

Naval Audit Service



Audit Report



Contracting for Bachelor Housing Furnishings

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N2009-0001
3 October 2008

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MEMORANDUM FOR COMMANDER, NAVY INSTALLATIONS COMMAND

Subj: **CONTRACTING FOR BACHELOR HOUSING FURNISHINGS (AUDIT REPORT N2009-0001)**

Ref: (a) NAVAUDSVC memo 7510/N2007-NIA000-0077.000, dated 1 May 2007
(b) SECNAV Instruction 7510.7F, "Department of the Navy Internal Audit"

1. This report provides results of the subject audit announced in reference (a). Section A of this report provides our finding and recommendations, summarized management responses, and our comments on the responses. Section B provides the status of the recommendations. The full text of management responses is included in the Appendix.

2. Actions planned by the Commander, Navy Installations Command meet the intent of the recommendations. These recommendations are considered open pending completion of the planned corrective actions, and are subject to monitoring in accordance with reference (b). Management should provide a written status report on the recommendations within 30 days after target completion dates. Please provide all correspondence to the Assistant Auditor General for Installations and Environment [REDACTED], by e-mail at [REDACTED], with a copy to the Director, Policy and Oversight, [REDACTED]. Please submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.

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3. Any requests for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy as required by reference (b). This audit report is also subject to followup in accordance with reference (b).

Subj: **CONTRACTING FOR BACHELOR HOUSING FURNISHINGS (AUDIT
REPORT N2009-0001)**

4. We appreciate the cooperation and courtesies extended to our auditors.



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Executive Summary

Overview

The Commander, Navy Installations Command (CNIC) Fleet and Family Readiness Directorate (N9), manages the Navy Bachelor Housing Program. They are responsible for ensuring that bachelor housing furnishings support a key quality of life program that is essential to the shore establishment's mission to support the combat readiness of operating forces. In fulfilling this responsibility, CNIC shall review facility requirements, financial plans, and projections of respective program managers to ensure that the resources available are being used in the most cost-effective manner to support the overall housing program. Bachelor housing (BH) furnishings include case goods (beds, desks, dressers, etc.), soft goods (mattresses, mattress pads, blankets, etc.), and repair/replacement items for permanent party E-1 to E-3 sailors and unaccompanied Sailors housed for training. In Fiscal Years (FYs) 2006 and 2007, the total CNIC Continental United States (CONUS) non-labor budget was \$70 million and \$69 million for BH furnishings, respectively. We visited three regions that made up \$51 million, or 74 percent, of the CONUS BH budget in FY 2007.

Currently, BH furnishings are contracted for and procured individually by the Fleet and Industrial Supply Center (FISC) and/or the Naval Facilities Engineering Command (NAVFAC). We reviewed BH contracts awarded between October 2005 and September 2007. These contracts showed that furnishings are procured differently from region to region. We benchmarked current procedures against best business practices used by six entities in the hospitality industry.

We performed the audit from 1 May 2007 through 18 June 2008. Conditions noted existed during FYs 2006 and 2007.

Objective

Our objective was to verify that Navy BH furnishings were purchased in the most efficient and effective manner. The Chief of Naval Operations (CNO) Guidance for 2006 provides that personal and family readiness is vital to combat readiness. Consequently, the Navy strives to ensure its Sailors are suitably housed in the most efficient manner. This audit was agreed to by CNIC (N9), Housing Division (N93), Anacostia Annex, Washington, DC.

Conclusions

Navy BH furnishings were not procured as effectively and efficiently as possible. We determined that CNIC had not issued guidance, or required the regions/installations to standardize furnishings and bundle BH purchases. CNIC does not have visibility of BH furnishing requirements and purchasing processes at the regional or installation levels. The regions and installations visited, purchased non-standard furnishings between buildings, installations, and regions, resulting in lost quantity discounts, and purchased products that did not reflect the best life-cycle value available.

We determined from the comparisons made of like-type items procured for the three regions visited, potential savings could have been realized through standardization and bundling. We found instances where contract statements of work (SOWs) were vague and made it difficult to compare all like-type items. Also, like-type items were purchased under several different contracts awarded a few days to a few months apart. If all SOWs were more descriptive and further item comparisons were made, the potential for savings may have been even greater.

We visited six different entities at selected Navy, Department of Defense (DoD), and commercial organizations to identify best business practices currently being used, in order to help the Navy purchase BH furnishings in the most efficient and cost effective manner. In total, we identified seven best business practices. For example, we found that centralization is a key best business practice used by top-performing procurement organizations. Studies show that by increasing the percentage of contracts negotiated centrally from 20 percent up to 80 percent, significant savings can be realized (see Exhibit C for our benchmarking results).

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) of 1982, as codified in Title 31, United States Code, requires each Federal agency head to annually certify the effectiveness of the agency's internal and accounting system controls. Although we identified opportunities for improvement, in our opinion, the conditions noted in this report do not warrant reporting in the Auditor General's annual FMFIA memorandum identifying management control weaknesses to the Secretary of the Navy.

