, supplies or services cannot be obtained as conveniently or economically by contracting directly with a private source.

Best Value Considerations. The GSA Compendium Audit identified that for 64 percent of the GSA orders and modifications reviewed, required documentation supporting that the Government received fair and reasonable prices was absent or not sufficient. Based on this information, DoD program officials need to place more emphasis on assuring that prices negotiated by GSA for DoD purchases are fair and reasonable.

Conclusion

In conclusion, DoD officials must perform preliminary acquisition planning, and the results of that planning must be reflected in interagency agreements that DoD and GSA enter into before the planned acquisition occurs. In addition, a DoD contracting officer should review the planned purchase to ensure that alternatives are considered prior to issuing a MIPR to non-DoD activities. The DoD contracting officer's review should result in the development of a determination and finding that supports the use of a contracting source outside DoD for supplies and services. These actions will help ensure that DoD purchases through GSA and other non-DoD activities are made in the best interest of the U.S. Government, will prevent future Antideficiency Act violations and the loss of funds through improper use, and help ensure that DoD receives best value acquisitions without overpayment of other direct costs.

DoD organizations appear to have committed numerous potential Antideficiency Act violations when using GSA FTS contracting services. DoD organizations routinely sent O&M Funds to GSA at the end of the fiscal year to obligate expiring funds. Of the 75 purchases we reviewed, 62 used O&M funds. On 29 of those purchases, DoD appears to have wrongly used the GSA IT Fund to extend the availability of the expiring O&M Funds. On 15 of those purchases, DoD appears to have used the expiring O&M funds instead of the appropriation legally required for the planned use of the procurement. Appendix C lists the 38 purchases (some purchases both extended the availability of funds and used the wrong appropriation) reviewed that improperly used Government funds. In our opinion, these purchases are clearly outside what the framers of the Constitution envisioned. Article I, section 9, clause 7 states that "No Money shall be drawn from the Treasury but in Consequence of Appropriations made by law." Extending the life of funds and use of funds for purposes not specified in appropriations are inconsistent with article I, section 9, clause 7 of the U.S. Constitution. The Office of the Undersecretary of Defense (Comptroller)/Chief Financial Officer should direct components to initiate preliminary reviews to determine whether Antideficiency Act violations occurred on those purchases. The Antideficiency Act prohibits Federal employees from

entering into contracts that exceed congressionally enacted appropriations for the year.

As shown in Table 3 below, GSA has identified more than $1.7 billion of DoD funds that were sent to GSA to reimburse the IT Fund but are unobligated by GSA as of December 30, 2004. Those funds remain unobligated because either GSA contracts were negotiated for lesser amounts than DoD funded or no contract has yet been negotiated. The $1.7 billion does not include a review of contracts under $100,000 or give consideration to use of the wrong appropriation. Since past funding information received from GSA has been unreliable, we estimate that from $1 billion to $2 billion of unobligated DoD funds are now unavailable to DoD. The DoD Deputy Chief Financial Management Officer March 24, 2005, memorandum, directs DoD organizations

> . . . to immediately initiate needed actions to review these unobligated balances, coordinate with GSA to return unobligated balances to your respective offices, and coordinate with your servicing accounting office to ensure that appropriate adjustments to the accounting records are recorded before June 1, 2005.

Table 3. Unobligated Funds by DoD Agencies as of December 30, 2004 (in millions)

	2002 & Prior	2003	2004	Total
Army	$120.4	$86.5	$298.6	**$505.5**
Navy	78.3	90.1	192.7	**361.1**
Air Force	92.3	230.2	290.7	**613.2**
Defense Agencies	42.2	29.2	176.8	**248.2**
Totals	**$333.2**	**$436.0**	**$958.8**	**$1,728.0**

Reviews of planned purchases by competent contracting authorities within DoD will also help prevent DoD paying the price for the acquisition problems reported by OIG GSA in the GSA Compendium Audit. DoD contracting authorities need to review such issues as improperly negotiated and billed Other Direct Charges on contracts. OIG GSA reported on millions of dollars of Other Direct Charges being awarded by GSA contracting officers without price reasonableness determinations.

Management Comments on the Finding and Audit Response

Naval Education and Training Command Comments. The Naval Education and Training Command provided comments through the Office of the Under

Secretary of Defense for Acquisition, Technology, and Logistics. The Naval Education and Training Command did not agree that the Computer purchase, the Chief Information Officer Integration purchase, and the Navy EXCEL purchase should be reported as potential Antideficiency Act violations. The Naval Education and Training Command did agree that the Learning Management Support System purchase is a potential Antideficiency Act violation and is replacing the FY 2004 O&M funds for this purchase with FY 2005 O&M funds.

Audit Response. The purchases in Appendix C. "Potential Antideficiency Act Violations" have been referred to each Component by the Under Secretary of Defense (Comptroller)/Chief Financial Officer to initiate preliminary reviews. We will verify the status of those reviews in our FY 2005 followup report.

Naval Reserve Forces Comments. The Naval Reserve Force provided comments through the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. The Naval Reserve Force disagreed that the Defense Message Service purchase should be reported as a potential Antideficiency Act violation.

Audit Response. The purchases in Appendix C. "Potential Antideficiency Act Violations" have been referred to each Component by the Under Secretary of Defense (Comptroller)/Chief Financial Officer to initiate preliminary reviews. We will verify the status of those reviews in our FY 2005 followup report.

Space and Naval Warfare Systems Command Comments. The Space and Naval Warfare Systems Command provided comments through the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. The Space and Naval Warfare Systems Command stated that its Task Order Administrator did not state that personnel liked to use the GSA Millennia contract because they could select the contractor to perform specific tasks but that they used the contract to centralize procurement of IT services and were paying a GSA fee of only .8 percent. The Space and Naval Warfare Systems Command also stated that they use MIPRs as stand-alone interagency requests and that all required information is contained within the MIPRs. The Space and Naval Warfare Systems Command commented that they perform required triannual reviews on all GSA orders. The Space and Naval Warfare Systems Command did not agree that the Toner Printer Supplies purchase, the Video Conference Upgrades purchase, and the Work Force Learning Project purchase should be reported as potential Antideficiency Act violations.

Audit Response. On October 27, 2004, while discussing how contractors are selected off the Millennia contract, the Task Order Administrator stated that Space and Naval Warfare Systems Command personnel liked to use the Millennia contract because they could select which contractor to use for specific projects. On May 5, 2005, the General Services Administration sent a memorandum to Heads of Contracting Activities that was coordinated with our office. In that memorandum, the General Services Administration specifies what will be required for proper and valid interagency agreements in the future between the General Services Administration and another Federal agency. The new procedures should answer all questions the Space and Naval Warfare Systems Command may have on what will be required for future interagency agreements

with the General Services Administration. When discussing triannual reviews with Space and Naval Warfare Systems Command personnel, we were told that they could not trace payments of invoices back to specific MIPRs; therefore, we determined that there was an inadequate audit trail at the Space and Naval Warfare Systems Command. We did not state that the Space and Naval Warfare Systems Command does not conduct triannual reviews. The purchases in Appendix C have been referred to each Component by the Under Secretary of Defense (Comptroller)/Chief Financial Officer to initiate preliminary reviews of potential Antideficiency Act violations. We will verify the status of those reviews in our FY 2005 followup report.

Air Combat Command Comments. The Air Combat Command also provided comments through the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. The Air Combat Command stated that the inappropriate use of the Information Technology Fund was a General Services Administration responsibility. In addition, when the General Services Administration contracted for DoD work although reviewing officials did not have the necessary level of clearance to review significant portions of the contract, the Air Combat Command submitted an unclassified Statement of Work and Task Order to the General Services Administration. The Air Combat Command stated that the classified work was monitored by a Quality Assurance Evaluator who held the necessary clearance and was operating under a need to know basis. In addition, the Air Combat Command stated that the Combat Banners purchase was a National Guard Bureau issue as the task in question was funded by the Air National Guard. The Air Combat Command did not agree that the Counter Drug Trafficking purchase, the Combat Banners purchase, and the Modernization of Weapons Systems purchase should be reported as potential Antideficiency Act violations. The Air Combat Command did agree that the Battle Management Project purchase was a potential Antideficiency Act violation and is replacing the FY 2004 O&M funds for that purchase with FY 2005 O&M funds.

Audit Response. The Air Combat Command comments appear to disregard a DoD manager's inherent responsibility to ensure public funds are spent reasonably. To imply that it is only the responsibility of the General Services Administration to ensure that Information Technology Funds are spent as intended by Congress shirks the responsibilities of all Government financial managers. We did not research the specific circumstances regarding the use of the General Services Administration to contract for classified services, but common sense would indicate that all reviewing officials of a contract and especially the contracting officer must have necessary clearances to understand all services being delivered to ensure that the Government receives a fair and reasonable price. The purchases in Appendix C have been referred to each Component by the Under Secretary of Defense (Comptroller)/Chief Financial Officer to initiate preliminary reviews of potential Antideficiency Act violations. We will verify the status and integrity of those reviews in our FY 2005 followup report. We did remove the Counter Drug Trafficking purchase from the list of potential Antideficiency Act violations as the contract for that purchase was signed and the period of performance for the services began in FY 2004, the year of the appropriation funding the services. We also listed the Combat Banners

purchase as a potential Antideficiency Act violation under the National Guard Bureau.

Defense Manpower Data Center Comments. The Director of the Defense Manpower Data Center disagreed with our interpretation of applicable fiscal regulations and conclusions drawn based on those interpretations. The Director stated that the Defense Manpower Data Center interactions are not subject to the Economy Act and therefore an overarching interagency agreement fulfills DoD requirements for interagency agreements. The Director nonconcurred that the Defense Manpower Data Center potentially committed any Antideficiency Act violations including the Universally Accepted Credentials purchase, the Beneficiary Services and Ancillary Support purchase, the Defense Biometric Identification System purchase, and the Common Access Card Vulnerability purchase. The Director stated that since the law, regulations, and guidance are unclear, and therefore subject to different reasonable legal interpretations, he requests that the subject report not be published until a formal written opinion can be obtained from the DoD General Counsel.

Audit Response. On May 5, 2005, the General Services Administration sent a memorandum to Heads of Contracting Activities that was coordinated with our office. In that memorandum, the General Services Administration specifies what will be required for proper and valid interagency agreements in the future between the General Services Administration and another Federal agency. The new procedures should answer all questions the Director may have on what will be required for future interagency agreements with the General Services Administration. The purchases in Appendix C have been referred to each Component by the Under Secretary of Defense (Comptroller)/Chief Financial Officer to initiate preliminary reviews of potential Antideficiency Act violations. We will verify the status of those reviews in our FY 2005 followup report. Hopefully, this report with forthcoming guidance from the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the results of the potential Antideficiency Act violation investigations will provide the Director the clarity he seeks on fiscal regulations.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:

a. Establish requirements that a qualified contracting officer evaluate assisted acquisitions for amounts greater than the simplified acquisition threshold when requiring DoD organizations plan to use non-DoD contracts. The contracting officer shall determine whether the use of interagency support capabilities is in the best interest of the Government and should verify whether the required goods, supplies, or services cannot be obtained as conveniently or economically by contracting directly with a commercial enterprise. The contracting officer or another official designated

by the agency head should also sign a determination and finding in accordance with the March 2003 draft version of DoD Financial Management Regulation, volume 11A, chapter 3, paragraph 030203.B.

Management Comments. The Director of Defense Procurement and Acquisition Policy, responding for the Under Secretary of Defense for Acquisition, Technology, and Logistics nonconcurred. The Director stated that the DoD policy entitled "Proper Use of Non-DoD Contracts" issued on October 29, 2004, established procedures for DoD organizations when using a non-DoD contract to meet mission needs. The Director stated that its policy allows each Service and Defense agency to evaluate and determine that using a non-DoD contract is in the best interest of the DoD. The Director stated that this policy has not been in effect long enough to determine whether a change is warranted. Regarding the recommendation to prepare a determination and finding to document this evaluation, the Director felt this was unnecessary.

Audit Response. In accordance with the October 29, 2004, policy memorandum, Military Departments and Defense agencies must establish procedures for reviewing and approving the use of non-DoD contract vehicles when procuring supplies and services on or after January 1, 2005, for amounts greater than the simplified acquisition threshold. This policy memorandum currently does not require written documentation. Although the Director of Defense Procurement and Acquisition Policy recently developed policy that allows each of the Services and Defense agencies to determine who evaluates the various purchase options for interagency support, we still believe a contracting office has a more global understanding of the different purchase options and the market place and knows contractor performance histories and pricing methods. We also believe the contracting officer's documentation of this evaluation and assessment should be documented in writing. Accordingly, we request the Director of the Defense Procurement and Acquisition Policy to reconsider the recommendation and provide comments on the final report.

b. Establish a requirement that assisted acquisitions be conducted using interagency agreements that specify agreed upon roles and responsibilities regarding contract administration and surveillance duties.

Management Comments. The Director of Defense Procurement and Acquisition Policy concurred and stated that her office is developing an umbrella Memorandum of Agreement with other Government Agencies including the Departments of Interior and Treasury and the General Services Administration. The Memorandum of Agreement will assist agencies with the roles and responsibilities of each organization, especially with regard to contract administration and contract surveillance. The estimated completion date is September 30, 2005.

c. Establish a requirement that DoD organizations negotiate the cost of assisted acquisitions and that the negotiations consider the cost of contract surveillance duties.

Management Comments. The Director of Defense Procurement and Acquisition Policy partially concurred and a requirement of existing policy (October 29,

2004) is that procedures must be in place to ensure "cost effectiveness." In any event, the Director stated that her office will supplement the October 29, 2004, policy memorandum to specifically require that on assisted acquisitions, DoD activities must evaluate the fees proposed by the assisting agencies to ensure that the fees are reasonable and approximate the actual costs of support provided. The estimated completion date is September 30, 2005.

d. Establish a policy that DoD contracts for services involving classified information be procured only through DoD contracting organizations.

Management Comments. The Director of Defense Procurement and Acquisition Policy nonconcurred with establishing a policy requiring all classified work to be process through DoD contracting organizations. The Director cited the need to work with the Department of Energy and the Central Intelligence Agency. However, the Director stated that her office will issue a policy memorandum stating that any order or contract for services, where classified information is accessed or generated, requires all contracting and contract oversight responsibility necessitating access to classified information be assigned only to individuals who have the clearance appropriate for the responsibilities assigned. The estimated completion date for the action is September 30, 2005.

Audit Response. We recognize that DoD needs to work with such agencies as the Department of Energy and the Central Intelligence Agency. Our recommendation is addressing organizations that typically do not work with classified programs, such as GSA. Accordingly, the comments provided meet the intent of our recommendation. No further comments are necessary.

2. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer:

a. Revise the DoD Financial Management Regulations, volume 11A, chapter 3 to clarify requirements for the use of Economy Act Orders and Other Interagency Orders and to include the requirement for a Determination and Finding on all non-DoD purchases.

Management Comments. The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, partially concurred. The Deputy Chief Financial Officer stated that her office will revise the DoD Financial Management Regulations to clarify the requirements for use of the Economy Act and Other Interagency Orders, but will defer to the Under Secretary of Defense for Acquisition, Technology, and Logistics regarding the requirement for a Determination and Finding on all non-DoD purchases. The estimated completion date is September 30, 2005.

Audit Response. The Deputy Chief Financial Officer's comments are responsive. No further comments are necessary.

However, we have requested that the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics reconsider his position on the requirement for a contracting officer's Determination and Finding for non-DoD purchases.

b. Work with the General Services Administration to develop a system to track funds sent to the General Services Administration and other Government activities by Military Interdepartmental Purchase Requests. The system developed must be able to identify fund balances, amounts obligated, amounts expended, and amounts expired by appropriation and year of appropriation.

Management Comments. The Deputy Chief Financial Officer concurred and stated that DoD is participating in a government-wide effort to address intergovernmental transactions, an area that the Government Accountability Office has classified as a government-wide material weakness.

c. Develop a standard for military interdepartmental purchase request numbers throughout DoD to enable identification of the activity sending the funds and of the non-DoD activities receiving the funds.

Management Comments. The Deputy Chief Financial Officer concurred and stated that on October 4, 2004, the Office of Management and Budget issued Memorandum M-03-01, which provides business rules for Federal agencies that acquire goods or services from another Federal agency. These business rules include the establishment of unique business location identifiers to identify the buyer and seller. In addition, DoD will hold a requirements review in June 2005 that will review standardization of information requirements for intragovernmental order forms including Military Interdepartmental Purchase Requests. The estimated completion date is December, 2005.

d. Publish clear guidance to all DoD organizations on the funding of non-DoD contracts and the necessity to monitor funds from Military Interdepartmental Purchase Request Acceptances; final payment of invoices received; and return of excess, expired, or unneeded funds.