Noteworthy Accomplishments

CNIC (N9), who is responsible for managing the Navy BH Program, agreed to this audit because they acknowledged current weaknesses and challenges with BH furnishings

procurement procedures and were actively pursuing more efficient and effective alternatives. They are awaiting these audit results before finalizing their course of action.

Corrective Actions

To improve the efficiency and effectiveness of BH furnishings procurements, we recommended that CNIC:

- Establish standard specifications for BH furnishings that will consider quality, durability, competitive discounts, and suitability for the different geographical areas.
- Establish CNIC policy requiring the use of FISC Norfolk’s blanket purchase agreements to foster standardization and bundling at the region and installation levels until further guidance is developed that incorporates best business practices and;
- Partner with FISC Norfolk under the “Furniture Strategic Sourcing Initiative” to structure a process of critically analyzing BH furnishings procurements that incorporate the best business practices we identified: (1) specification manuals, (2) centralized procedures, (3) standardized furnishings, and (4) bulk discounts/pre-negotiated prices.
- Establish internal controls and provide continuous oversight to ensure that CNIC regions and installations are compliant with the CNIC implementation of BH furnishings procurement best business practices.

Actions planned by CNIC meet the intent of the recommendations. These recommendations are considered open pending completion of the planned corrective actions.

Section A:

Findings, Recommendations, and Corrective Actions

Finding: Purchasing of Navy Bachelor Housing Furnishings

Synopsis

Navy Bachelor Housing (BH) furnishings were not procured as effectively and efficiently as possible. The Commander, Navy Installations Command (CNIC) did not have a policy to establish standard specifications for BH furnishings Navy-wide, nor did they require the regions to standardize and bundle¹ purchases of BH furnishings. Secretary of the Navy policy provides that Department of the Navy (DON) organizations shall implement a system of internal controls that gives reasonable assurance of the effectiveness and efficiency of operations. Each of the three regions we visited used a different approach to manage purchases of BH furnishings; however, there is no higher level guidance on the most efficient and effective way to procure furnishings. The procurement of many different products and furnishings instead of fewer standard ones, results in lost quantity discounts and higher overall cost to the Navy. We assessed the effectiveness of the regions' current procedures and policies by comparing them to "best business practices" within the hospitality industry. As a result of our contract analysis and benchmarking, we concluded there are efficiencies to be gained if the Navy establishes guidance, standardizes furnishings, centralizes procurements, and bundles purchases to gain quantity discounts or pre-negotiated prices.

Discussion of Details

Background

Chief of Naval Operations Instruction (OPNAVINST) 11103.1B states that the Secretary of the Navy (SECNAV) and the Chief of Naval Operations (CNO) are committed to improving the quality of life for Navy members. Per CNIC P-935, the Navy's objective is to ensure that Sailors are suitably housed with accommodations that will provide modern, comfortable facilities that reflect the Navy's commitment to improving quality of life for Navy personnel. CNIC is designated as the agent of CNO responsible for overall policy concerning housing programs within the Navy, and for coordinating the various program elements to achieve the overall most cost beneficial approaches to their

¹ Bundling, as used in this report, is the combining of purchases.

operation. CNIC, along with regional and installation commanders, must devote necessary attention and resources to effectively provide and manage housing facilities and services.

Pertinent Guidance

SECNAV Instruction 5200.35E, “Department of the Navy (DON) Managers’ Internal Control (MIC) Program” provides policy that DON organizations establish MIC programs to evaluate and report on the effectiveness of ICs throughout their organizations and make corrections when necessary. DON organizations shall implement a system of ICs to provide reasonable assurance that operations are effective and efficient.

CNIC and the Standard Organization and Regulation Manual (SORM), 10 May 2007, defines the functional and organizational construct and relationships across CNIC to ensure alignment and standardization. CNIC provides unified policies, resources, procedures, processes, standards, and oversight.

CNIC P-935, “Navy Bachelor Housing Manual,” Chapter 5, provided details on fiduciary responsibility and establishes the operational guidance needed to practice sound financial management.

Audit Results

CNIC had not managed the purchasing of Navy BH furnishings as effectively and efficiently as possible. SECNAV guidance on MIC Programs, states that DON organizations should implement a system of internal controls to provide reasonable assurance of the effectiveness and efficiency of operations. We determined that CNIC regions, and installations within a region, purchased BH furnishings that were used for similar purposes and in similar buildings, but had different costs.

To determine how the Navy managed the purchasing of BH furnishings, we visited or contacted 12 installations in three CNIC regions. We visited four Commander, Navy Region Mid-Atlantic (CNRMA) installations, and four Commander, Navy Region Southwest (CNRSW) installations. For Commander, Navy Region Southeast (CNRSE), we issued a data request for one installation and visited three others. See Exhibit B, Scope and Methodology, for details on how we selected the activities visited. We interviewed BH managers and staff at the sites visited to determine the procedures used to identify BH requirements and procure furnishings. We also analyzed procurement contracts for purchases of BH furnishings, such as end tables, beds, and computer armoires. For the items we reviewed, the Navy could have saved at least \$288,000

(see computation below) if all regions had purchased the lowest priced item.² However, since CNIC did not have visibility over regional purchases, and specific guidance that included specifications for standardized furnishings, the Navy could not bundle purchases to maximize quantity discounts.

Table 1

Total Cost Paid by Regions	\$1,714,374
Total Cost Using Lowest Price	\$1,426,796
Cost Savings	\$ 287,578

Procurement Procedures Differ

At the three regions visited, we found different BH organizational structures and procurement procedures and practices as follows:

CNRMA BH Procedures. CNRMA’s organizational structure was the most centralized of the three regions visited. BH is a separate department within the Naval Support Activity, Norfolk, VA, and decisions pertaining to Furniture, Fixtures, and Equipment (FF&E) for all installations within CNRMA are made at the BH regional level. CNRMA receives input from Installation Site Managers and maintains a spreadsheet (cyclic schedule) by building, to track scheduled furnishings replacements. The spreadsheet includes replacement dates and condition codes. However, one of the four installations visited reported that they frequently received furnishings that they did not request or need. Statements of work (SOWs) for BH furnishings are prepared at the installation level, sent to the regional BH office for approval, and forwarded to the local Fleet and Industrial Supply Center (FISC) for processing. Although this region has a centralized structure for procurements, CNIC does not have visibility over their purchases, and opportunities exist to improve coordination between CNIC and the region.

CNRSE BH Procedures. CNRSE was the most decentralized of the three regions visited. CNRSE acted as a liaison for funding purposes only, and was not involved in the procurement process. SOWs to purchase furnishings were prepared and approved at the installation level and then forwarded to the area FISC for processing. The installation BH managers have authority to make all decisions pertaining to BH operations. There were 21 installations in the region, and we reviewed the procedures for four. These four were selected based on their proximity to the regional office. Each had their own procurement procedures for purchasing BH furnishings. Although there was some commonality in their procedures, the BH manager at each installation had the authority to

² Purchasing the lowest cost items is not always the best option. We use this here only to show the maximum savings possible.

select the vendor of their choice without consideration of any bundling or bulk discounts. Under decentralized procedures, neither CNIC nor CNRSE had visibility of furnishings purchased. Therefore, opportunities to bundle purchases and receive quantity discounts were lost.

CNRSW BH Procedures. CNRSW coordinated their BH purchases through a single point of contact (POC) at the regional level. The region POC forwarded approved SOWs to the local FISC for processing. The regional representative stated that decisions pertaining to BH operations were made at the regional office with continuous feedback from the installation BH managers. Furnishing contracts usually were not bundled for bulk-buy discounts. However, if orders for furnishings from the installations were received by the region at the same time, then the region would bundle them prior to sending to FISC for processing. Without specific guidance, funds for BH furnishings were not used efficiently and effectively, resulting in a higher overall cost to the Navy.

When various approaches are used to procure like-type items with similar functions, opportunities for maximizing efficiencies and economies of scale are lost. Standardization of items, combined with CNIC visibility of installation requirements, and better coordination of procurements, could have resulted in a more efficient and effective use of funds by taking advantage of bulk buys, quantity discounts, and best value purchases. CNIC acknowledges that they have not standardized BH furnishings nor issued any guidance to BH managers requiring bundling of furnishings contracts. They are awaiting our audit results before finalizing their course of action.

Efficiency and Effectiveness of Procurements. To validate the efficiency and effectiveness of the procurement procedures used in each region visited, we reviewed BH contracts and the available corresponding SOWs. We selected contracts that had similar items purchased and could be compared across installations and regions. We compared document numbers, contract numbers, items procured, prices, quantities, destination of items, and total cost of furnishings procurements.

Standardization. We found that the three regions visited do not standardize furnishings at the installation or region level. In a typical BH room, the furnishings most often found were a bed, nightstand, side chair, and an armoire. BH lounge furnishings included sofas, end tables, and artwork. Based on our analysis of contract specifications, we noted that under several different contracts, like-type items with different specifications were requisitioned by multiple installations in the same region during the same fiscal year. For example, two installations in the same region purchased 2-drawer nightstands with dimensions of 22x16x24, which cost \$149 each, while the other installation purchased 2-drawer maple plywood nightstands that were 26x18x24 and cost \$458 each. In another instance, two installations purchased twin beds with four drawers; the specifications for one was “twin bed with four drawers, bed board, and foot board, 84x40x36, natural,” which cost \$318 each. The specifications for the other 4-drawer twin beds were “twin XL, 940 exposed drawers,

40x82x22, and cost \$486 each. The table below shows the number of installations within each region that purchased similar or like-type furnishings, typically found in a BH room or lounge, with different specifications in the same fiscal year.