Management Comments. The Deputy Chief Financial Officer concurred and stated that the guidance will be published in DoD Financial Management Regulations. The estimated completion date is September 30, 2005.

e. Establish requirements that the Defense Finance and Accounting Service provide financial offices and program offices, all payments made to non-DoD Agencies by funding document number, appropriation type, and year of appropriation no less than 3 times annually so that amounts can be reconciled during triannual financial reviews. Verify that such reconciliations are being made.

Management Comments. The Deputy Chief Financial Officer concurred but stated that until an intra-governmental solution is fielded, the Defense Finance and Accounting Service will continue to provide fund holders with information regarding outstanding commitments and unliquidated obligations recorded for the funds holder in accordance with the DoD Financial Management Regulations, volume 3, chapter 8. However, the Deputy Chief Financial Officer also stated that her office is revising DoD Financial Management Regulations, volume 3, chapter 8, to require the Military Department Assistant Secretaries (Financial Management and Comptroller) and the Deputy Comptroller (Program/Budget) to

submit a confirmation statement that triannual financial reviews were conducted to her office. The confirmation statement will confirm that the required commitment and obligation reviews have been conducted; confirm that all known obligations have been recorded; and identify the internal controls used to ensure the detail reviews were conducted. The estimated completion date is October 31, 2005.

f. Direct the DoD Components to initiate preliminary reviews to determine whether the improper use of Government funds for the 38 purchases listed in Appendix C resulted in Antideficiency Act Violations or other funding violations in accordance with DoD 7000.14-R, "Financial Management Regulations."

Management Comments. The Deputy Chief Financial Officer partially concurred stating that the Under Secretary of Defense (Comptroller) does not initiate preliminary reviews of potential Antideficiency Act violations. However, on May 31, 2005, the Deputy Chief Financial Office directed the respective Components to initiate preliminary reviews of the circumstances surrounding the cited potential Antideficiency Act violations within 30 days.

Audit Response. The Deputy Chief Financial Officer comments were responsive. No further comments are necessary. The Office of the Inspector General of the Department of Defense will review the status of the 38 reported potential Antideficiency Act violations during the followup audit of DoD purchases made through the General Services Administration.

Appendix A. Scope and Methodology

This audit was a joint review between the DoD OIG and GSA OIG. We performed the audit in accordance with the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005. The Act requires the Inspectors General of DoD and GSA to review the policies, procedures, and internal controls for purchases through GSA Client Support Centers. As a result, we reviewed 75 purchases funded by 144 MIPRs valued at $406 million. We reviewed purchases made between October 2002 and October 2004 and shared the information with GSA OIG. However, we emphasized purchases made in the fourth quarter of FY 2004.

GSA used the OMIS and the CODB databases to provide a list of DoD activities and MIPRs for the fourth quarter of FY 2003 and FY 2004. We selected 16 organizations from the list that had high-value MIPRs. The Army organizations visited were the U.S. Army Materiel Command; U.S. Army Accession Command; U.S. Army Reserve Command; National Guard Bureau, including the Army National Guard and Air National Guard; and Project Manager Defense Communications, and Army Transmission Systems. The Navy organizations visited were the Naval Education and Training Command, Naval Reserve Forces, Space and Naval Warfare Systems Command, and the Space and the Naval Warfare Systems Center, New Orleans. The Air Force organizations visited were the Air Combat Command, Electronic Systems Center, and the Air Force Medical Support Agency. The other Defense organizations were the Southern Command, Defense Manpower Data Center, and the Defense Logistics Agency.

For each site, we judgmentally selected a minimum of four high value MIPRS from fourth quarter FY 2004. We reviewed documentation maintained by the contracting organizations to support purchases made through GSA. The purchase documents reviewed were MIPRs and acceptances, statements of work, acquisition plans, task orders, cost proposals, surveillance plans, bill of materials, invoices, sole source letters, contract award documents, disbursement reports, payment history documents, and miscellaneous correspondence. We interviewed contract specialists, finance officials, acquisition technology and logistics personnel, comptroller personnel, and program managers covering purchase requirements, bona fide need, appropriation and related management control programs. Our audit included four major areas of review:

- The first step determined whether DoD organizations had internal control to ensure that the proper types of funds and proper year of funds were used for DoD MIPRs sent to GSA. We determined whether the contracting section of the organization had written procedures covering the use of MIPRs to non-DoD organizations. For each purchase reviewed, we determined whether the appropriation code was correct, and whether the appropriation code would be appropriate if the purchase had not been made through GSA.

- The second step determined whether DoD requiring organizations had internal control for defining requirements and planning acquisitions for purchases awarded on GSA contracts. For each purchase reviewed, we determined

when the organization developed the requirement and why GSA was selected to make the purchase. In addition, we determined whether there was a bona fide need for the requirement and whether it was for the fiscal year that financed the requirement.

- The third step determined whether DoD contracting activities are following established procedures for approving purchases made through the use of contracts awarded by GSA. Specifically, we determined whether a DoD contracting office was involved in planning the GSA purchase.

- The fourth step determined how contractor performance was being monitored in situations where DoD purchases were awarded on GSA contracts. For each purchase reviewed, we determined whether a DoD representative signed off on acceptance of contractor work.

We performed this audit from September 2004 through April 2005 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We obtained a computer-generated list from GSA processed through the OMIS and COBD databases in FY 2003 through FY 2004. From the list, we judgmentally selected high-value MIPRs for review. However, due to inconsistencies in the OMIS and CODB data, we were unable to rely on the GSA list for MIPR selection. The GSA list detailed MIPRs that some contracting organizations could not identify. Therefore, we selected MIPRs based on records at the contracting organizations. Although we did not perform a formal reliability assessment of the computer-processed data, we verified the list against official records at the activities visited and determined the lists to be unreliable in reporting all DoD funding documents received by GSA.

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

Appendix B. Prior Coverage

During the last 5 years, the General Accounting Office (GAO), the Inspector General of the Department of Defense (DoD IG), Army, Air Force, and General Services Administration (GSA) have issued 21 reports discussing Military Interdepartmental Purchase Requests (MIPRs) and Federal Technology Service's Client Support Centers. Unrestricted GAO reports can be accessed over the Internet at http://www.gao.gov. Unrestricted DoD IG reports can be accessed at http://www.dodig.osd.mil/audit/reports. Unrestricted Army reports can be accessed at http://www.hqda.army.mil. Unrestricted Air Force reports can be accessed at http://www.afaa.hq.af.mil. Unrestricted GSA reports can be accessed at http:// www.gsa.gov.

GAO

GAO Report No. GAO-05-274, "Contract Management: Opportunities to Improve Surveillance on Department of Defense Service Contracts," March 2005

GAO Report No. GAO-05-207, "High-Risk Series: An Update," January 2005

DoD IG

DoD IG Report No. D-2003-090, "Use and Control of Military Interdepartmental Purchase Requests at the Air Force Pentagon Communications Agency," May 13, 2003

DoD IG Report No. D-2002-110, "Policies and Procedures for Military Interdepartmental Purchase Requests at Washington Headquarters Services," June 19, 2002

DoD IG Report No. D-2002-109, "Army Claims Service Military Interdepartmental Purchase Requests," June 19, 2002

Army

Army Report No. A-2004-0244-FFB, "Information Technology Agency Contract Management," May 25, 2004

Army Report No. A-2002-0536-IMU, "Military Interdepartmental Purchase Requests, Logistics Assistance Group Europe," August 21, 2002

Air Force

Air Force Report No. F2005-0006-FBP000, "General Services Administration Military Interdepartmental Purchase Request, 353d Special Operations Group, Kadena AB, Japan," November 10, 2004

Air Force Report No. F2004-0046-FBP000, "General Services Administration Military Interdepartmental Purchase Request, 390h Intelligence Squadron, Kadena AB, Japan," August 11, 2004

Air Force Report No. 99062007, "Use and Control of Military Interdepartmental Purchase Requests," December 11, 2000

Air Force Report, "Military Interdepartmental Requests, Air Force Flight Test Center, Edwards Air Force Base, California," November 30, 2000

Air Force Report No. DT000026, "Use and Control of Military Interdepartmental Purchase Requests Oklahoma City Air Logistics Center Tinker Air Force Base, Oklahoma," August 3, 2000

Air Force Report No. D1000027, "Use and Control of Military Interdepartmental Purchase Requests at the Air Logistics Centers," May 2, 2000

GSA IG

GSA Report, Compendium of Audits of Federal Technology Service Client Support Center Controls, June 14, 2005

GSA Report, Compendium of Audits of the Federal Technology Service Regional Client Support Centers, December 14, 2004

GSA Report No. A040097/T/7/Z05011, "Audit of Federal Technology Service's Client Support Center," Greater SOUTHWEST Region, December 10, 2004

GSA Report No. A030205/T/9/Z05009, "Audit of Federal Technology Service's Client Support Center," Pacific Rim Region, December 9, 2004

GSA Report No. A040191/T/6/Z05007, "Audit of Federal Technology Service's Control and Testing of Those Controls," Heartland Region, December 9, 2004

GSA Report No. A040102/T/W/Z05004, "Audit of Federal Technology Service's Client Support Center," National Capital Region, December 9, 2004

GSA Report No. A020144/T/5/Z04002, "Audit of Federal Technology Service's Client Support Centers," January 8, 2004

GSA Report No. A020144/T/5/W03001, "Alert Report on Audit of Federal Technology Service's Client Support Centers," March 6, 2003

Appendix C. Potential Antideficiency Act Violations

The draft version of this report listed 40 potential Antideficiency Act violations. However, we have deleted draft version number 2. "Enterprise Business Intelligence Capability" from the list of potential Army Material Command violations and draft version number 26. "Counter Drug Trafficking Purchase," from the list of potential Air Combat Command violations. In response to the Air Combat Command comments, we moved draft version number 28. "Combat Banners," from the Air Combat Command list to the National Guard Bureau list as final report version number 16.

Army Materiel Command

1. **Relocation/IT Support.** The Army Materiel Command sent MIPR MIPR3M6ADPP02 for approximately $1.9 million and MIPR MIPR3M6ADPP02 Amendment 1 for $500,000 to GSA on September 30, 2003, for relocation of IT support using O&M Funds. The relocation support included seat management equipment and services. Although a contract existed, GSA had not amended the contract to reflect the MIPR requirements as of November 2004. Use of FY 2003 O&M funds to satisfy FY 2005 requirements does not meet the intent of the bona fide need rule.

2. **Relocation/Cell Phones.** The Army Materiel Command sent MIPR MIPR4MG6ISW040 for $420,000 to GSA on September 28, 2004, using O&M Funds. The requirement was for cellular phones, pagers and blackberries. As of November 2004, GSA had not placed the funds on contract to purchase the equipment. The anticipated receipt of goods after the DoD appropriation expired could not be justified because of delivery time, production lead-time, or unforeseen delays. No bona fide need exists because the equipment will not be provided until FY 2005 and the Army Materiel Command used FY 2004 O&M Funds, which expired on September 30, 2004.

3. **Management Consulting Services.** The Army Materiel Command sent MIPR MIPR4LG1SERV21 for $324,000 to GSA on August 11, 2004, using FY 2004 O&M funds. GSA accepted the funds on the same day. The requirement funded the Army Materiel Command management consulting project. GSA obligated the funds against contract number GS-10F-0439P, task order 5TPS210R00030F on January 27, 2005 with a period of performance of February 1, 2005 to January 31, 2006. The procurement was for severable services. No FY 2004 bona fide need existed because the order for supplies and services met a FY 2005 requirement that lasted until FY 2006.

Army Accession Command

4. **Communications and Electronics Helpdesk.** The Army Accession Command sent MIPR MIPR04A04000021 amendment 7 for $24,995 of FY 2004 O&M funds to GSA on September 30, 2004, to exercise option year 3 of a task order providing Information Technology Communications and Electronic Help Desk support services from October 1, 2004 through September 30, 2005. Exercise of an option year is clearly a procurement of severable services that are not a FY 2004 requirement. GSA modified the contract with an effective date of October 20, 2005. FY 2004 O&M Funds expired on September 30, 2004, and the period of service was for FY 2005. The procurement was for a continuation of severable services that will be received in FY 2005. Therefore, no FY 2004 bona fide need existed for this procurement.

5. **Cell Phone and Telecommunications Project.** The Army Accession Command sent MIPR MIPR4K04000137 amendment 1 for $60,000 to GSA on September 23, 2004, using FY 2004 O&M Funds. It also sent MIPR MIPR4K04000147 amendments 1 and 5 for approximately $5.4 million and $1,400 to GSA on September 23 and September 30, respectively, using FY 2004 O&M funds. The Army Accession Command procured cell phones for all Army Recruiters and selected Headquarters staff to maintain contact with the recruiter' applicants and staff. The task order indicates the period of performance was for option year 4 of the contract starting October 1, 2004 through September 30, 2005. Exercise of am option year is clearly a procurement of severable services that are not a FY 2004 requirement. The receipt of goods after the DoD appropriation expired could not be justified because of delivery time, production lead-time, or unforeseen delays. In addition, the services were severable and met a FY 2005 requirement. Therefore, no bona fide need existed in FY 2004.

6. **Partners for Youth Success Program- Marketing.** The Army Accession Command sent MIPR MIPR4G04000102 amendment 2 for $214,127 to GSA on September 14, 2004, using FY 2004 O&M Funds. The Army Accession Command required Marketing for the Army's Recruiting Program. The Army Accession Command used FY 2004 O&M funds, which expired on September 30, 2004. The period of performance occurred from January 1, 2005 through April 30, 2005. Therefore, no FY 2004 bona fide need existed for services that were clearly a FY 2005 requirement.

7. **Partners for Youth Success Information Technology.** The Army Accession Command sent MIPR MIPR4G04000104 amendment 2 for approximately $167,000 to GSA on September 14, 2004, using O&M funds. FY 2004 O&M funds expire on September 30, 2004. The Army Accession Command procured IT support to develop and maintain a web-based marketing tool for recruiting. The MIPR period of performance for service is January 1, 2005 through April 30, 2005. Therefore, no FY 2004 bona fide need existed for services that were clearly a FY 2005 requirement.

8. **Joint Recruiting Management System.** The Army Accession Command sent MIPR MIPR4A04000026 amendment 6 for $300,000 to GSA on September 24, 2004, using FY 2004 O&M funds. The Army Accession Command exercised option year 3 of a task order to continue services in support of the development of a database to maintain the information/leads on potential applicants for military service. Exercise of an option year is clearly a procurement of severable services that are not a requirement of FY 2004. The period of performance for services occurred from October 1, 2004, through September 30, 2005. The procurement for services was severable and met a FY 2005 requirement. Therefore, no bona fide need existed for FY 2004.

Army Reserve Command

9. **Individual Training Requirements System.** The Army Reserve Command sent MIPR MIPR04ITRS3092 for $1,700,244 to GSA on July 27, 2004, using O&M funds, which expire on September 30, 2004. The Army Reserve Command exercised option year 3 to continue support services for the Individual Training Requirements System project. There was no bona fide need in FY 2004 because option year 2 covered that fiscal year. Therefore, the bona fide need did not rise until FY 2005. Exercise of an option year is clearly a procurement of severable services that were not a FY 2004 requirement. GSA obligated the funds against contract number GS-35F-4797H, task order 4TEG21023601. The MIPR identified FY 2005 as the period funded. No FY 2004 bona fide need existed because the MIPR funded a FY 2005 requirement.

10. **Steam Cleaners.** The Army Reserve Command sent MIPR MIPR04STEAM169, for approximately $49,000 to GSA on September 24, 2004, using O&M Funds, to purchase a heavy equipment steam cleaner mounted on a flat bed trailer. The acquiring official stated that he ordered the equipment through GSA rather than lose the funding. As of February 22, 2005, the steam cleaners had not been received but Army Reserve Command officials believed the steam cleaners were on contract. The receipt of goods after the DoD appropriation expired could not be justified because of delivery time, production lead-time, or unforeseen delays. Therefore, no bona fide need existed for this requirement.

11. **Army Wide Training Tracking System/Army Training and Information Management System Development.** The Army Reserve Command sent MIPR MIPR04WWODT120 for approximately $662,000 to GSA on September 24, 2004, using FY 2004 O&M Funds, to support and maintain an internet based management and tracking system to accommodate all Army units and soldiers conducting training events. GSA accepted the funds on September 25, 2004 but had not awarded a contract as of November 23, 2004. The procurement was for severable services described in a statement of work dated November 2, 2004. Therefore, no bona fide need existed for this procurement in FY 2004.