Table 2

Items FY	CNRMA		CNRSE		CNRSW		TOTALS	
	06	07	06	07	06	07	06	07
Armoire	3	0	2	0	1	0	6	0
Artwork	6	2	1	0	0	0	7	2
Bed	3	0	2	3	3	0	8	3
Cocktail Table	3	0	0	0	1	0	4	0
Desk Chair	5	0	2	1	0	0	7	1
End Table	5	1	1	1	2	0	8	2
Game Table	2	1	0	0	0	0	2	1
Game Table Chair	2	1	0	0	0	0	2	1
Guest Chair	3	1	0	0	0	0	3	1
Lounge/Side Chair	4	1	1	1	3	0	8	2
Night Stand	2	0	2	0	1	0	5	0
Office Chair	3	1	1	0	0	0	4	1
Office Desk	3	0	0	0	0	0	3	0
Sofa	4	1	2	0	1	0	7	1
Surge Protector	2	0	0	0	0	0	2	0
Wardrobe	0	0	1	1	2	0	3	1
Max # of Installations purchasing same item	6	2	2	3	3	0	8	3

Based on our analysis of item specifications and descriptions included in the contracts we reviewed, and our observations of BH rooms in each of the three regions visited, we concluded that BH furnishings in the regions, and installations within the region, were not standardized. Without standardization, the Navy may be paying more for furnishings than is necessary.

Bundling. We noted that large quantities of similar furniture were purchased using different contracts, which were dated a few days to a few months apart (see Table 3 for details). The award dates for contracts we reviewed showed that if better coordination and planning had been performed at the regional level, the items we reviewed could have been bundled together under fewer contracts. In addition, one installation site manager pointed out that her experience with most vendors was that they tended to sit on small orders until sufficient quantities made them worthwhile to fill and ship, resulting in shipping delays for smaller quantity purchases. Therefore, it is more cost effective to bundle purchases in order to receive bulk quantity discounts, minimize shipping delays, and reduce shipping costs.

Table 3

REGION	AWARD DATE	TIME BETWEEN CONTRACTS	OVERALL TIME BETWEEN CONTRACTS
CNRMA	July 31, 2006	5 days apart	less than 2 months apart
	Aug. 5, 2006		
	Sep. 20, 2006	5-10 days apart	
	Sep. 25, 2006		
Sep. 30, 2006			
CNRSE	Feb. 7, 2006	7 days apart	Some contracts less than a month apart, most less than 3 months apart
	Mar. 16, 2006		
	Mar. 23, 2006		
	Apr. 20, 2006	6 days apart	1 month to less than 2 months apart
	Apr. 26, 2006		
	Aug. 16, 2006	11 days apart	
Sep. 14, 2006			
Sep. 25, 2006			
CNRSW	June 17, 2006	2, 3, and 5 days apart	
	July 15, 2006		
	July 17, 2006		
	July 20, 2006		

With no official CNIC procurement guidance, we determined that each of the three regions were using different procedures to purchase BH furnishings for similar type buildings. In addition, the use of various contractors, and no requirements to standardize and bundle purchases to receive bulk discounts, further shows that the regions were not purchasing BH furnishings in the most efficient and effective manner.

Impact of Nonstandardization and Not Bundling Purchases

Contract Analysis. By not standardizing purchases of BH furnishings, many different products were being purchased instead of fewer standard ones, resulting in higher costs to the Navy. Quantity discounts are lost when like-type contracts are not bundled. We identified 174 contracts, across the 3 regions, valued at \$15.3 million for Fiscal Years (FYs) 2006 and 2007. Of the 174 contracts, 59 contracts, valued at \$9.4 million, were for BH FF&E. Given the variety of approaches that the regions used to procure and purchase BH furnishings, it was difficult to identify comparable items to evaluate whether furnishings were purchased in the most efficient and effective manner. However, we were able to extract data from 20 of 59 contracts, totaling \$4.5 million. From the

20 contracts, we identified 69 like-type BH furnishings totaling \$1.7 million, and grouped those 69 into 16 like items for comparison as follows in Table 4 below:

Table 4

ITEM	QTY.	UNIT PRICE RANGE		REGIONS' TOTAL COST	TOTAL POSSIBLE SAVINGS ³
		Low	High		
Desk Chairs	1,535	\$ 85	\$ 295	\$ 259,714	\$ 128,643
Beds	1,670	299	486	585,948	79,309
Night Stands	237	149	458	37,805	2,494
Armoires	795	345	902	313,425	22,483
Sofas	92	336	511	42,478	11,546
End Tables	251	69	211	39,609	10,627
Wardrobes	453	524	647	252,307	8,509
Side Chairs	301	309	469	128,980	8,108
Cocktail Tables	60	140	267	15,304	6,883
Office Desk	3	1,483	3,014	7,512	3,063
Game Table Chairs	42	79	147	5,348	2,030
Surge Protectors	807	11	14	10,381	1,504
Game Tables	11	175	283	2,789	864
Artwork	36	80	154	3,753	873
Guest Chair	17	149	228	3,393	453
Office Chair	14	315	488	5,628	189
TOTALS	6,324			\$1,714,374	\$287,578