National Guard Bureau

12. **Sensor Evaluation.** The National Guard Bureau sent MIPR NMIPR04860345 to GSA for $208,333 on September 23, 2004, using FY 2004 O&M funds. GSA accepted the funds on September 27, 2004. GSA awarded Order number GST0405DE0025, Contract GS04T02BFD003 on November 17, 2004. The National Guard Bureau required sensors and a procurement plan for equipping the C-130 RORO pallet with operational sensors in support of the Counter drug Technology Consortium Project. The statement of work identified the project as developmental. The statement of work also identified developmental type tasks, that is, systems design, prototypes and the work is performed at a Research Institute. RDT&E Funds are used to develop major system upgrades, to purchase test articles, and to conduct developmental testing and initial operational testing and evaluation prior to system acceptance and subsequent production. Based on this information, RDT&E funds should have been used instead of O&M funds. Therefore, the National Guard Bureau used an incorrect appropriation. In addition, GSA awarded the task order on November 17, 2004, in FY 2005. The period of performance for the requirement is for 18 months, from November 17, 2004, through May 16, 2006. GSA awarded the contract action in FY 2005 and the period of performance was in FY 2005 and FY 2006. FY 2004 O&M funds cannot be used to fund severable services on this contract action for more than 12 months. In addition, the receipt of goods after the DoD appropriation expired could not be justified because of delivery time, production lead-time, or unforeseen delays. Therefore, there was no bona fide need for this purchase in the fiscal year of the appropriation used and a potential Antideficiency Act violation has occurred.

13. **Web Site Development.** The National Guard Bureau sent MIPR NMIPR04860338 for $200,000 to GSA on September 17, 2004, using FY 2004 O&M funds. GSA accepted the funds on September 28, 2004. GSA awarded the contract November 22, 2004. The National Guard Bureau required support for development of the Counterdrug internal web sites. The statement of work identifies the work as developmental. It states that "the intent of NGB-CD [National Guard Bureau–Counterdrug] that this "NGB-CD Internal Web Management System Development" work follow a spiral developmental model." The statement of work also identifies developmental type tasks, that is, systems design, prototypes. The work is performed at a Research Institute. RDT&E Funds are used to develop major system upgrades, to purchase test articles, and to conduct developmental testing and initial operational testing and evaluation prior to system acceptance and subsequent production. Based on this information, RDT&E funds should have been used instead of O&M funds. Therefore, the National Guard Bureau used an incorrect appropriation. In addition, GSA awarded the contract November 22, 2004, in FY 2005. The period of performance for this GSA contract action is from November 22, 2004, through May 21, 2006. FY 2004 O&M funds cannot be used to fund severable services on this contract more than 12 months. Therefore, a potential Antideficiency Act violation has occurred.

14. **Weapons of Mass Destruction First Response Equipment Buy.** The National Guard Bureau sent MIPR NMIPR04860337 for $7 million to GSA on September 16, 2004, using FY 2004 O&M funds. GSA had not awarded a contract as of January 31, 2005. Accordingly, the bona need rule was not met. The National Guard Bureau required program management, training information systems delivery, equipment logistics support, and procurement support for the Weapons of Mass Destruction 1st Response Equipment Buy. This purchase consists of support services and equipment. The acquisition and deployment of a system, the aggregate cost of all components such as equipment, integration, engineering support, and software, with a cost of $250,000 or more is an investment and should be funded with Other Procurement Funds. Based on the statement of work task description, the National Guard Bureau should have used Other Procurements Funds instead of O&M funds. Therefore, the National Guard Bureau also used an incorrect appropriation. Since no contract was awarded, the National Guard Bureau should deobligate the funds currently at GSA for this purchase and start over with the correct appropriation. Once those actions are complete, there will not be a potential Antideficiency Act violation in connection with this purchase.

15. **Active Directory Support.** The National Guard Bureau sent Miscellaneous Obligation/ Reimbursement Document OGMORD0486046 for $10.1 million to GSA on August 20, 2004, using O&M funds. The National Guard Bureau required strategic planning, requirements analysis, systems integration, facilities management, office automation and networks; software management, data management, information systems engineering, training maintenance, and tools in support of the Active Director Support Project. The acquisition and deployment of a complete system, the aggregate cost of all components such as equipment, integration, engineering support, and software, with a cost of $250,000 or more is an investment and should be funded with Other Procurement Funds. Based on the above description of the task, Other Procurement Funds should have been used instead of O&M funds. Therefore, the National Guard Bureau used an incorrect appropriation.

16. **Combat Banners.** The Project Office for Combat Banners is at the Air Combat Command. The Air National Guard sent MIPR NMIPR04860278 for $327,000 to GSA on August 19, 2004, using FY 2004 O&M Funds. The Air National Guard requirement included a wide variety of airborne simulation capabilities utilizing Lear 35/36 Type (or similar) aircraft towing the TDU-32A/B providing target presentations to train Air Force Fighter pilots and weapon systems operators on the employment of the M61 20mm gun. GSA obligated funds against contract number GS03T02DSD0011, task order GST0304DS2026 on September 13, 2004 for supplies to be delivered in December 2005, and task order GST0305DS2237 on February 1, 2005 for missions to be accomplished in February and June 2005. The receipt of supplies after the DoD appropriation expired could not be justified because of delivery time, production lead-time, or unforeseen delays. The procurement for services is severable and meets FY 2005 requirements. Therefore, a bona fide need does not exist for FY 2004.

Army PM/DCATS

17. **AMC Headquarters Relocation Project.** The PM/DCATS sent 18 MIPRs for approximately $44 million to GSA, using FY 2002, FY 2003, and FY 2004 O&M Funds, for the relocation of the Army Material Command Headquarters. GSA contractors built 2 modular buildings that did not previously exist, to lease to PM/DCATS. Military Construction includes the work to produce a complete and usable facility. PM/DCATS should have requested Military Construction Funds from Congress for the project. Therefore, PM/DCATS used the incorrect appropriation.

Naval Education and Training Command

18. **Computer Purchase.** The Naval Education and Training Command sent MIPR N6804504MPAC202 for $8 million to GSA on August 24, 2004, using O&M Funds, which expire on September 30, 2004. The Naval Education and Training Command requested GSA procure 5,000 computers. GSA obligated the funds against contract number GS-35F-0215J, task order 4TNG17042010 on September 7, 2004. Because the Naval Education and Training Command is upgrading its computers, and the cost is above the threshold of $250,000 for use of O&M Funds, Other Procurement Funds should have been used. Other Procurement Funds are used for upgrades, including new hardware, with a cost of $250,000 or more. Therefore, the Naval Education and Training Command used the incorrect appropriation.

19. **Learning Management System Support.** The Naval Education and Training Command sent MIPR N6804504MPEL265 for approximately $3.5 million to GSA on September 28, 2004, using FY 2004 O&M Funds. The Naval Education and Training Command used GSA to procure the Learning Management System Support Integrated Learning Environment. The purpose is to provide those products and services necessary to provide functionality in support of the Navy's Integrated Learning Environment. The period of performance is from October 2004 through September 2005, fulfilling a FY 2005 requirement. FY 2005 funds should have been used. The receipt of goods after the DoD appropriation expired could not be justified because of delivery time, production lead-time, or unforeseen delays. Therefore, there was no bona fide need in FY 2004 for this procurement.

20. **Chief Information Officer Integration.** The Naval Education and Training Command sent MIPR N6804504MPFQ446 for approximately $546,000 to GSA on September 30, 2004, using FY 2004 O&M Funds. The Naval Education and Training Command purchased support study services for the Navy Marine Corps Intranet project. As of December 16, 2004, GSA had not awarded a contract for this requirement. Accordingly, the bona fide need rule was not met.

21. **Navy EXCEL.** The Naval Education and Training Command sent MIPR N6804504MPX5104 for approximately $2.5 million to GSA on July 21, 2004; MIPR N6804504MPX5104 amendment 1 for approximately

$5.7 million to GSA on September 13, 2004; and MIPR N6804504MPX5104 amendment 2 for $2.4 million to GSA on September 25, 2004, using O&M Funds. The Naval Education and Training Command used GSA to procure the Navy Knowledge Online Task Force EXCEL (Excellence through Commitment to Education and Learning) to transform training to incorporate changes in technologies, systems, and platforms being developed for tomorrow's Fleet. GSA obligated the funds against contract number GS-35F-4381G on June 9, 2004, and modified the order on July 28, 2004. It appears that GSA awarded the task and work started prior to GSA receiving funds from DoD. The deliverables in the statement of work include items such as "software test plan" and Government Acceptance Testing. Also, the initial capabilities task occurs at the very end of the project. RDT&E Funds are used to develop major system upgrades, to purchase test articles, and to conduct developmental testing and initial operational testing and evaluation prior to system acceptance and subsequent production. Therefore, the Naval Education and Training Command used the incorrect appropriation.

Naval Reserve Forces

22. **Defense Message System.** The Naval Reserve Forces sent MIPR N000720MP34275, for approximately $706,000 to GSA on September 13, 2004 and MIPR N000720MP34275 amendment 1, for $566,500 to GSA on September 29, 2004, using O&M Funds that expired on September 30, 2004. The Naval Reserve Forces upgraded the Defense Message System servers and messaging. GSA obligated the funds against contract number GS-35F-4076D, task order BJB174733T2 for computers on September 27, 2004, and contract number GS-35F-4390G, task order FJB174739T2 for training on November 1, 2004. The modification of a system with a cost of $250,000 or more is an investment and should be funded with Other Procurement Funds. Therefore, the Naval Reserve Forces used the incorrect appropriation.

Space and Naval Warfare Systems Command

23. **Toner Printer Supplies.** The Space and Naval Warfare Systems Command sent MIPR N0003904IPFG003 for approximately $212,000 to GSA on September 22, 2004, for toner supplies, using FY 2004 O&M Funds. The Space and Naval Warfare Systems Command purchased toner for FY 2005, using FY 2004 funds. The receipt of goods after the DoD appropriation expired could not be justified because of delivery time, production lead-time, or unforeseen delays. Therefore, no bona fide need existed.

24. **Video Teleconference Upgrades.** The Space and Naval Warfare Systems Command sent MIPR N0003904IPFG004 for approximately $416,000 using O&M Funds and MIPR N0003904IPFDB97 for $460,000 to GSA on September 29, 2004, using Other Procurement Funds, to purchase video teleconference upgrades and equipment. GSA obligated the funds against contract number GST0905DF0040 in October 2004. The Space and Naval Warfare Systems Command obtained upgrades (using MIPR

N0003904IPFG004) above the O&M funds threshold of $250,000. The modification of a system with a cost of $250,000 or more is an investment and should be funded with Other Procurement Funds. Therefore, the Space and Naval Warfare Systems Command used the incorrect appropriation. The FY 2004 O&M Funds expired on September 30, 2004 and GSA did not sign the contract for services until October 2004. The procurement for upgrade services portion of this order was severable and met a FY 2005 requirement. Therefore, no FY 2004 bona fide need existed.

Space and Naval Warfare Systems Center New Orleans

25. **Work Force Learning Project.** The Space and Naval Warfare Systems Center New Orleans sent MIPR N6925004MPGR001 for approximately $3.2 million to GSA on September 28, 2004, using O&M Funds. The Space and Naval Warfare Systems Center New Orleans used GSA to explore distance learning capabilities as an efficient and effective training vehicle for the DoD. This project is to further investigate and maximize use of distance learning techniques to support the civilian community learning requirements. GSA did not award a contract as of November 23, 2004. RDT&E funds are used to develop major system upgrades, to purchase test articles, and to conduct developmental testing and initial operational testing and evaluation prior to system acceptance and subsequent production. The Space and Naval Warfare Systems Center New Orleans should have used RDT&E funds because the type of work to be performed is research, definition, prototyping, and validation of processes, methods and tools related to civilian workforce development. Therefore, the Space and Naval Warfare Systems Center New Orleans used the incorrect appropriation. In addition, FY 2004 O&M Funds expired on September 30, 2004. GSA did not award a contract as of November 23, 2004. The procurement for services is severable and meets a FY 2005 requirement. No FY 2004 bona fide need exists.

Air Combat Command

26. **Battle Management Project.** The Air Combat Command sent MIPR DD48809N401296 for $1 million to GSA on September 9, 2004, using FY 2004 O&M Funds. The Air Combat Command purchased professional services for maintenance and repair of ground-base radar equipment and to Manage Air Combat Aerospace Operations Planning and Training Programs for the Battle Management Operations. GSA obligated the funds against contract number GS07T00BGD0021 exercising option year 3 of the services contract. The period of performance on the statement of work is October 1, 2004, through September 30, 2005, which is FY 2005. Option year 2 of the contract, covering the same services, ended on September 30, 2004. The procurement for services is severable and meets a FY 2005 requirement. FY 2005 O&M Funds should be used. Therefore, a bona fide need did not exist for FY 2004.

27. **Modernization of Weapon Systems.** The Air Combat Command sent MIPR DD44809N401215 for approximately $1.1 million to GSA on

August 19, 2004, using FY 2004 O&M Funds to be obligated against contract number GS-00F-0034L, task order T0002AJ0213. The Air Combat Command tasks included technical evaluations and requirements development planning through automated acquisition and management of relevant data and technical assistance to support development of all integrated Air Force modernization and sustainment planning activities. Other Procurement Funds should have been used because of the cost of the upgrade, which includes technical assistance, is counted towards the investment threshold of $250,000 or more. Therefore, the Air Combat Command used the incorrect appropriation.

Air Force Electronic Systems Center

28. **Smart Gate.** ESC/FD sent MIPR NFDXXX03681387 for approximately $159 million to GSA on August 22, 2003; MIPR NFDXXX03681387 Amendment 1 for approximately $15 million to GSA on September 9, 2003; and MIPR NFDXXX03681387 Amendment 2 to pull back approximately $3 million from GSA on September 30, 2003, for security upgrades using FY 2003 O&M Funds, which expired on September 30, 2003. These upgrades included the smart gates, vehicle barriers, explosive detection equipment, and thermal imagers. Overall, five contracts awards are planned. GSA awarded contracts on April 30, 2004, and December 12, 2003, for vehicle barriers and thermal imager equipment, respectively. GSA used the General Supply Fund to award the two contracts that were funded for approximately $41 million. Additionally, GSA seeks to award three additional contracts for handheld and desktops explosive detection equipment and smart gates for approximately $130 million. The GSA initial review of the 3 proposals has indicated that it too has some concerns. The receipt of goods after the DoD appropriation expired could not be justified because of delivery time, production lead-time, or unforeseen delays. No bona fide need exists because the funds expired on September 30, 2003, and the work would not be performed until FY 2005 or later. Military Construction includes the cost of all military construction work to produce a complete and usable facility or a complete and usable improvement to an existing facility. Because the vehicle barriers are construction, ESC/FD should have used Military Construction Funds. Therefore, ESC/FD used the incorrect appropriation.

29. **Security System Assessment.** ESC/FD sent MIPR NFDXXX03681571 for $2.9 million to GSA on September 25, 2003, using O&M funds for completion of site visits as the first part of the Security Assessment of 100 Air Force Bases. GSA awarded the contract in October 2003. The procurement for services is severable and met a FY 2004 requirement. Therefore, no FY 2003 bona fide need existed for this purchase.

30. **Joint Conflicts and Tactical Simulation System Assessment.** ESC/FD sent MIPR NFDXXX03681595 for approximately $1.24 million to GSA on September 30, 2003, utilizing O&M funds. GSA awarded the contract in October 2003. The ESC/FD procured support services to conduct a simulation vulnerability study of 100 Air Force Bases worldwide. The

procurement for services is severable and met a FY 2004 requirement. Therefore, no FY 2003 bona fide need existed for the purchase.

Air Force Medical Support Agency

31. **End User Devices.** The Air Force Medical Support Agency sent MIPR NMIPR045204141 for approximately $2.8 million and MIPR NMIPR045204112 for approximately $8.2 million to GSA on September 14, 2004 and September 1, 2004, respectively, using O&M funds. The Air Force Medical Support Agency required End User Devices in support of the worldwide deployment of Composite Health Care Systems to Air Force Medical Facilities. FY 2004 O&M funds expired on September 30, 2004. As of January 4, 2005, GSA has not awarded a contract action for the requirements for MIPR NMIPRO4524141. The receipt of goods after the DoD appropriation expired could not be justified because of delivery time, production lead-time, or unforeseen delays. Therefore, no bona fide need existed.

32. **Web Management Design.** The Air Force Medical Support Agency sent MIPR NMIPR405203590 for approximately $1.7 million and MIPR NMIPR045204164 for $288,000 to GSA on October 16, 2003, and September 28, 2004, respectively, using FY 2004 O&M funds. The Air Force Medical Support Agency required Web Management, Design, and Contract Support. GSA awarded a contact with funds from MIPR NMIPR405203590 on January 28, 2004. However, the Air Force Medical Support Agency personnel could not determine whether GSA awarded a contract for MIPR NMIPR045204164 as of January 5, 2005. Contracts for severable services must be formed in the fiscal year of the funds being used. Services under such contracts must meet the bona fide needs rule. Accordingly, we believe the Air Force Medical Support Agency did not have a bona fide need for the FY 2004 O&M funds used on MIPR NMIPR045204164. Furthermore, the Air Force Medical Support Agency used O&M funds for the purchase of developmental type equipment, which should have been funded with RDT&E funds. RDT&E Funds are used to develop major system upgrades, to purchase test articles, and to conduct developmental testing and initial operational testing and evaluation prior to system acceptance and subsequent production. The Air Force Medical Support Agency used the incorrect appropriation for this purchase. Also, the Air Force Medical Support Agency funded the FY 2005 option year with a combination of FY 2002 and 2003 O&M funds. See section on Improper Use of Funds, page 13 for further details.

U.S. Southern Command

33. **Debit Card Pilot Program.** The Southern Command sent MIPR MIPR3L21F60012 for $637,294 to GSA on August 13, 2003 and MIPR MIPR3L21F60012 Amendment 1 for $150,000 to GSA on September 25, 2003, using O&M funds. GSA awarded the contract on August 20, 2003. The requirement is for testing the U.S. Debit Card for the

U.S. Treasury Department and developing an interface with DoD financial systems. RDT&E Funds are used to develop major system upgrades, to purchase test articles, and to conduct developmental testing and initial operational testing and evaluation prior to system acceptance and subsequent production. Because the Southern Command is requiring contractors to perform testing and developmental efforts, RDT&E Funds should have been used instead of O&M Funds. Therefore, the Southern Command used the incorrect appropriation.

34. **Joint Detainee Information Management System.** The Southern Command sent MIPR MIPR4K47G6U199 for approximately $573,000 to GSA on July 26, 2004, using O&M funds. The Southern Command required various hardware and software for the Joint Detainee Information Management System. The modification of a system with a cost of $250,000 or more is an investment and should be funded with Other Procurement Funds. Therefore, the Southern Command used the incorrect appropriation.

Defense Manpower Data Center

35. **Universally Accepted Credentials.** The Defense Manpower Data Center sent MIPR X14H5A44F136MP, Amendment 1 for $360,000 to GSA on September 28, 2004, using O&M funds. The Defense Manpower Data Center required commercial off the shelf hardware and software, technical support services, and hardware maintenance. GSA had not placed the funds on the contract as of December 15, 2004. The procurement for services was severable and met a FY 2005 requirement. In addition, the receipt of goods after the DoD appropriation expired could not be justified because of delivery time, production lead-time, or unforeseen delays. Therefore, no bona fide need existed.

36. **Beneficiary Services and Ancillary Support.** The Defense Manpower Data Center sent MIPR XK3H5A33F273MP for $6 million to GSA on September 26, 2003, using O&M funds. The Defense Manpower Data Center required highly qualified on-site technical support contractor personnel to provide local area network/wide area network engineering and administration, Unix system administration support, Oracle database support, technical writing, and project planning and management as Defense Management Data Center Systems Integration and Technical Support Division staff. GSA awarded the contract in October 2004. The procurement for services was severable and met a FY 2005 requirement. Therefore, no bona fide need existed in the year of the appropriation.

37. **Defense Biometric Identification System.** The Defense Manpower Data Center sent MIPR XK4H5A44F288MP Amendment 1 for $1.25 million to GSA on September 28, 2004, using O&M funds. The Defense Manpower Data Center required highly qualified personnel for both ongoing and ad hoc Common Access Card failure analysis, durability analysis, and Common Access Card Program Support for the Enterprise Defense Biometric Identification System and Defense Cross-Certification Identification System. The Defense Manpower Data Center sent the MIPR using FY 2004 funds,

however; as of December 16, 2004, GSA had not placed the funds on the contract. FY 2005 funds should have been used for this severable services contract.

38. **CAC Vulnerability.** The Defense Manpower Data Center sent MIPR XX4H5A44F222MP Amendment 1 for $350,000 to GSA on August 12, 2004, using O&M funds. The requirement is for the continued testing of the Common Access Card vulnerability testing to ensure Common Access Card security. As of December 16, 2004, GSA had not obligated the MIPR funds on a contract. Accordingly, the bona fide need rule had not been met. FY 2004 O&M funds expired on September 30, 2004. Therefore, FY 2005 funds should have been used for this purchase.

Appendix D. Identified Funding Problems

DoD Activity	Purchase	Inadequate Acquisition Planning	No Interagency Agreement	Incorrect Approp.	No Bonafide Need	Incorrect Use of IT Funds	Inadequate Audit Trail
Army							
1) Army Materiel Command	1) Relocation IT Support	•	•		•	Cannot Determine	•
	2) Enterprise Business Intelligence Capability	•	•			Cannot Determine	
	3) Relocation Cell Phones	•	•		•	Cannot Determine	•
	4) Management and Consulting Services	•	Inadequate		•		
	5) Single Army Logistics Enterprise	•	Inadequate				
2) Army PM/DCATS	6) DCL Antenna Refurbishment	•	•				•
	7) MT/HT Antenna Group End-of-Life Study	•	•			•	•
	8) Antenna Testing and Reconditioning	•	•				•
	9) Enhancements and Support	•	•			•	•
	10) Satellite Feed and Radome Work	•	•				•
	11) HQ Relocation Project	•	•	•		Cannot Determine	•
	12) Firebird Test Set	•	•				•
	13) CNG-7749S	•	•				•
3) Army Accession Command	14) Communications and Electronics (Helpdesk)	•	•		•		•
	15) Cell Phones and Telecommunications	•	Inadequate		•		•
	16) Partners For Youth Success Program (Pays)	•	Inadequate		•	IT Fund Not Used	•
	17) PaYS-IT	•	Inadequate		•		•
	18) Joint Recruiting Management System	•	•		•		•

DoD Activity	Purchase	Inadequate Acquisition Planning	No Interagency Agreement	Incorrect Approp.	No Bonafide Need	Incorrect Use of IT Funds	Inadequate Audit Trail
4) Army Reserve Command	19) Individual Training Requirements System		•		•		•
	20) UTS Automation Support	•	•				•
	21) Connections Telecommunications	•	•				•
	22) Data Center Consolidation	•	•				•
	23) Operational Support Services	•	•				•
	24) System Maintenance and Modification		•				•
	25) ARTIMS Development	•	•		•		•
	26) SWANK Medical System		•			Cannot Determine	•
	27) Steam Cleaners	•	•		•	IT Fund Not Used	•
	28) Operations Training System Support and Maintenance		•				•
5) National Guard Bureau	29) Sensor Evaluation	•	•	•	•	Cannot Determine	
	30) Web Site Development	•	•	•	•	Cannot Determine	
6) Air National Guard	31) WMD 1st Response Equipment Buy	•	•	•	•	IT Fund Not Used	
	32) Active Directory Support			•			
Navy							
7) Naval Education & Training Command	33) Training Equipment Upgrade	•	•	•			
	34) Learning Management System Support	•	•		•		
	35) Chief Information Officer Integration	•	•		•		

DoD Activity	Purchase	Inadequate Acquisition Planning	No Interagency Agreement	Incorrect Approp.	No Bonafide Need	Incorrect Use of IT Funds	Inadequate Audit Trail
	36) Task Force Excel	•	•	•			
8) Naval Reserve Forces	37) Defense Message System	•	Inadequate	•		Cannot Determine	
	38) Business Process Review Project	•	Inadequate			Cannot Determine	
	39) NMCI Customer Technical Representative	•	Inadequate			Cannot Determine	
	40) Virtual Desk Top Project	•	Inadequate			Cannot Determine	
9) SPAWAR ITC	41) IMAPMIS Support System	•	•			Cannot Determine	
	42) LA State Police IT Infusion	•	•			Cannot Determine	
	43) Reserve HQ Support System	•	•			Cannot Determine	
	44) Work Force Learning Project	•	•	•	•	Cannot Determine	
10) SPAWAR, CA	45) NGA Network and Architecture	•	Inadequate				•
	46) Printer Supplies	•	•		•		•
	47) VTC Bridge Equipment/Upgrade	•	•	•	•		•
	48) Naval Tactical Command Support System	•	Inadequate				•
	49) Integrated Shipboard Network System	•	Inadequate				•
	50) Defense Message System	•	Inadequate				•
Air Force							
11) Air Combat Command	51) Counter Drug Trafficking	•	•			Cannot Determine	•
	52) Battle Management	•	•		•		•
	53) Modernization	•	•	•		•	
	54) COOP	•	•				•
	55) Combat Banner	•	•		•	•	

DoD Activity	Purchase	Inadequate Acquisition Planning	No Interagency Agreement	Incorrect Approp.	No Bonafide Need	Incorrect Use of IT Funds	Inadequate Audit Trail
	56) SIPRNET	•	•				•
12) Electronic Systems Command	57) Smartgate Vehicle Barriers	•	•	•	•	•	•
	58) Offutt Air Force Base Security Equipment	•	•			•	•
	59) Security System Assessment	•	•		•	•	•
	60) JCATS System Assessment	•	•		•	•	•
13) Air Force Medical Support Agency	61) End User Devices	•	Inadequate		•		
	62) Medical Systems Infrastructure Modernization	•	Inadequate				
	63) WEB Management Design	•	•	•	•		
Unified Command							
14) SOUTHCOM	64) Debit Card Pilot Program	•	•	•			•
	65) JDIMS	•	•	•			•
	66) PIT	•	•				•
	67) Information Assurance Initiatives	•	Inadequate				•
	68) Automated Logistics System	•	•			Cannot Determine	•
Defense Agency							
15) Defense Manpower Data Center	69) Universally Accepted Credentials	•	Inadequate		•	Cannot Determine	
	70) Beneficiary Services and Ancillary Support	•	Inadequate		•	Cannot Determine	

DoD Activity	Purchase	Inadequate Acquisition Planning	No Interagency Agreement	Incorrect Approp.	No Bonafide Need	Incorrect Use of IT Funds	Inadequate Audit Trail
	71) DBIDS	•	Inadequate		•	Cannot Determine	
	72) Manpower and Personnel Gate ID System	•	Inadequate			Cannot Determine	
	73) CAC Vulnerability Testing	•	Inadequate		•	Cannot Determine	
16) Defense Logistics Agency	74) Storage Management Study		•				
	75) Contractor Support		•				
Total 16 DoD Activities Visited	**Total 75 DoD Purchases Reviewed**	**68**	**53 No Agreement 21 Inadequate**	**15**	**30**	**8 Incorrect 22 Cannot Determine 3 IT Fund Not Used**	**44**

Appendix E. DoD MIPRs Issued To GSA Included In Audit

DoD Activity	Purchase Description	MIPR No#	Appropriation	MIPR Amount
Army				
1) Army Materiel Command	1) Relocation - IT Support	1) MIPR3M6ADPP02	O&M	$1,911,229
		2) MIPR3M6ADPP02 (A1)	O&M	$500,000
	2) Enterprise Business Intelligence Capability	3) MIPR4MG6BAH730	O&M	$600,000
	3) Relocation - Cell Phones	4) MIPR4MG6ISW040	O&M	$420,000
	4) Management Consulting Services	5) MIPR4LG1SERV21	O&M	$324,000
	5) Single Army Logistics Enterprise	6) MIPR4I6AEI0030 (A1)	O&M	$4,337,276
2) Army PM/DCATS	6) DCL Antenna Refurbishment	7) MIPR4K4GSAK641	Other Procurement	$309,920
	7) MT/HT Antenna Group End-of-Life Study	8) MIPR4H4GSAK504	Other Procurement	$676,000
	8) Antenna Testing and Reconditioning	9) MIPR4H4GSAK492	Other Procurement	$500,000
	9) Teleport PPL Enhancements and Support	10) MIPR4F4GSAK414	O&M	$260,000
	10) Satellite Feed and Radome Work	11) MIPR4F4GSAK415	O&M	$463,320
	11) HQ Relocation Project	12) MIPR2MGM2CR058	O&M	$20,000,000
		13) MIPR2MGM2CR058 (A1)	O&M	($1,859,189)
		14) MIPR2MGM2CR058 (A2)	O&M	$230,575

DoD Activity	Purchase Description	MIPR No#	Appropriation	MIPR Amount
		15) MIPR2MGM2CR058 (A3)	O&M	$20,014
		16) MIPR2MGM2CR074	O&M	$256,000
		17) MIPR2MGM2CR075	O&M	$223,487
		18) MIPR3LGM3CR023	O&M	$10,199,346
		19) MIPR3LGM3CR024	O&M	$1,898,084
		20) MIPR3LGM3CR025	O&M	$4,585,000
		21) MIPR3LGM3CR027	O&M	$4,000,000
		22) MIPR3MGM3CR032	O&M	$570,000
		23) MIPR3MGM3CR041	O&M	$134,422
		24) MIPR4C4CR006 (A1)	O&M	$1,059,357
		25) MIPR4E4M4CR013	O&M	$792,791
		26) MIPR4G4M4CR031	O&M	$270,797
		27) MIPR4K4M4CR037	O&M	$318,130
		28) MIPR4K4M4CR038	O&M	$82,905
		29) MIPR4K4MCR036 (A1)	O&M	$1,705,782
	12) Firebird Test Set	30) MIPR4D4GSAK241	O&M	$89,229

DoD Activity	Purchase Description	MIPR No#	Appropriation	MIPR Amount
	13) CNG 7749S Micronetics Test Sets	31) MIPR4D4GSAK242	O&M	$140,760
3) Army Accession Command	14) Communications and Electronics (Helpdesk)	32) MIPR4A04000021 basic	O&M	$3,751,000
		33) MIPR4A04000021 (A7)	O&M	$24,995
	15) Cell Phones and Telecommunications	34) MIPR4K04000137 basic	O&M	$1,500,000
		35) MIPR4K04000137 (A1)	O&M	$60,000
		36) MIPR4K04000147 basic	O&M	$2,943,000
		37) MIPR4K04000147 (A1)	O&M	$5,389,000
		38) MIPR4K04000147 (A5)	O&M	$1,384
	16) Partners For Youth Success Program (Pays)	39) MIPR4G04000102, basic	O&M	$160,595
		40) MIPR4G04000102 (A2)	O&M	$214,127
		41) MIPR4G04000103 basic	O&M	$40,148
		42) MIPR4G04000103 (A2)	O&M	$80,298
	17) PaYS - IT	43) MIPR4G04000104, basic	O&M	$124,924
		44) MIPR4G04000104 (A2)	O&M	$166,566
		45) MIPR4G04000105 basic	O&M	$31,231
		46) MIPR4G04000105 (A2)	O&M	$62,462

DoD Activity	Purchase Description	MIPR No#	Appropriation	MIPR Amount
	18) Joint Recruiting Management System	47) MIPR4A04000026, basic	O&M	$2,858,000
		48) MIPR4A04000026 (A6)	O&M	$300,000
4) Army Reserve Command	19) Individual Training Requirements System	49) MIPR04ITRS3092	O&M	$1,700,244
	20) UTS Automation Support	50) MIPR04OTUTS095	O&M	$442,900
	21) Connections Telecommunications	51) MIPR04CONNE032	O&M	$2,000,000
	22) Data Center Consolidation	52) MIPR05ANTEO001	O&M	$13,700,000
	23) Operational Support Services	53) MIPR04CIBER037	O&M	$2,135,810
	24) System Maintenance and Modification	54) MIPR04ARIDR0004	O&M	$1,681,000
	25) ARTIMS Development and Implementation	55) MIPR04WWODT120	O&M	$661,845
	26) SWANK Medical System	56) MIPR04SWANK128	O&M	$218,484
	27) Steam Cleaners	57) MIPR04STEAM0169	O&M	$48,629
	28) Operations Training System Support and Maintenance	58) MIPR04CSSAM057	O&M	$972,000
		59) MIPR04CSSAM103	O&M	$11,899,100
		60) MIPR04CSSAM154	O&M	$297,316
5) National Guard Bureau (Army)	29) Sensor Evaluation	61) NMIPR04860345	O&M	$208,333
	30) Web Site Development	62) NMIPR04860338	O&M	$200,000