Results of Analysis. Our analysis of BH furnishings purchased at three regions (12 installations) showed that if the lower cost of like-type furnishings were purchased, the Navy could have avoided costs of at least \$288,000, which could have been used for other purposes.⁴ If each region used the same standard specifications, and SOWs were more descriptive, additional comparisons, and potentially greater cost avoidance, could have been made. We also concluded that if the regions were required to standardize and bundle purchases, the Navy could realize potentially greater savings. The examples below represent furnishings with the same function, but have different unit costs and specifications. If these furnishings were standardized, they could have been interchanged across regions and resulted in a cost avoidance for the Navy.

³ Savings were determined by recomputing higher priced items at the lowest price in each region. Then we determined the difference between the recomputed price and the actual price. Potential savings were totaled for all regions to arrive at total possible savings.

⁴Purchasing the lowest cost items is not always the best option. We use this here only to show the maximum savings possible.

End Tables Used in Common BH Lounges



Twin Extra-Long Captain's Beds



Computer/TV Armoires



Least Cost vs. Best Value. The comparisons of contracts for the three regions visited, yielded potential savings of approximately \$288,000, using the lowest price per item. During our regional visits, we observed instances where end tables and sofas purchased at a higher price for one building would have been a more efficient buy than similar items purchased at a lower price for another building. The higher priced items were made of better quality materials that were durable and still looked new after 1 year of use, and would most likely remain in use until the scheduled replacement date. These items, even though slightly higher priced, were the best value buys. The lower priced items were made of lower quality materials that, after 1 year in use showed signs of wear and tear, as the picture that follows shows. These items in all probability would most likely need replacing before the scheduled replacement date. This example further illustrates the importance of having Navy-wide standardization of BH furnishings. Also, purchasing the slightly higher priced item would have been a more efficient use of funds over the life of the item.

Higher Priced Item (\$148)
Underside of corners reinforced
With metal brackets



Lower Priced Item (\$106)
Top is made of particle board.
Corners broken off on several end tables



Other BH Purchases. One item we did not include in Table 4 above, was the purchase of high-priced pool tables for BH lounge areas at one of the three regions visited. Other regions did not include pool tables as a line item in their purchase contracts for the fiscal years reviewed. However, we have included it in this report, to show about \$9,000 in potential savings. These funds could have been used for other purposes if the Navy had developed standard specifications. An additional savings may have been realized if the Navy had bundled the purchases to take advantage of potential bulk buy discounts.

Table 5

	Actual Qty Purchased of High-Priced Pool Tables	Unit Cost	Extended Cost
	1	\$2,932.00	\$ 2,932.00
	10	2,253.00	22,530.00
Totals	11		25,462.00
	Purchase of 11 Mid-Range Models	1,500.00	16,500.00
	Potential Savings		8,962.00

Benchmarking Best Business Practices

To determine industry standards and best business practices for procuring BH furnishings, we reviewed processes and procedures used by the Department of Defense (DoD), other Navy activities, a state-chartered university, and commercial organizations. We identified seven best business practices that we used as benchmarks for assessing the effectiveness and efficiency of procurements of Navy BH furnishings. For details on the activities we visited and their best business practices, see Exhibit C.

Table 6

Best Business Practices	ACTIVITY / SITE					
	Navy Lodge	Navy Gateway Inns and Suites, Millington, TN	Army	Air Force	State Chartered College	Private Industry Consortium
Guidance or Specification Manual	√	√	√	√		
Centralized Procedures	√	√	√		√	√
Pre-defined # of Contractors	√	√			√	√
Standardized Furnishings	√ by project	√	√ new purch.	√ new purch.	√	√
Automated/Central Inventory System		√	√	√	√	√
Replacement Cycle Soft/Case Goods	√	√			√	
Bulk Discounts or Pre-Negotiated Prices	√	√	√		√	√

Of the seven best business practices used by the organizations we contacted, we identified four that can be used to improve the efficiency and effectiveness of procurements of BH furnishings in the Navy. The four best business practices are:

- Guidance/Specification Manual;
- Centralized Procedures;
- Standardized Furnishings; and
- Bulk Discounts/Pre-Negotiated Prices.

These practices would help to standardize BH furnishings across regions. A specification manual would eliminate guess work, reduce cost differences, provide opportunities for quantity discounts, and encourage bundling procurements. Four of the six organizations contacted believed a specification manual was a key best business practice. Centralized procedures were considered a best business practice because they streamlined the process, and increased coordination and visibility over procurement spending. Also, centralized procedures promote uniformity and consistency within regions and installations. Of the six organizations included in our benchmarking process, five emphasized centralized procedures as a best business practice. Standardized furnishings were recognized as a best business practice for each activity that we benchmarked (six of six). Using standardized furnishings along with a specifications manual would allow

furnishings to be interchanged across the regions. By bundling furnishing procurements these organizations received greater quantity discounts.