DoD Activity	Purchase Description	MIPR No#	Appropriation	MIPR Amount
6) National Guard Bureau (Air)	31) WMD First Response Equipment Buy	63) NMIPR04860337	O&M	$7,000,000
	32) Active Directory Support	64) OGMORD0486046	O&M	$10,100,000
Navy				
7) Naval Education & Training Command	33) Training Equipment Upgrade	65) N6804504MPAC202	O&M	$8,000,000
	34) Learning Management System Support	66) N6804504MPEL265	O&M	$3,485,499
	35) Chief Information Officer Integration	67) N6804504MPFQ446	O&M	$545,900
	36) Task Force Excel	68) N6804504MPX5104	O&M	$2,468,237
		69) N6804504MPX5104 (A1)	O&M	$5,674,078
		70) N6804504MPX5104 (A2)	O&M	$2,404,000
8) Naval Reserve Forces	37) Defense Message System	71) N000720MP34275	O&M	$706,324
		72) N000720MP34275 (A1)	O&M	$566,500
	38) Business Process Review Project	73) N0007204MP34285	O&M	$96,404
	39) NMCI Customer Technical Representative	74) N0007204MP36020	O&M	$375,499
	40) Virtual Desk Top Project	75) N0007204MP36023	O&M	$380,000
		76) N0007204MP36023 (A1)	O&M	$69,968
9) SPAWAR ITC	41) IMAPMIS Support System	77) N6925004MPAA008	O&M	$10,219

DoD Activity	Purchase Description	MIPR No#	Appropriation	MIPR Amount
		78) N6925004MPAA008 (A1)	O&M	$435,000
		79) N6925004MPAA008 (A2)	O&M	($250,000)
	42) LA State Police IT Infusion	80) N6925004MPGL005	O&M	$100,000
		81) N6925004MPGL005 (A1)	O&M	$50,000
		82) N6925004MPGL005 (A2)	O&M	$100,000
		83) N6925004MPGL005 (A3)	O&M	$908,000
		84) N6925004MPGL005 (A4)	O&M	$242,000
	43) Reserve HQ Support System	85) N6925004MPRB0002	O&M	$154,536
		86) N6925004MPRB0002 (A1)	O&M	$135,549
		87) N6925004MPRB0002 (A2)	O&M	$145,134
		88) N6925004MPRB0002 (A4)	O&M	$114,258
		89) N6925004MPRB0002 (A5)	O&M	$416,526
		90) N6925004MPRB0002 (A6)	O&M	$186,000
	44) Work Force Learning Project	91) N6925004MPGR001	O&M	$3,196,000
10) SPAWAR, CA	45) NGA Network and Architecture	92) N6600104MP00856	Working Capital	$3,008,000
	46) Printer Supplies	93) N0003904IPFG003	O&M	$212,022

DoD Activity	Purchase Description	MIPR No#	Appropriation	MIPR Amount
	47) VTC Bridge Equipment	94) N0003904IPFDB97	Other Procurement	$460,000
	VTC Upgrade	95) N0003904IPFG004	O&M	$416,321
	48) Naval Tactical Command Support System	96) N0003904IPFK122	O&M	$800,000
		97) N0003904IPFK122 (A1)	O&M	$200,000
		98) N0003904IPFK122 (A2)	O&M	$1,200,000
	49) Integrated Shipboard Network System	99) N0003904IPFLLD4 (A1)	Other Procurement	$2,425,095
	50) Defense Message System	100) N0003904IPFLD36	Other Procurement	$1,669,021
Air Force				
11) Air Combat Command	51) Counter Drug Trafficking	101) DD44809N401185	O&M	$1,377,622
	52) Battle Management	102) DD44809N401296	O&M	$1,000,000
	53) Modernization	103) DD44809N401215	O&M	$1,066,448
	54) COOP	104) DD44809N401228	O&M	$40,143
		105) DD44809N401229	O&M	$172,246
	55) Combat Banner	106) NMIPR04860278	O&M	$327,000
	56) SIPRNET	107) HC1013-4000231	Defense Working Capital Fund	$742,560
12) Electronic Systems Command	57) Smartgate/Vehicle Barriers	108) NFDXXX03681387	O&M	$159,875,754

DoD Activity	Purchase Description	MIPR No#	Appropriation	MIPR Amount
		109) NFDXXX03681387 (A1)	O&M	$14,991,956
		110) NFDXXX03681387 (A2)	O&M	($2,953,145)
	58) Offutt AFB Security Equipment	111) NFDXXX03681365	Other Procurement	$4,326,000
		112) NFDXXX03681366	Other Procurement	$1,794,541
		113) NFDXXX04680595	Other Procurement	$149,815
		114) NFDXXX04681083	Other Procurement	$55,643
	59) Security System Assessment	115) NFDXXX03681571	O&M	$2,939,400
	60) JCATS System Assessment	116) NFDXXX03681595	O&M	$1,239,300
13) Air Force Medical Support Agency	61) End User Devices	117) NMIPR045204112	O&M	$8,275,557
		118) NMIPR045204141	O&M	$2,763,370
	62) Medical Systems Infrastructure Modernization	119) NMIPR045203731	Other Procurement	$6,600,000
		120) NMIPR045203945	Other Procurement	$5,874,000
	63) WEB Management Design	121) NMIPR045203590	O&M	$1,703,664
		122) NMIPR045204164	O&M	$288,000
Unified Command				
14) SOUTHCOM	64) Debit Card Pilot Program	123) MIPR3L21F60012	O&M	$637,295

DoD Activity	Purchase Description	MIPR No#	Appropriation	MIPR Amount
		124) MIPR3L21F60012 (A1)	O&M	$150,000
	65) JDIMS	125) MIPR4K47G6U199	O&M	$573,431
	66) PIT	126) MIPR4L47G6K212	O&M	$701,065
	67) Information Assurance Initiatives	127) MIPR4C47D60028	O&M	$250,000
		128) MIPR4C47D60028 (A1)	O&M	$200,000
		129) MIPR4C47D60028 (A2)	O&M	$350,000
		130) MIPR4C47D60028 (A3)	O&M	$35,880
		131) MIPR4C47D60028 (A4)	O&M	$96,000
		132) MIPR4C47D60028 (A5)	O&M	($57,208)
	68) Automated Logistics System	133) MIPR4F2K60065	Other Procurement	$4,500,000
		134) MIPR4M21T60129	Other Procurement	$3,000,000
Defense Agency				
15) Defense Manpower Data Center	69) Universally Accepted Credentials	135) XI4H5A44F136MP	O&M	$5,800,903
		136) XI4H5A44F136MP (A1)	O&M	$360,000
	70) Beneficiary Services and Ancillary Support	137) XK3H5A33F273MP	O&M	$6,000,000
	71) DBIDS	138) XK4H5A44F288MP	O&M	$900,000
		139) XK4H5A44F288MP (A1)	O&M	$1,250,000

DoD Activity	Purchase Description	MIPR No#	Appropriation	MIPR Amount
	72) Manpower and Personnel Gate I.D. System	140) XS4H5R34F254MP	RDT&E	$300,000
	73) CAC Vulnerability Testing	141) XX4H5A44F222MP	O&M	$50,000
		142) XX4H5A44F222MP (A1)	O&M	$350,000
16) Defense Logistics Agency	74) Storage Management Study	143) I04G6A14F092MP	Defense Working Capital Funds	$614,636
	75) Contractor Support	144) I0IG6A11F032MP	Defense Working Capital Funds	$584,356
			Total:	**$406,394,948**

Appendix F. Report Distribution

Office of the Secretary of Defense

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    Director, Acquisition Resources and Analysis
    Director, Defense Procurement and Acquisition Policy
Under Secretary of Defense (Comptroller)/Chief Financial Officer
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Other Defense Organizations

Director, Defense Finance and Accounting Service
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Office of Management and Budget
General Services Administration, Inspector General

Congressional Committees and Subcommittee, Chairman and Ranking Minority Members

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Subcommittee on Military Construction, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
Senate Committee on Finance
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Subcommittee on Military Construction, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Office of the Under Secretary Acquisition, Technology, and Logistics Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION, TECHNOLOGY AND LOGISTICS

JUN 15 2005

MEMORANDUM FOR DEPUTY DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE, DODIG

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS

SUBJECT: Report on DoD Purchases Made Through the General Services Administration (Project No. D2004CF-0238)

As requested, I am providing responses to the general content and recommendations contained in the subject report.

General Content:

Technical comments to the general content of the report are contained in the Attachment.

Recommendations:

DoDIG Recommendation #1a: We recommend that the Under Secretary of Defense for Acquisition, Technology (USD(AT&L)), and Logistics establish requirements that a qualified contracting officer evaluate assisted acquisitions for amounts greater than the simplified acquisition threshold when requiring Department of Defense (DoD) organizations plan to use non-DoD contracts. The contracting officer shall determine whether the use of interagency support capabilities is in the best interest of the Government and should verify whether the required goods, supplies, or services cannot be obtained as conveniently or economically by contracting directly with a commercial enterprise. The contracting officer or another official designated by the agency head should also sign a Determination and Finding (D&F) in accordance with the March 2003 draft version of DoD Financial Management Regulation, volume 11A, chapter 3, paragraph 030203.B.

DPAP Response: Non-Concur. The DoD Policy entitled "Proper Use of Non-DoD Contracts" issued on October 29, 2004, and made effective January 1, 2005, established procedures for DoD organizations when using a Non-DoD contract to meet mission needs. Who evaluates and determines that using a non-DoD contract is in the best interest of the DoD was left to the Military Departments and Defense Agencies. Each

Military Department and Defense Agency, in accordance with the policy memo, established their own procedures for reviewing and approving the use of non-DoD contract vehicles when procuring supplies and services for amounts greater than the simplified acquisition threshold. Since the new policy has been in effect for only six months and there is insufficient experience with its implementation across the Department, a change to the policy is not warranted at this time.

***DoDIG Recommendation #1b*:** Establish a requirement that assisted acquisitions be conducted using interagency agreements that specify agreed upon roles and responsibilities regarding contract administration and surveillance duties.

DPAP Response: Concur. The October 29, 2004, policy memo does require that procedures must address "contracting administration (including oversight)." We are developing an umbrella Memorandum of Agreement (MOA) with numerous assisting agencies (Interior, GSA and Treasury). The MOA will address, among other things, the roles and responsibilities of each organization, especially with regard to contract administration and surveillance duties. Estimated Completion Date (ECD): September 30, 2005.

DoDIG Recommendation #1c: Establish a requirement that DoD organizations negotiate the cost of assisted acquisitions and that the negotiations consider the cost of contract surveillance duties.

DPAP Response: Partially Concur: A requirement of the existing policy on the "Proper Use of Non-DoD Contracts"(October 29, 2004) is that procedures must be in place to ensure that "cost effectiveness (taking into account discounts and fees)" be considered before utilizing a non-DoD contract to meet mission needs. The Department will take action to supplement the policy memo to specifically require that on an assisted acquisition, DoD activities must evaluate the fees proposed by assisting agencies to ensure that the fees are reasonable and approximate the actual costs of support provided. If they are not, DoD activities shall negotiate with the assisting agency and ensure that there is a clear understanding of what services will be provided for the fees paid (e.g. whether or not contract administration is included). ECD: September 30, 2005.

DoDIG Recommendation #1d: Establish a policy that DoD contracts for services involving classified information be procured only through DoD contracting organizations.

DPAP Response: Non-Concur. We will issue a policy memo stating that any order or contract for services, where classified information is accessed or generated, require all contracting and contract oversight responsibility necessitating access to classified information be assigned only to individuals who have the clearance appropriate for the responsibilities assigned. For example, the Department will continue to utilize assisting

agencies such as the Department of Energy and the Central Intelligence Agency to provide support for services involving classified information. ECD: September 30, 2005.

DoDIG Recommendation #2a: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO): Revise the Department of Defense Financial Management Regulations (DoDFMR), Volume 11A, Chapter 3, to clarify requirements for use of Economy Act Orders and Other Interagency Orders and to include the requirement for a D&F on all non-DoD purchases.

DPAP Response: Partially Concur. As noted in the USD(C)/CFO response to recommendation 2.a., the Department will revise the DoDFMR to clarify the requirements for use of the Economy Act and other Interagency orders. The requirement for a "D&F," however, falls under our cognizance. As such, the DoD Policy entitled "Proper Use of Non-DoD Contracts" dated October 29, 2004, already requires, that for acquisitions greater than the simplified acquisition threshold, a determination must be made that using a non-DoD contract to meet mission needs is "the best of method of procurement to meet DoD requirements." The requirement for evaluating whether using a non-DoD contract is in the best interest of DoD is sufficient without mandating the requirement for a formal "D&F."

If you have questions regarding this memorandum please contact my point of contact Mr. Mike Canales, at 703-695-8571, or at michael.canales@osd.mil.

Deidre A. Lee
Director, Defense Procurement
and Acquisition Policy

Attachment:
As stated

Air Combat Command Comments to Project No. D2004CF-0238

The following items were specifically referenced as Air Combat Command activities in the 10 May 05 audit report titled: **DoD Purchases Made Through the General Services Administration Project No. D2004CF-0238.** ACC provides the following comments to the respective items mentioned.

Item 1: Improper Use of IT Fund

Page Numbers – 10 & 11

Improper Use of IT Fund. Of the 75 purchases reviewed, the MIPRs for 50 purchases were sent and accepted as funds to reimburse the GSA IT Fund under the Clinger-Cohen Act. The MIPRs for 3 purchases were to reimburse the GSA General Supply Fund, and the MIPR acceptances for 22 purchases did not specify the fund to be reimbursed. Of the 50 GSA IT Fund purchases, 8 were for goods or services that were not related to IT. Among non-IT purchases, DoD sent MIPRs to GSA FTS to fund the construction of buildings, to develop marketing tools, to receive aerial gunnery training services, and to purchase furniture. For example,

> "the Program Office at the Air Combat Command used the GSA IT Fund to acquire combat banner targets for fighter aircraft training. The combat banners contract was awarded in July 2002 and is used to provide live aerial gunnery training to the Air National Guard F-15 and F-16 pilots. The Air National Guard sent $327,000 in FY 2004 O&M funds to GSA on August 19, 2004, to purchase from this contract. Aside from GSA having very little, if any, experience in acquiring combat banner targets, the whole idea was inappropriate for using the IT Fund. Initially, the contract was in the IT Fund, but in December 2004, GSA FTS officials determined that the General Supply Fund should be used for the contract. This purchase did not constitute an information technology buy and was not proper under the Clinger-Cohen Act."

ACC Response: ACC Combat Banner requirements and funding were provided to the GSA representative for contract fulfillment. The option of choosing the proper fund to execute the requirement is at the discretion of GSA, and the GSA representative chose the IT fund to execute the funding for the requirement. If the IT fund was inappropriate then the GSA representative should have declined acceptance of the Combat Banner requirement and stated that the requirement was beyond the scope of the IT fund and they could not support these services. GSA currently has an ongoing campaign called "Get It Right" in which they are correctly aligning user requirements to the respective fund type. This contract requirement was moved out of the IT Fund and into the General Services Fund by GSA prior to the completion of this audit.

Item 2: Security Requirements

Page Number - 12

Security Requirements. DoD requested contracting services from GSA for secure programs, and GSA awarded contracts for secure services when reviewing officials did not have the necessary

ATTACHMENT

level of clearances to review significant portions of contract products. The Federal Systems Integration and Management Center disclosed that contracting officials assigned contract oversight functions did not have the appropriate clearances to monitor contractor performance. OIG GSA reported another example in Report No. A040126/T/3/Z05005, "Audit of Federal Technology Service's Client Support Center Mid-Atlantic Region," December 9, 2004. The Air Force Air Combat Command used GSA to contract for national security work that would support intelligence, surveillance, and reconnaissance operations and planning for the Senior Year (U-2) Program, valued at more than $12 million. OIG GSA reported that about 30 percent of the documentation generated under the contract task order was classified and could only be reviewed by individuals possessing a Secret clearance. About 3 to 5 percent of the work required a Top Secret clearance before it could be examined. Neither the GSA IT manager nor the contracting officer responsible for the contract task order possessed either type of clearance.

ACC Response: An unclassified Statement of Work and Task Order were provided to GSA to award in support of the Senior Year (U-2) effort. The ACC monitoring of the Senior Year program was being performed by a Quality Assurance Evaluator (QAE) who held the respective clearance and was operating under a need to know basis for the given classified information.

Item 3: Appendix C. Potential Anti-deficiency Act Violations

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26. **Counter Drug Trafficking Purchase.** The Air Combat Command sent MIPR DD44809N401185 for approximately $1.4 million to GSA on August 11, 2004, using FY 2004 O&M funds. The Air Combat Command purchased counter trafficking engineering, technical, staff and management support services through GSA in support of the Counter Trafficking project. The period of performance is September 15, 2004 through September 14, 2005 for the sole purpose to use FY 2004 operation and maintenance funds for requirements in FY 2005. Because the requirement is for FY 2005 work, FY 2005 funds should be used. The procurement for services is severable and the service is not expected to be received in the year of the appropriation. Therefore, no bona fide need existed for the requirement.