Partnership Opportunity with FISC Norfolk

Furniture Strategic Sourcing Initiative

During the course of this audit, we discovered that FISC Norfolk was developing a Strategic Sourcing Initiative for furniture. The initiative is a collaborative and structured process of critically analyzing an organization's spending, and using this information to make business decisions about acquiring commodities and services more effectively and efficiently. It focuses on developing a sourcing solution that best matches market capabilities with requirements for single or multiple customers. The initiative will be implemented in two phases: Spirals 1 and 2.

Spiral 1. This spiral is estimated to last 12 to 18 months, and will be used to analyze granular data (analysis of market conditions, analysis of the process, identification of lean processes, and identification of efficiencies from consolidations and implementation), which blanket purchase agreement (BPA) contractors will feed back to FISC. FISC Norfolk considers their strategic sourcing initiative in Spiral 1 to be evolving and subject to change based on the information received. Currently, FISC has selected General Services Administration (GSA)-approved contractors, which make up 74 BPAs for household and quarters furniture. Twenty-three of these vendors also offer whole room packages.⁵ The catalog price issued by these BPA contractors will be competed and processed by FISC with the possibility of gaining further discounts. These BPAs are now available on a voluntary basis.

Spiral 2. Spiral 2 will involve the selection of a limited number of qualified vendors from the current 74 BPA holders, based on competitive pricing. BPAs will be eliminated, and instead, FISC will use Indefinite Delivery/Indefinite Quantity (IDIQ) Navy Contracts. FISC will competitively award contracts to IDIQ contractors for furniture delivery orders. Selection criteria for this phase will be based on a combination of price, delivery times, quality, and best value.

CNIC has the opportunity, in Spiral 1, to coordinate with FISC to define furnishing specification requirements for standardization. The more definitive the specifications, and the larger the quantity, the contractor can realize economies of scale and offer better pricing and discounts. FISC Norfolk acknowledged that CNIC is one of their biggest customers, and as such, would be eligible for their own fast tracked furniture strategic sourcing initiative.

⁵ The whole room package BPAs include all BH case goods, soft goods, replacement of carpeting, window treatments, and wall coverings, but not painting of walls or minor repairs.

By working with FISC Norfolk, CNIC could implement the best business practices we identified from our benchmarking and offer a more efficient and cost effective manner to purchase Navy BH furnishings.

Recommendations and Corrective Actions

We recommend that CNIC:

Recommendation 1. Establish standard specifications for BH furnishings, which will consider quality, durability, competitive discounts, and suitability for the different geographical areas.

Management response to Recommendation 1. CNIC will coordinate with the Regions and NAVSUP to research and develop specifications for BH furnishings. These specifications will consider quality, durability, competitive discounts, and suitability for all geographical areas. CNIC's Navy BH furnishings procurement policy will reflect newly available business process options that can generate cost savings and efficiencies. The interim completion date for discussions with FISC Norfolk on requirements and specifics of orders using BPAs will be 15 November 2008. The interim completion date for development and coordination with regions on development of standard furnishings specifications will be 30 March 2009. The target completion date to publish the CNIC Desk Guide for furnishings specifications is 30 July 2009.

Naval Audit Service comments on response to Recommendation 1.

Planned actions by management meet the intent of the recommendation.

Recommendation 2. Establish CNIC policy requiring the use of FISC Norfolk's blanket purchase agreements to foster standardization and bundling at the region and installation levels until further guidance is developed that incorporates best business practices.

Management response to Recommendation 2. CNIC will revise the Navy BH furnishings procurement policy to show new business process options to generate cost savings and efficiencies. With the introduction of the FISC Norfolk Strategic Sourcing initiative for office and housing furnishings and the corresponding development of BPAs, CNIC has an opportunity to implement the FISC Norfolk initiative, which will provide the capability to standardize furnishings quality and generate a favorable pricing environment. CNIC will coordinate implementation requirements and policy with NAVSUP and issue policy to the CNIC regions to utilize FISC Norfolk BPAs for all furnishings acquisitions. The target completion date is 30 January 2009.

Naval Audit Service comments on response to Recommendation 2.

Planned actions by management meet the intent of the recommendation.

Recommendation 3. Partner with FISC Norfolk under the “Furniture Strategic Sourcing Initiative” to structure a process of critically analyzing BH furnishings procurements, which incorporates the best business practices we identified: (1) specification manuals, (2) centralized procedures, (3) standardized furnishings, and (4) bulk discounts/pre-negotiated prices.