ACC Response: Air Combat Command non-concurs that the Counter Drug Trafficking Purchase is an Anti-Deficiency Act (ADA) violation. FY04 funding was sent to GSA in August 2004 with a period of performance from 15 Sept 04 to 14 Sept 05. The correct fiscal year of funding was used considering there was a Bona Fide Need to fulfill the requirement in FY04 and in accordance with P.L. 105-85; in addition, the correct appropriation and amount of funding was used. Therefore, this item does not qualify as an ADA violation.

Please reference Air Staff memo on P.L. 105-85 below concerning funding of service contracts crossing two fiscal years.

Per Air Staff Memo dated 9 Jan 1998

1. THE FY 98 AUTHORIZATION ACT (P.L. 105-85) HAS EXPANDED THE AUTHORITY IN 10 U.S.C. 2410A. THE PREVIOUS AUTHORITY PERMITTED A CONTRACT FOR 12 MONTHS BEGINNING AT ANY TIME DURING THE FISCAL YEAR FOR SPECIFIC PURPOSES LISTED IN THE STATUTE. P.L. 105-85 ALLOWS "FOR PROCUREMENT OF SEVERABLE SERVICES FOR A PERIOD THAT BEGINS IN ONE FISCAL YEAR AND ENDS IN THE NEXT FISCAL YEAR IF (WITHOUT REGARD TO ANY OPTION TO EXTEND THE PERIOD OF THE CONTRACT) THE CONTRACT PERIOD DOES NOT

EXCEED ONE YEAR." THE NEW AUTHORITY DOES NOT RESTRICT THE TYPE OF SERVICE TO BE PROCURED AS THE PREVIOUS AUTHORITY DID.

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27. **Battle Management Project.** The Air Combat Command sent MIPR DD48809N401296 for $1 million to GSA on September 9, 2004, using FY 2004 O&M Funds. The Air Combat Command purchased professional services for maintenance and repair of ground-base radar equipment and to Manage Air Combat Aerospace Operations Planning and Training Programs for the Battle Management Operations. GSA obligated the funds against contract number GS07T00BGD0021. The period of performance on the statement of work is October 1, 2004 though September 30, 2005, which is FY 2005. The procurement for services is severable and the service is not expected to be received in the year of the appropriation. FY 2005 O&M Funds should be used. Therefore, a bona fide need does not exist for the fiscal year.

ACC Response: ACC concurs with the DoD IG finding above. Prior to the GSA "Get It Right" Campaign, they were advertising and advising their services as an opportunity to put funding in the IT fund and have it available until expended. Air Combat Command has taken the necessary steps to modify the existing contract by removing the FY04 funding and putting FY05 funds against the contract. This effort will be accomplished by 3 Jun 05.

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28. **Combat Banners.** The Project Office for Combat Banners is at the Air Combat Command. The Air National Guard sent MIPR NMIPR04860278 for $327,000 to GSA on August 19, 2004, using FY 2004 O&M Funds. The Air National Guard requirement included a wide variety of airborne simulation capabilities utilizing Lear 35/36 Type (or similar) aircraft towing the TDU-32A/B providing target presentations to train Air Force Fighter pilots and weapon systems operators on the employment of the M61 20mm gun. GSA obligated funds against contract number GS03T02DSD0011, task order GST0304DS2026 on September 13, 2004, and task order GST0305DS2237 on February 1, 2005. No expectation existed for the requirement of goods to be delivered within the year of the appropriation. No unforeseen delays in acquiring the goods existed. Also, no delivery or production lead-time problems existed. Therefore, a bona fide need does not exist for the fiscal year.

ACC Response: ACC non-concurs with the DOD IG finding that this item is an ADA Violation. MIPR NMIPR04860278 is an FY04 Air National Guard (ANG) funding document and the contract is administered by GSA. This is an ANG issue. Based on ACC experience, the historical acquisition lead time for the procurement of combat banners has typically been a 4-6 month timeframe based on previous orders. At the time when this banner requirement was identified there was a 4-6 month acquisition lead time. After talking to the ACC program manager, ANG funding was provided to GSA in August 04 and it took them a month to put it on contract. ANG had scheduled Combat Banner training missions in the 1st Qtr of FY05. One week after the award of the task order # GST0304DS2026 by GSA in Sep they made a discontinuance announcement to realign the contract from the IT fund to the services fund. This caused a delay in being able to issue task order #GST0305DS2237 for the towing of the combat banners. Based on acquisition lead time issues we believe there was an FY04 Bona Fide Need for the Combat Banner requirement.

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29. **Modernization of Weapon Systems.** The Air Combat Command sent MIPR DD44809N401215 for approximately $1.1 million to GSA on August 19, 2004, using FY 2004 O&M Funds to be obligated against contract number GS-00F-0034L, task order T0002AJ0213. The Air Combat Command tasks included technical evaluations and requirements development planning through automated acquisition and management of relevant data and technical assistance to support development of all integrated Air Force modernization and sustainment planning activities. Other Procurement Funds should have been used because of the cost of the upgrade, which includes technical assistance, is counted towards the investment threshold of $250,000 or more. Therefore, the Air Combat Command used the incorrect appropriation.

ACC Response: Air Combat Command non-concurs that the Modernization of Weapon Systems is an ADA violation. MIPR DD44809N401215 was issued for approximately $1.1M and was forwarded to GSA on 19 Aug 04. ACC issued the MIPR for the fulfillment of contracted manpower support for the execution of the Air Forces Modernization Planning Process in the ACC Requirements Directorate. Contracted personnel support tasks included developing data requirements, performing the necessary data analysis for preparation of documents and to providing recommendations on the broad range of issues surrounding the Chief of Staff's Mission Areas for the Air Force. This support was general in nature was not directly related to a specific weapon system.
No equipment items were purchased through the efforts in this contract task order and contracted effort was for manpower support only.

Department of the Navy Comments re:
IG, DOD Draft Report, Project No. D2004CF-0238
DoD Purchases Made Through the General Services Administration

Space and Naval Warfare Systems Command (SPAWAR) Comments

1. **Page 10.** The draft report states: "The Space and Naval Warfare Systems Command Task Order Administrator stated that command project office personnel liked to use the GSA Millennia contract because they could select the contractor to perform specific task orders. The Space and Naval Warfare Systems Command used the GSA Federal Systems Integration and Management Center Millennia contract extensively to procure IT services. GSA competitively awarded the Millennia contract as a Government-wide Acquisition Contract. The Space and Naval Warfare Systems Command used GSA to place task orders against the Millennia contract with 1 prime contractor that teamed with 127 subcontractors. The Space and Naval Warfare Systems Command encouraged program office personnel to request this contract for miscellaneous items, even with the GSA fee, because of the flexibility and past experience with the contractor. The DoD Task Order Administrator stated that GSA can award a task order on the Millennia contract faster than DoD contracting offices can award task orders."

SPAWAR Comment: The SPAWAR Task Order Administer did not state that "personnel liked to use the GSA Millennia contract because they could select the contractor to perform specific tasks."

SPAWAR sought to centralize the procurement of IT services and chose to use the FEDSIM SE&I contract. Some of the advantages of such procurement have been cited in the report. Further, the GSA fee was .8% until February 2005 (1% after that time).

2. **Page 11 and Appendix D (Page 43).** The draft report states on page 11 that DoD organizations sending MIPRs to GSA either did not have separate interagency agreements, or that the MIPR did not meet the DoD criteria for required information within interagency agreements. The draft report appears to view the lack of defining the roles of the GSA contracting officer and the program management office as a key shortcoming.

SPAWAR Comment: Where current legislation exists specifically authorizing procurement of information technology related goods or services from GSA, SPAWAR does use the MIPR as a stand-alone interagency agreement between SPAWAR and GSA in conjunction with placement of the order, as it contains a specific, detailed description of the goods or services to be acquired and (if procuring services) specifies the period of performance over which services would be provided. This practice is specifically authorized by DoD Instruction 4000.19 paragraph 4.5, which states that "… intragovern-mental sales specifically directed or authorized by law may be accomplished on the basis of an order or requisition without preparing a support agreement." GSA's acceptance of the order, constitutes acceptance of the agreement. If the DoD IG feels that the MIPR form should not be used as a stand-alone interagency agreement between DoD organizations and GSA for information technology related procurements due to some shortcomings on the MIPR form (DD Form 448), the DoD IG should work with appropriate DoD financial and procurement officials to modify the form as required, as well as to modify DoD Instruction 4000.19.

3. **Page 11.** The draft report states on page 11 that none of the reviewed MIPRs was found to contain the required information necessary for interagency transactions. This statement appears to be based on the finding that the MIPRs either lacked a specific, detailed description of the goods or services to be acquired or that the MIPR failed to specify the period of performance over which purchased services would occur.

SPAWAR Comment: Neither of the conditions cited by the draft report applies to SPAWAR MIPRs. SPAWAR MIPRs include a specific, detailed description of the goods or services to be acquired, either on the form itself or in the task order referenced by the MIPR (as a detailed description does not always easily fit on the MIPR form). If services are being procured, SPAWAR task orders specify the period of performance.

4. **Page 16 and Appendix D (Page 43).** The draft report states on page 16 that DoD organizations did not track funds by MIPR to the payment of invoices on 44 of 75 purchases reviewed. This statement appears to be based on the finding that DoD organizations did not perform required triannual reviews of commitments and obligations for timeliness, accuracy and completeness.

SPAWAR Comment: The condition cited by the draft report does not apply to SPAWAR MIPRs. SPAWAR performs triannual reviews as required by the DoD FMR volume 3 chapter 8, with SPAWAR ordering organizations contacting GSA for the status of commitments and obligations on active appropriations, and the SPAWAR Comptroller directly contacting GSA for the status of commitments and obligations on expired appropriations. SPAWAR ordering organizations and the SPAWAR Comptroller have received timely information from the various GSA organizations on the status of SPAWAR commitments and obligations with SPAWAR orders through GSA. Based on this information, SPAWAR (as required by the FMR) has recouped balances when the final bills are less than the obligation, making this funding available for other uses. Information demonstrating the results of SPAWAR's triannual reviews was provided to the DoD IG team during its visit to SPAWAR.

5. DODIG Potential Antideficiency Act Violation Finding No 23. Toner Printer Supplies. The Space and Naval Warfare Systems Command sent MIPR N0003904IPFG003 for approximately $212,000 to GSA on September 22, 2004, for toner supplies, using FY 2004 O&M Funds. The Space and Naval Warfare Systems Command purchased toner for FY 2005, using FY 2004 funds. No expectation existed for the requirement of the commercially available goods to be delivered within the year of the appropriation. No unforeseen delays in acquiring the commercially available goods existed. Also, no delivery or production lead-time problems existed. Therefore, no bona fide need existed.

SPAWAR Comment: SPAWAR disagrees with this finding for the following reason:

- A bona fide need did exist in FY 2004

SPAWAR keeps toner printer supplies in stock at levels required to maintain sufficient quantities to avoid work stoppages. The need for the toner supplies was identified early in the fourth quarter of FY 2004.

6. DODIG Potential Antideficiency Act Violation Finding No 24. Video Teleconference Upgrades. The Space and Naval Warfare Systems Command sent MIPR N0003904IPFG004 for approximately $416,000 using O&M Funds and MIPR N0003904IPFDB97 for $460,000 to GSA on September 29, 2004, using Other Procurement Funds, to purchase video teleconference upgrades and equipment. GSA obligated the funds against contract number GST0905DF0040. The Space and Naval Warfare Systems Command obtained upgrades (using MIPR N0003904IPFG004) above the O&M threshold of $250,000. The modification of a system with a cost of $250,000 or more is an investment and should be funded with Other Procurement Funds. Therefore, the Space and Naval Warfare Systems Command used the incorrect appropriation. The FY 2004 O&M Funds expired on September 30, 2004. The procurement for upgrade services is severable and the service is not expected to be received in the year of the appropriation. Therefore, no bona fide need existed.

SPAWAR Comment: SPAWAR disagrees with this finding for the following reason:

- Upgrades were not for a single system
- A bona fide need did exist in FY 2004

The upgrades identified on document N0003904IPFG004 were for multiple systems, not a single system, and none of the upgrades exceeded the O&M,N threshold.

The audit report incorrectly states that if the requirement cannot be completed within FY2004, no bona fide need existed in FY2004. This is an incorrect application of the bona fide need rule. SPAWAR believes the bona fide need rule was met in this case.

7. DODIG Potential Antideficiency Act Violation Finding No Item 25. Work Force Learning Project. The Space and Naval Warfare Systems Center New Orleans sent MIPR N6925004MPGR001 for $3.2 million to GSA on September 28, 2004, using O&M Funds. The Space and Naval Warfare Systems Center New Orleans used GSA to explore distance learning capabilities as an efficient and effective training vehicle for the DoD. This project is to further investigate and maximize use of distance learning techniques to support the civilian community learning requirements. GSA did not award a contract as of November 23, 2004. RDT&E Funds are used to develop major system upgrades, to purchase test articles, and to conduct developmental testing and initial operational testing and evaluation prior to system acceptance

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and subsequent production. The Space and Naval Warfare Systems Center New Orleans should have used RDT&E funds because the type of work to be performed is research, definition, prototyping, and validation of processes, methods and tools related to civilian workforce development. Therefore, the Space and Naval Warfare Systems Center New Orleans used the incorrect appropriation. In addition, FY 2004 O&M Funds expired on September 30, 2004. The procurement for services is severable and the service is not expected to be received in the year of the appropriation. No bona fide need exists.

SPAWAR Comment: SPAWAR disagrees with this finding for the following reason:

- The correct appropriation (RDT&E) was used

The source document for $3.2 million is in fact RDT&E, Navy. SPAWAR Systems Center New Orleans accepted a reimbursable RDT&E document from SPAWAR HQ (N0003904WRFP018 dated 22 July 04) and processed the order using Automatic Reimbursement Authority (ARA). Under ARA, the funding was issued to GSA (MIPR N6925004MPGR001) using agency funding with a reimbursable Source Code of "3" which indicates "Other Appropriations, 1804 to 1319 or 1319 to 1804" (O&M to RDT&E or RDT&E to O&M). The accounting system (STARS-FL) appropriately reflects the reimbursable data and charges back the original (RDT&E) source document.

APPENDIX C

There is a listing in Appendix C of the report that incorrectly referred to a National Defense Bureau Action as a Defense Logistics Agency (DLA) contracting action. We believe that the reference should identify the contract action as being generated by the National Guard Bureau. The action is not DLA's.

Revised

Department of the Navy Comments re:
IG, DOD Draft Report, Project No. D2004CF-0238
DoD Purchases Made Through the General Services Administration

Naval Education and Training Command (NETC) Purchases

1. **DODIG Potential Antideficiency Act Violation Finding No 18. Computer Purchase.** The Naval Education and Training Command sent MIPR N6804504MPAC202 for $8 million to GSA on August 24, 2004, using O&M Funds, which expire on September 30, 2004. The Naval Education and Training Command requested GSA procure 5,000 computers. GSA obligated the funds against contract number GS-35F-0215J, task order 4TNG17042010. Because the Naval Education and Training Command is upgrading its computers, and the cost is above the threshold of $250,000 for use of O&M Funds, Other Procurement Funds should have been used. Other Procurement Funds are used for upgrades, including new hardware, with a cost of $250,000 or more. Therefore, the Naval Education and Training Command used the incorrect appropriation.

NETC Comment: NETC disagrees with this finding for the following reasons:

- **Not a modernization effort**
- **No new functionality**
- **Does not constitute a system**
- **Unit cost is under OPN threshold**

This contract was for the replacement of existing computers in our classrooms geographically dispersed throughout the NETC domain, for continuing operations only. This was not a modernization effort because no new functionality was derived by this purchase. The scope of the contract included installation, set-up and disposal of workstations. These computers have a dollar value of under $1500.00 per computer. The 5,000 computers are not inter-connected in any type of system that would require procurement authority. The computers are "stand alone" items and do not require each other to function.

We have approximately 6-25 computer desktops in each of our electronic classrooms. The individual computers are only tied to an instructor workstation. This allows the instructor to give individual support to the students while they are proceeding with their training. The total value of these classrooms is less than $150K per classroom. This is far below the OPN threshold. Original purchase of classroom equipment was made with OMN funds, not OPN.

After getting a non-bid from the NMCI contractor, a request was submitted to ASN for the required NMCI waiver per DON policy. Approval was granted by ASN (NMCI)and purchase was initiated using NMCI de-obligated OMN funds.

2. **DODIG Potential Anitdeficiency Act Violation Finding No 19. Learning Management System Support.** The Naval Education and Training Command sent MIPR

N6804504MPEL265 for approximately $3.5 million to GSA on September 28, 2004, using FY 2004 O&M Funds. The Naval Education and Training Command used GSA to procure the Learning Management System Support Integrated Learning Environment. The purpose is to provide those products and services necessary to provide functionality in support of the Navy's Integrated Learning Environment. The period of performance is from October 2004 through September 2005, which is FY 2005. FY 2005 funds should have been used. The procurement for services is severable and the service is not expected to be received in the year of the appropriation. In addition, no expectation existed for the requirement of goods to be delivered within the year of the appropriation. No unforeseen delays in acquiring the goods existed. Also, no delivery or production lead-time problems existed. Therefore, there is no bona fide need in the fiscal year.

NETC Comment. NETC agrees with finding. We will submit a MIPR to GSA using FY05 funds to replace the current document. We will request GSA transfer the expenditures off the FY04 document to the new funding document. Target date for completion is 15 June 2005.

3. DODIG Potential Antideficiency Act Violation Finding No 20. Chief Information Officer Integration. The Naval Education and Training Command sent MIPR N6804504MPFQ446 for approximately $546,000 to GSA on September 30, 2004, using FY 2004 O&M Funds. The Naval Education and Training Command purchased support study services for the Navy Marine Corps Intranet project. GSA obligated the funds against task order 4TNB17024033. The purchase should have been funded with FY 2005 funds because the work was scheduled to be completed in FY 2005. The procurement for services is severable and the service is not expected to be received in the year of the appropriation. Therefore, no bona fide need existed.

NETC Comment: NETC disagrees with this finding for the following reasons:

- **Bona fide need did exist in FY04**
- **Task was non-severable**
- **Funding was accepted as reimbursable in FY04**

The Statement of Work for this request was dated 7 June 2004. Therefore, a bona fide need was established during that fiscal year. The order for contracting was not accomplished until late September due to unforeseen delays, e.g. Hurricane Ivan and verification of funds availability. NETC/GSA employees evacuated Pensacola on September 14th. Employees were not able to return to their jobs prior to the last week in September. This caused a rush of funding documents to GSA at one time. GSA personnel had to perform their tasks out of Atlanta and could not return to Pensacola until after the start of FY05. This delayed our contracting with GSA by over 3 weeks. This contract would have been in place except for Ivan. Funding was determined to be available and a reimbursable document was processed. Funds were obligated in the financial system by the end of September. Therefore, a bona fide need did exist.

Tasking for this contract was a study that is unusable by the government until a final report is provided by the contractor and therefore is not a completed task. Based on the government's need for a completed task, it is non-severable. Funding was accepted as reimbursable, therefore the obligation of FY04 was appropriate. Appropriations Law, Volume I, Chapter 5 page 24 cites "In fact, the general rule is that the fiscal year appropriation current at the time the contract is made (reimbursable funding document accepted), is chargeable with payments under the contract, although performance there under may extend into the ensuing fiscal year."

4. DODIG Potential Antideficiency Act Violation Finding No 21. Navy EXCEL. The Naval Education and Training Command sent MIPR N6804504MPX5104 for approximately $2.5 million to GSA on July 21, 2004; MIPR N6804504MPX5104 amendment 1 for approximately $5.7 million to GSA on September 13, 2004; and MIPR N6804504MPX5104 amendment 2 for $2.4 million to GSA on September 24, 2004 using O&M Funds. The Naval Education and Training Command used GSA to procure the Navy Knowledge Online Task Force EXCEL (Excellence through Commitment to Education and Learning) to transform training to incorporate changes in technologies, systems, and platforms being developed for tomorrow's Fleet. GSA obligated the funds against contract number GS-35F-4381G. The deliverables in the statement of work include items such as "software test plan" and Government Acceptance Testing. Also, the initial capabilities task occurs at the very end of the project. RDT&E Funds are used to develop major system upgrades, to purchase test articles, and to conduct developmental testing and initial operational testing and evaluation prior to system acceptance and subsequent production. Therefore, the Naval Education and Training Command used the incorrect appropriation.

NETC Comment: NETC partially disagrees with this finding for the following reasons:

- **No major upgrade**
- **Not a modernization effort**
- **No new functionality added**
- **Migrating from proprietary application to a Commercial Off-the-shelf open architecture**

NETC used the proper appropriation for continuing operations of existing portal functionality. NKO is an on-line portal consisting of a suite of commercial applications that delivers knowledge management, training education content, and collaboration to the DON. The functionality of a portal is to deliver one-stop shopping to its end users, e.g. the Navy community. This effort replaced an existing proprietary portal with a COTS open architecture portal, thus resulting in a full migration of existing, "as is" functionality. Using acquisition terms, the task labeled "new enhancements" was inappropriately labeled. The task actually involved the labor to organize and logically present multiple websites and applications using existing out of the box functionality.

The "software test plan" was used to validate migration of data and duplication of existing functionality. This contract provided for the continuing operations of an existing portal in an open architecture environment. We used standard acquisition terms in the contract, i.e. IOC (initial operating capability) for ease in communications in a phased replacement. Even though we used standard acquisition terminology, this in no way indicates we were building a new system or doing a major system upgrade.

Naval Reserve Forces (NAVRESFOR) Comments

1. DODIG Potential Antideficiency Act Violation Finding No 22. Defense Message System. The Naval Reserve Forces sent MIPR N000720MP34275, for approximately $706,000 to GSA on September 13, 2004 and MIPR N000720MP34275 amendment 1, for $566,500 to GSA on September 29, 2004, using O&M Funds that expired on September 30, 2004. The Naval Reserve Forces upgraded the Defense Message System servers and messaging. GSA obligated the funds against contract number GS-35F-4076D, task order BJB174733T2 and contract number GS-35F-4390G, task order FJB174739T2. The modification of a system with a cost of $250,000 or more is an investment and should be funded with Other Procurement Funds. Therefore, the Naval Reserve Forces used the incorrect appropriation.

NAVRESFOR Comment: NAVRESFOR disagrees with this finding with respect to the purchase of personal computers for the following reasons:

- **Not a modernization effort**
- **No new functionality**
- **Does not constitute a system**
- **Unit cost is under OPN threshold**

Commander Naval Reserve Force (CNRF) used the proper appropriation for continued operation of the Defense Message System (DMS). Due to problems with Navy Marine Corps Intranet, CNRF had no choice but to procure approximately 500 personal computers to gain and maintain continued access to DMS for all incoming message traffic throughout the Budget Submitting Office area of responsibility -- approximately 200 sites. The "system" in this context is DMS, which is owned and operated by DISA and only accessed by the Component Commanders, i.e. Navy. In implementing DoD financial policy, Navy publication NAVSO P-1000, Chapter 3, section 075001, paragraph 3b (3) states that for purposes of determining "system unit cost" for equipment acquired "as stand-alone items, or as additions to or replacements within an existing system but the items themselves are not characteristic of a system..., 'system unit cost' applies to the individual equipment item." The computers acquired in this case were required by CNRF to support its mission requirements to write, send and receive messages, but do not provide additional functionality and do not constitute a system. While they may eventually be subsumed under the NMCI program, the acquired computers do not constitute an upgrade to NMCI. Accordingly, CNRF used the unit cost of the computers as the "system unit cost" in determining that these costs should be treated as expenses rather than as an investment.

In addition to the first phase purchase of computers, CNRF obligated funding for a second phase, to ensure DMS security and continuity of operations. The proposed purchase, estimated at 2 @ $80,290 per region, i.e., Fort Worth, New Orleans, and Willow Grove, was applied to related storage and communication/encryption equipment. Although this cost amount per site is significantly less than the expense/investment threshold, CNFR recognized there is some uncertainty associated with determining how to correctly apply expense/investment criteria in this case. As a result, and in order to eliminate any dispute regarding this purchase, CNFR recently cancelled the requirement, which GSA had not yet executed.

Based on the above information, CNRF respectfully requests that section 22, pages 34-35, and other related inferences to Naval Reserve Forces in the draft report be withdraw.

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

JUN 17 2005

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE, OFFICE OF INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report, "DoD Purchases Made Through the General Services Administration," (Project No. D2004CF-0238)

This memo is in response to the subject May 10, 2005, draft report provided to this office for review and comment. Our response to each of the audit report recommendations directed to the Under Secretary of Defense (Comptroller)/Chief Financial Officer is at Attachment 1. We are also providing additional comments for your consideration at Attachment 2.

We appreciate the opportunity to respond to your draft audit report and look forward to resolving the cited issues. My point of contact is Mrs. Carol Phillips. She can be contacted by telephone at 703-693-6503 or e-mail at carol.phillips@osd.mil.

TMcKay

Teresa McKay
Deputy Chief Financial Officer

Attachments:
As stated

cc:
ODGC(F)
USD(AT&L)
DFAS

Response to Draft Audit Report Recommendations
To the Under Secretary of Defense (Comptroller)

Office of the Inspector General (OIG), Department of Defense (DoD)
"DoD Purchases Made Through the General Services Administration"
OIG Project No. D2004CF-0238

OIG Recommendation 2a. Revise the Department of Defense Financial Management Regulations ("DoDFMR"), Volume 11A, Chapter 3, to clarify requirements for use of Economy Act Orders and Other Interagency Orders and to include the requirement for a Determination and Finding (D and F) on all non-DoD purchases.

OSD Response. Partially concur. We will revise the "DoDFMR" to clarify the requirements for use of the Economy Act and Other Interagency orders. However, we defer to the Under Secretary of Defense (Acquisition, Technology, and Logistics) (USD(AT&L)) regarding the OIG's recommendation that a D and F be required on all non-DoD purchases, as the USD(AT&L) is the cognizant authority for DoD acquisition and procurement policy issues. Estimated completion date (ECD): September 30, 2005.

OIG Recommendation 2b. Work with the General Services Administration (GSA) to develop a system to track funds sent to the GSA and other Government activities by Military Interdepartmental Purchase Requests (MIPRs). The system developed must be able to identify fund balances, amounts obligated, amounts expended, and amounts expired by appropriation and year of appropriation.

OSD Response. Concur. DoD is participating in the government-wide effort to address intergovernmental transactions, an area which the Government Accountability Office has classified as a government-wide material weakness. ECD: TBD.

OIG Recommendation 2c. Develop a standard for Military Interdepartmental Purchase Request numbers throughout DoD to enable identification of the activity sending the funds and of the non-DoD activities receiving the funds.

OSD Response. Concur. On October 4, 2004, the Office of Management and Budget (OMB) issued Memorandum M-03-01, which provides business rules for Federal agencies that acquire goods or services from another federal agency and federal agencies that provide goods or services to another federal agency. These business rules, which ultimately will provide the required link between the buyer and seller organizations in identifying intergovernmental transactions, include the

establishment of unique business location identifiers to identify the buyer and seller.

The DoD will be holding a requirements review in June 2005, which will focus on data requirements. At this time, the working group will review information requirements for intragovernmental order forms (e.g., MIPR) for standardization purposes. ECD: December, 2005.

OIG Recommendation 2d. Publish clear guidance to all DoD organizations on the funding of non-DoD contracts and the necessity to monitor funds from Military Interdepartmental Purchase Request Acceptances, final payment of invoices received, and return of excess, expired, or unneeded funds.

OSD Response. Concur. We will incorporate this guidance within the "DoDFMR" revision, previously discussed in our response to Recommendation 2a. ECD: September 30, 2005.

OIG Recommendation 2e. Establish requirements that the Defense Finance and Accounting Service provide financial offices and program offices all payments made to non-DoD agencies by funding document number, appropriation type, and year of appropriation no less than 3 times annually so that amounts can be reconciled during triannual financial reviews. Verify that such reconciliations are being made.

OSD Response. Concur. Financial information related to payments made by funding document number, appropriation type, and year of appropriation is critical for financial managers and program offices to efficiently and effectively manage limited resources. Until an Intra-governmental solution is fielded, DFAS will continue to provide fund holders with information regarding outstanding commitments and unliquidated obligations recorded for the funds holder, in accordance with "DoDFMR" Volume 3, Chapter 8, Section 0804, "Tri-Annual Review of Commitments and Obligations."

DoD has internal controls in place to ensure fund reconciliations are performed on a quarterly basis. As outlined in Section 0804 of the "DoDFMR", fund holders are required to review commitment and obligation transactions for timeliness, accuracy, and completeness during each of the four-month periods ending January 31, May 31, and September 30 of each fiscal year. This requirement applies not only to direct appropriations, but also to all reimburseable transactions, as well as the Department's revolving and trust funds. Further, paragraph 080404 requires that the Assistant Secretaries of the Military Departments (Financial Management and Comptroller) and Comptrollers of the Defense Agencies and DoD Field Activities implement effective internal controls to ensure that the

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required reviews are completed and identified corrective actions are completed in a timely manner. The Comptroller/Fiscal Officer of activities or offices that have been issued a formal subdivision of funds are required to complete a formal, signed confirmation statement attesting to the accomplishment of the review and the accuracy and completeness of the recorded amounts.

"DoDFMR", Volume 3, Chapter 8, currently requires fund holders review commitments and obligations triannually. Defense Agencies are directed to send their confirmations to the Director for Program and Financial Control, Office of the Deputy Comptroller (Program/Budget). Military Departments are directed to send their confirmations to the Assistant Secretaries (Financial Management and Comptroller) (AS(FM&C)). We are revising this chapter of the "DoDFMR" to require the AS(FM&C) and the Deputy Comptroller (Program/Budget) to submit a confirmation statement to my office that (1) confirms that the required commitment and obligation reviews have been conducted; (2) confirms that all known obligations have been recorded; and (3) identifies the internal controls used to ensure that the detail reviews were conducted. In addition, the confirmation statement will identify, by organization and individual, any funds holder that was unable to complete the required review or confirm the accuracy of the reported commitments and obligations. We will monitor compliance with these requirements and take immediate follow up action, as required.
ECD: October 31, 2005.

In addition to the "DoDFMR" requirements, on March 24, 2005, I issued guidance to the Components, clarifying the proper use of inter-agency agreements for non-DoD contracts under authorities other than the Economy Act. I directed Components to immediately initiate actions to review all interagency agreements, review unobligated balances, coordinate with these non-DoD agencies to return unobligated balances to DoD, and coordinate with their servicing accounting office to ensure appropriate adjustments to the accounting records were recorded before June 1, 2005. Components are required to certify to my office, no later than June 30, 2005, that they have completed these actions.

Revised

OIG Recommendation 2f. Initiate preliminary reviews to determine whether the improper use of Government funds for the 40 purchases listed in Appendix C resulted in Antideficiency Act Violations or other funding violations in accordance with DoD 7000.14-R, "Financial Management Regulations."

OSD Response. Partially concur. The Under Secretary of Defense (Comptroller) does not initiate preliminary reviews of potential ADA violations; however, on May 31, 2005, I directed the respective Components to initiate preliminary reviews of the circumstances surrounding the cited potential ADA violations within the thirty days.

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General Comments to Draft Audit Report

Office of the Inspector General (OIG), Department of Defense (DoD)
"DoD Purchases Made Through the General Services Administration"
OIG Project No. D2004CF-0238

1. Recommend replacement of the following sentence from page 3, under the subheading labeled "IT Fund:"

> "However, acceptance of funds into the IT Fund does not allow an agency to extend the period of availability of the appropriation beyond what Congress enacted."
>
> with—
>
> "The agreement must be specific, definite, and certain at the time it is made, and must then reflect a bona fide need of the DoD. Acceptance of funds into the Information Technology (IT) Fund does not permit DoD to place new orders for goods or services after the appropriation has expired."

Revised

Rationale: The new sentence corrects a misleading statement of law. General Services Administration (GSA) may use funds properly received from DoD pursuant to an interagency agreement to award a non-severable service or supply contract after DoD funds have expired. Although this does not grant any extended life to the appropriation from DoD's perspective, the life of the appropriation (from a global government perspective) is effectively extended by operation of IT Fund legal authorities.

2. Recommend deletion of the following sentence, page 6, under the subheading labeled "Bona Fide Need Rule:"

> "An annual appropriation cannot be used to order readily available commercial items for delivery and use in the next fiscal year."

Revised

Rationale: The deletion removes an inaccurate statement of law. Readily available commercial items may require some delivery lead-time that causes delivery to fall into the following fiscal year. There is no violation of law in such circumstances. To the extent similar comments may be contained in the draft report, they should be deleted.