Management response to Recommendation 3. Under Recommendations 1 and 2, CNIC will coordinate with FISC Norfolk. The interim completion date for discussions to confirm CNIC requirements to enable FISC Norfolk to support best business practices as recommended is 30 January 2009. The target completion date to issue the CNIC Desk Guide for furnishings procurement is 30 July 2009.

Naval Audit Service comments on response to Recommendation: 3.

Planned actions by management meet the intent of the recommendation.

Recommendation 4. Establish internal controls and provide continuous oversight to ensure that CNIC regions and installations are compliant with the CNIC implementation of BH furnishings procurement best business practices.

Management response to Recommendation 4. CNIC N93 will develop BH furnishings procurement policy that will be the foundation of internal controls and oversight responsibilities. The procurement policy will include a methodology for ensuring compliance with best business practices in procurement decisions. The interim completion date for establishing the requirement to order through FISC Norfolk BPAs will be 30 January 2009. The target completion date for implementation of internal controls through release of the housing furnishings desk guide will be 30 July 2009.

Naval Audit Service comments on response to Recommendation: 4.

Planned actions taken by management meets the intent of the recommendation.

Section B:

Status of Recommendations

RECOMMENDATIONS						
Finding ⁶	Rec. No.	Page No.	Subject	Status ⁷	Action Command	Target or Actual Completion Date
1	1	15	Establish standard specifications for BH furnishings, which will consider quality, durability, competitive discounts, and suitability for the different geographical areas.	O	Commander, Navy Installations Command (CNIC)	11/15/08
1	2	15	Establish CNIC policy requiring the use of FISC Norfolk's blanket purchase agreements to foster standardization and bundling at the region and installation levels until further guidance is developed that incorporates best business practices	O	CNIC	1/30/09
1	3	16	Partner with FISC Norfolk under the "Furniture Strategic Sourcing Initiative" to structure a process of critically analyzing BH furnishings procurements, which incorporates the best business practices we identified: (1) specification manuals, (2) centralized procedures, (3) standardized furnishings, and (4) bulk discounts/pre-negotiated prices.	O	CNIC	1/30/09
1	4	16	Establish internal controls and provide continuous oversight to ensure that CNIC regions and installations are compliant with the CNIC implementation of BH furnishings procurement best business practices.	O	CNIC	1/30/09

⁶ / + = Indicates repeat finding

⁷ / O = Recommendation is open with agreed-to corrective actions; C = Recommendation is closed with all action completed; U = Recommendation is undecided with resolution efforts in progress

Exhibit A:

Background

The Commander, Navy Installations Command (CNIC) management is responsible for ensuring that Bachelor Housing (BH) furnishings support a key quality of life program that is essential to the shore establishment's mission to support the combat readiness of operating forces. CNIC is responsible for compliance with the laws and regulations that are applicable to its activities, and for establishing controls designed to provide reasonable assurance for compliance with the applicable laws and regulations.

BH furnishings include case goods (beds, desks, dressers, etc.), soft goods (mattresses, mattress pads, blankets, etc.), and repair/replacement items for permanent party E-1 to E-3 Sailors and unaccompanied sailors housed for training. There are six CNIC regions in the Continental United States (CONUS) and approximately 82,259 bed spaces. The expenditures for the housing program within CONUS totaled \$61.9 million in Operations and Maintenance, Navy funding for Fiscal Year 2007.

Prior to Fiscal Year 2005, the General Services Administration (GSA) offered a "Packaged Furniture Program" that BH managers used to purchase their component furnishings, and used the "whole room concept" (WRC). The WRC consisted of everything in a housing room "from the walls in." This included the furniture (case goods and soft goods), painting of the walls, and minor repairs. Navy BH managers ordered whole rooms from GSA catalogs, with GSA being responsible for the negotiated rates, compliant contracting, tracking purchase orders, project design and installation, shipping schedules, disposal of old furniture, payment issues, etc. Using the GSA "Packaged Furniture Program," Navy regions were able to benefit from the procurement efficiencies already built in the program. Also, by following GSA regulations, the Navy regions used similar procurement procedures. However, based on an internal GSA review, the painting of the walls and minor repairs portion of the "Packaged Furniture Program," were defined as a construction/maintenance type item under the Federal Acquisition Program and the program was discontinued, to be compliant with the regulations. Without the GSA "Packaged Furniture Program," Navy regional and installation BH managers established different procurement processes and procedures, and were further challenged with synchronizing the availability of sustainment, restoration, and modernization (SRM) funding to execute the whole room concept. CNIC agreed to this audit because they believed there were efficiencies to be gained by centralizing the procurement process.