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Revised

3. Recommend replacement of the following sentence, page 13, under the subheading labeled "Bona Fide Need:"

> "For 32 purchases of the 75 reviewed, DoD funding authorities violated the bona fide needs rule by using the annual O&M appropriation to fund the purchase of severable services that would not be received in the year of the appropriation or goods that never had an expectation of being delivered in the year of the appropriation."
>
> with—
>
> "For 32 purchases of the 75 reviewed, DoD funding authorities violated the bona fide needs rule by using the annual Operations and Maintenance (O&M) appropriation to fund the purchase of severable services, none of which would be received in the year of the appropriation, or goods that were received after the year of the appropriation but could not be justified because of delivery time, production lead-time or unforeseen delays."

Rationale: The new sentence corrects an inaccurate statement of law. The Office of Inspector General (OIG) should determine whether DoD's actions did, in fact, violate this standard, as corrected.

Deleted

4. Delete the last two sentences, page 20, under the subheading labeled "DoD Guidance on Use of GSA:"

> "In fact, the only difference in the IT Fund is that unused annual appropriations used to reimburse the IT Fund are not automatically deobligated and returned to the Treasury at the end of each fiscal year. Expired funds at GSA cannot be used for new obligations."

Rationale: The deletion removes an inaccurate statement of law. Refer to comment 1, above.

Revised page 35

5. Recommend replacement of sentence in Appendix C, page 29, under the subheading labeled "Relocation/IT Support:"

> "The procurement for services is severable and the service is not expected to be received in the year of the appropriation."
>
> with—
>
> "The procurement for services is severable and none of the service is expected to be received in the year of the appropriation."

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Rationale: As written, the sentence erroneously implies that no part of a severable services period of performance may extend beyond the year of the appropriation. The law does allow this (10 U.S.C. § 2410a; 41 U.S.C. § 253l), provided some part of the services is received in the year of the appropriation and the period of performance does not exceed one year. Similar changes are required in several subsequent paragraphs of Appendix C.

6. Replace the sentences, Appendix C, page 29, under the subheading labeled "Relocation/Cell Phones:"

> "No expectation existed for the requirement of the goods to be delivered within the year of the appropriation. No unforeseen delays in acquiring the commercially available goods existed. Also, no delivery or production lead-time problems existed."
>
> with—
>
> "The receipt of goods after the DoD appropriation expired could not be justified because of delivery time, production lead-time or unforeseen delays."

Revised page 35

Rationale: The new sentence corrects a misleading statement of law. The OIG should determine whether DoD's actions did, in fact, violate this standard, as properly stated. Similar changes are required in several subsequent paragraphs of Appendix C.

7. Clarify information contained in Appendix C, page 30, under the subheading labeled "Partners for Youth Success Information Technology:"

Revised page 36

Rationale: There is an internal inconsistency between the statement that the Army Accession Command required "development of a web-based marketing tool…" and the statement, "The procurement for services is severable …". Generally, the development of a single, integrated web-based marketing tool is a non-severable service (i.e., a single deliverable). In light of this, the comments in this paragraph cannot be reconciled, as written.

8. Clarify information contained in Appendix C, page 31, under the subheading labeled "Army Wide Training Tracking System/Army Training and Information Management System Development:"

Revised page 37

Rationale: There is an internal inconsistency between the statement that the "internet based management and tracking system" is the deliverable and the statement, "The procurement for services is severable …". Generally, the

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development of a "system" is a non-severable service (i.e., a single deliverable). In light of this, the comments in this paragraph cannot be reconciled, as written.

Revised page 39

9. Clarify information contained in Appendix C, pages 32-33, under the subheading labeled "Weapons of Mass Destruction First Response Equipment Buy:"

Rationale: There is an internal inconsistency between the statement that the "complete system" costs $250,000 or more such that Other Procurement Funds are required, and the statement, "The procurement for services is severable …". Generally, the development of a "system" is a non-severable service (i.e., a single deliverable). In light of this, the comments in this paragraph cannot be reconciled, as written.

Revised page 39

10. Clarify information contained in Appendix C, page 36, under the subheading labeled "Combat Banners:"

Rationale: There is an internal inconsistency between the description of the project as a services contract (for airborne simulation capabilities, aircraft towing, weapon systems operators), and the allegation of an improper delivery of goods (versus services), which allegedly resulted in a violation of the bona fide needs rule.

Deleted page 43

11. Delete the following sentence, Appendix C, page 37, under the subheading labeled "Security System Assessment:"

> "No requirement existed prior to the ESC/FD receiving Global War on Terrorism funds in late August 2003."

Rationale: The sentence is irrelevant and, consequently, confusing.

Revised page 43

12. Clarify information contained in Appendix C, page 38, under the subheading labeled "Joint Conflicts and Tactical Simulation System Assessment:"

Rationale: This paragraph states that "ESC/FD *procured* the report of the simulation vulnerability study…". (Emphasis added.) The word "procured" is more often used in a contractual context. We assume that the report was the subject of the interagency agreement between ESC/FD and GSA and that ESC/FD did not procure the report through a contractual mechanism. Also, this paragraph states that the services at issue were severable, but the creation of a report generally involves non-severable services. Finally, the statement, "No requirement existed prior to the ESC/FD receiving Global War on Terrorism funds late in FY 2003," appears irrelevant to the discussion and, therefore, confusing.

Deleted page 43

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13. Delete the following sentence, Appendix C, page 38, under the subheading labeled "End User Devices:"

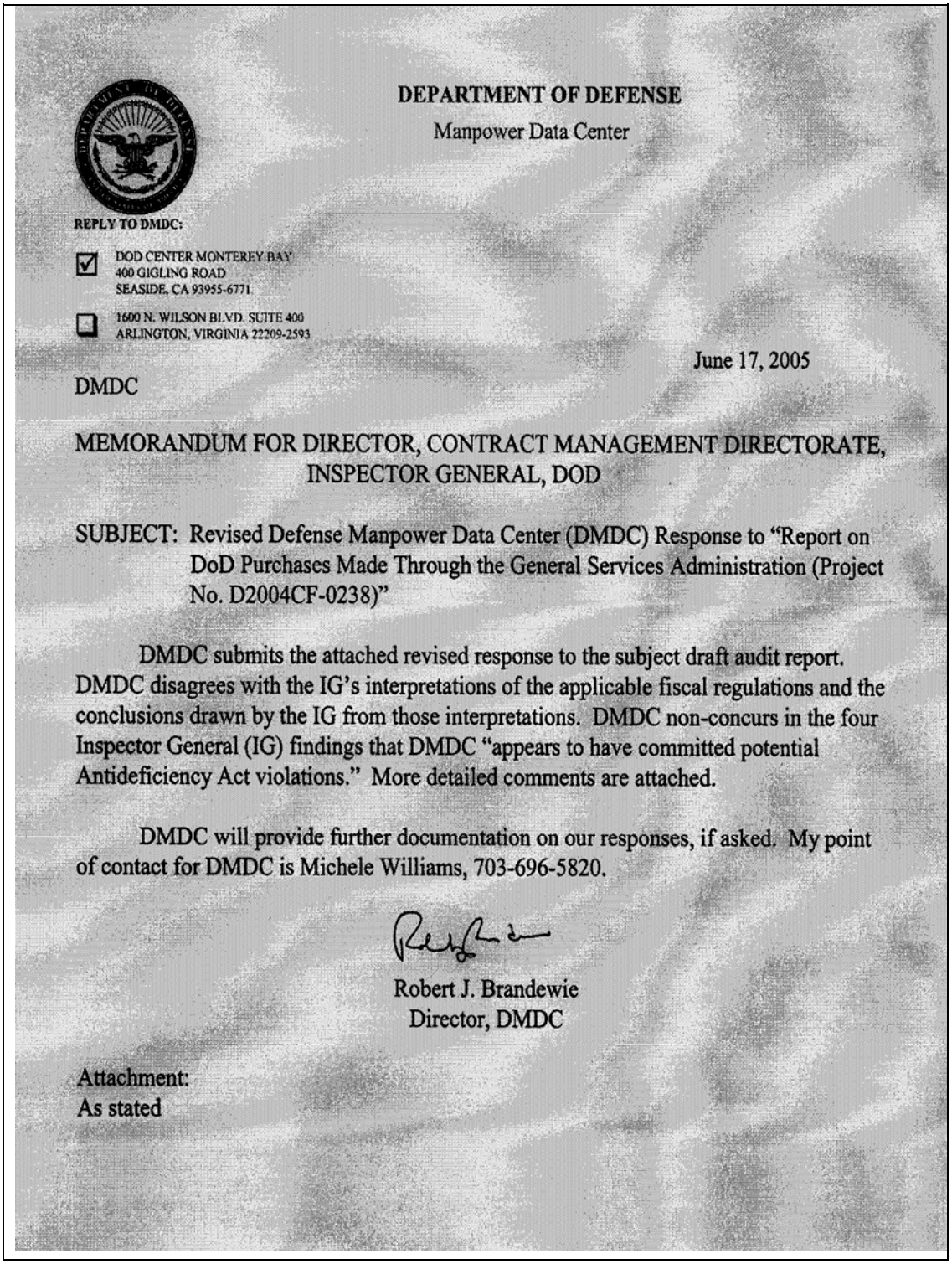
> "The procurement for services is severable and the service is not expected to be received in the year of the appropriation."

Deleted page 44

Rationale: This procurement does not appear to contemplate any services.

Attachment 2
Page 5 of 5

Defense Manpower Data Center Comments



DEPARTMENT OF DEFENSE
Manpower Data Center

REPLY TO DMDC:

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June 17, 2005

DMDC

MEMORANDUM FOR DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE, INSPECTOR GENERAL, DOD

SUBJECT: Revised Defense Manpower Data Center (DMDC) Response to "Report on DoD Purchases Made Through the General Services Administration (Project No. D2004CF-0238)"

DMDC submits the attached revised response to the subject draft audit report. DMDC disagrees with the IG's interpretations of the applicable fiscal regulations and the conclusions drawn by the IG from those interpretations. DMDC non-concurs in the four Inspector General (IG) findings that DMDC "appears to have committed potential Antideficiency Act violations." More detailed comments are attached.

DMDC will provide further documentation on our responses, if asked. My point of contact for DMDC is Michele Williams, 703-696-5820.

Robert J. Brandewie
Director, DMDC

Attachment:
As stated

Response to Specific DMDC References and Appendix C

Audit Report Finding Page 11, Interagency Agreements. *Of 75 purchases reviewed, 53 had no related interagency agreement, and 21 had inadequate interagency agreements because the agreement did not address the specific purchase. The interagency agreements available were incomplete because they did not include information required by DoD Instruction 4000.19 such as detailed descriptions of the goods and services being procured and the terms and conditions for the procurement services being provided by GSA. For example, the Deputy Director, Defense Manpower Data Center signed a Service Agreement with GSA. The "boilerplate" agreement lists the GSA authority for use of the IT Fund, the required scope for using GSA, general information that should be provided on a MIPR, and GSA and DoD points of contact. However, the interagency agreement lacks specific information about individual purchases, funding for purchases, or management oversight of purchased services. The agreement does not state program management office or GSA contracting officer responsibilities. Some DoD organizations used the MIPR funding document without an additional interagency agreement. However, the MIPRs reviewed for this audit did not meet the DoD criteria for required information within interagency agreements.*

DMDC Response: Non-Concur. DMDC interactions with GSA are not subject to the Economy Act and detailed interagency agreements described by DoD Instruction 4000.19 are not required; however, DMDC has an overarching agreement with GSA that does cover the specifics of the business relationship with GSA. The contract and the individual MIPRs themselves provide the specific detailed information for those procurements and lay out the oversight terms and conditions. Collectively, these documents satisfy the requirements of an interagency agreement as noted in DoD Instruction 4000.19.

*GSA report Title "**Appendix C. Potential Antideficiency Act Violations" Page 29.***

DMDC Response: DMDC non-concurs that it potentially committed any ADA violations (see comments on the four DMDC contract actions below). DMDC notes that the IG report (pages 19-21) acknowledges the complex and confusing guidance which was issued surrounding this highly technical area of fiscal law. DMDC also notes that the IG has recommended (pages 23-24) that the USD (C) and the USD (AT&L) issue clear future guidance. Since the law, regulations and guidance are unclear and therefore subject to different reasonable legal interpretations, DMDC requests that the subject report not be published until a formal written opinion can be obtained from the DoD GC regarding the incremental funding of the contracts at issue and that the opinion be considered by the IG and included in the report.

Audit Report Finding *Page 39. Item 37.* ***Universally Accepted Credentials.*** *The Defense Manpower Data Center sent MIPR X14H5A44F136MP, Amendment 1 for $360,000 to GSA on September 28, 2004, using O&M funds. The Defense Manpower Data Center required commercial off the shelf hardware and software, technical support services, and hardware maintenance. GSA has not awarded the contract as of December 15, 2004. The procurement for services is severable and the service is not expected to be received in the year of the appropriation. In addition, no expectation existed for the requirement of goods to be delivered within the year of the appropriation. No unforeseen delays in acquiring the goods existed. Also, no delivery or production lead-time problems existed. Therefore, no bona fide need existed.*

DMDC Response. Non-Concur. MIPR XI4H5A44F136MP provides incremental funding for Contract K03TH078H00 which was awarded 4 August 2003. The period of performance is for five years with contract rates escalating annually on 4 August. The subject Amendment was sent on 28 September 2004 to GSA for modification to the contract.

Audit Report Finding Page 39. Item 38. Beneficiary Services and Ancillary Support. *The Defense Manpower Data Center sent MIPR XK3H5A33F273MP for $6 million to GSA on September 26, 2003, using O&M funds. The Defense Manpower Data Center required highly qualified on-site technical support contractor personnel to provide local area network/wide area network engineering and administration, Unix system administration support, Oracle database support, technical writing, and project planning and management as Defense Management Data Center Systems Integration and Technical Support Division staff. GSA awarded the contract in October 2004. The procurement for services is severable and the service is not expected to be received in the year of the appropriation. Therefore no bona fide need existed in the year of the appropriation.*

DMDC Response: Non-Concur. This MIPR was incrementally funding contracts where the period of performance crosses fiscal years. Contract 9T3NML210 and 9TNML215 were both awarded in April 2003. The period of performance is for five years with contract rates escalating annually (April 1-March 31). *The IG states that "GSA awarded the contract in October 2004"* – In October 2004, GSA issued a modification to awarded contracts incrementally funding the severable task, IAW 10 USC Sec 2410a. *The IG states that "The procurement for services is severable and the service is not expected to be received in the year of the appropriation."* These services are severable, however, IAW 10 USC Sec 2410a, the bona fide need rule was followed.

Audit Report Finding Page 39. Item 39. Defense Biometric Identification System. *The Defense Manpower Data Center sent MIPR XK4H5A44F288MP for $1.25 million to GSA on September 28, 2004, using O&M funds. The Defense Manpower Data Center required highly qualified personnel for both ongoing and ad hoc Common Access Card*

failure analysis, durability analysis, and Common Access Card Program Support for the Enterprise Defense Biometric Identification System and Defense Cross-Certification Identification System. The Defense Manpower Data Center sent the MIPR using FY 2004 funds, however; as of December 16, 2004, no contract exists. The procurement for services is severable and the service is not expected to be received in the year of the appropriation. Therefore, no bona fide need existed for the development of the system and Defense Cross-Certification Identification System in the fiscal year of the appropriation.

DMDC Response. Non-Concur. The IG states that *"as of December 16, 2004, no contract exists"* – In March 2003, GSA awarded a contract to Northrop Grumman for systems engineering, development, enhancements, and migration of applications, databases and web sites which included Common Access Card Program Support for the Enterprise Defense Biometric Identification Systems and Defense Cross-Credentialing Identification System. The period of performance is for five years with contract rates escalating annually. The IG states that *"The procurement for services is severable and the service is not expected to be received in the year of the appropriation."*. These services are severable, however, IAW 10 USC, the bona fide need rule was followed. This money was incrementally funding contracts where the period of performance crosses fiscal years.

Audit Report Finding Page 40. Item 40. CAC Vulnerability. *The Defense Manpower Data Center sent MIPR XX4H5A44F222MP for $350,000 to GSA on August 12, 2004, using O&M funds. The requirement is for the continued testing of the Common Access Card vulnerability testing to ensure Common Access Card security. As of December 16, 2004, GSA has not obligated the MIPR funds on a contract. FY 2004 O&M funds expired on September 30, 2004. The procurement for services is severable and the service is not expected to be received in the year of the appropriation. Therefore, no bona fide need existed for the fiscal year of the appropriation.*

DMDC Response: Non-Concur. The IG states that *"The procurement for services is severable and the service is not expected to be received in the year of the appropriation."*. These services are severable, however, IAW 10 USC, the bona fide need rule was followed. Contract number 9T3NML225 was awarded March 2004. The period of performance is for five years with contract rates escalating annually. The modification to the contract was for the specific requirement noted above.

Team Members

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