Exhibit B:

Scope and Methodology

We began our audit work on 1 May 2007 and completed the work on 18 June 2008. There were no prior audits relating to this subject, therefore, this report does not include the normal follow up review of past audit recommendations. We evaluated internal controls over procurements of Bachelor Housing furnishings. Audit work was done at the Commander, Navy Installations Command (CNIC), Anacostia, MD; three CNIC Continental United States (CONUS) Bachelor Housing (BH) regional offices; 12 BH installation offices; the Fleet and Industrial Supply Center (FISC), Norfolk, VA; FISC, Jacksonville, FL; and the United States General Services Administration, Arlington, VA. The three regional offices we visited made up \$51 million, or 74 percent, of the CONUS BH budget in FY 2007. The 12 installations were selected based on either their proximity to the regional offices and/or the number of bed spaces and budget.

We examined CNIC BH policies and procedures and reviewed the BH non-labor budget and funds execution. We also examined BH furnishings procurement transactions and associated financial documents, discussed procurement functions with responsible officials, and visited regional and installation BH offices. We did not rely on any data from an automated database.

We reviewed 174 BH contracts and the available corresponding Statements of Work (SOWs) from the Commander, Navy Region Mid-Atlantic (CNRMA), Commander, Navy Region Southeast (CNRSE), and Commander, Navy Region Southwest (CNRSW) BH offices for Fiscal Years 2006 and 2007, valued at about \$15.3 million. Contracts were chosen that had similar items which could be compared across installations and regions. We compared document numbers, contract numbers, items procured, prices, quantities, destination of items, and total prices pertaining to furnishings procurements. Of the 174 contracts, 59 contracts, valued at \$9.4 million, were for BH Furniture, Fixtures, and Equipment. Given the variety of approaches the regions used to procure and purchase BH furnishings, it was difficult to identify comparable items to evaluate whether furnishings were purchased in the most efficient and effective manner. However, we were able to extract data from 20 of 59 contracts, totaling \$4.5 million. From these contracts, we were able to make comparisons, comprising like-type BH furnishing items procured around the same time within each region. Each comparison analyzed the per unit pricing of 2 to 5 like-type items and determined how much savings would have occurred if the lowest priced item had been selected for each of the procurements.

We also visited or contacted the Navy Lodge Headquarters, Virginia Beach, VA; CNIC Fleet and Family Readiness (N9) Millington Detachment, Transient Furnishings

Procurement, Millington, TN; United States Army – Unaccompanied Personnel Housing, Fort Eustis, VA; United States Air Force – Furniture Management Office, Langley, VA; a state-chartered college; and three private industry businesses, to benchmark for industry best business practices. These organizations were selected because they provided a similar housing service, and were within the local commuting area. We looked at the various processes, replacement cycles, inventory procedures, and standards at these activities and organizations, and identified the relevant best business practices of specification manuals, centralized procedures, pre-defined number of contractors, standardized furnishings, automated/centralized inventory system, replacement cycle of soft/case goods, and bulk discounts/pre-negotiated prices. We determined how many of these best business practices were currently present or lacking in the BH regions and installations.

A list of activities visited or contacted during the audit is shown in Exhibit D.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Benchmarking Results

During our audit, we visited and/or contacted personnel at Navy Lodge Headquarters, Virginia Beach, VA; Navy Gateway Inns and Suites, Millington, TN; Army Training and Doctrine Command, Fort Eustis, VA, Army Corps of Engineers, Huntsville, AL, and Langley Air Force Base, Hampton, VA, a state-chartered university, and a private industry consortium. Specifically we addressed their policies, procedures, and standards for procuring bachelor housing (BH), dormitory, and hotel furnishings to identify the current practices for purchasing, replacing, and refurbishing their furnishings. Our benchmarking efforts did not include an evaluation of how effective they were in carrying out their policies, procedures, and standards, but rather to gain an insight of what practices contributed to the efficiency and effectiveness of their furniture procurement operations. Below is a detailed overview of our benchmarking efforts.

Results

Navy Lodge Headquarters. The Navy Lodge is a hotel-like chain that is part of the Navy Exchange Service Command. We contacted the program manager and determined that their procurement emphasis is geared toward “best value,” and not exclusively on best price. After the competitive bidding process, they select a primary contractor who has the option to sub-contract any portion of the work. The furniture is generally standardized by location per the specification manual, but varies from project to project. The following best business practices were identified at the Navy Lodge: a specification manual that outlines the general standard requirements to include furnishings, walls, paint, and draperies; a central procurement location; and discounts resulting from competitive bidding.

Navy Gateway Inns and Suites (NGIS): This transient facility system is funded by Non-Appropriated Funds (NAF), but is also similar to a hotel chain. We interviewed the Manager, Fiscal Oversight, to determine their procurement procedures. They have selected eight contractors that offer four separate standardized themes (traditional, transitional, contemporary, and tropical). A pre-negotiated quantity discount is built into the cost of the furnishings. Bachelor Officer Quarters’ managers can procure furnishings using the “Total Room Concept”⁸ or purchase separate furniture components on the same contract. We identified the following best business practices: procurement procedures are centralized at one location, procurement of all items in the room are performed on the same contract, limited choices of pre-defined vendors for each major theme, standardized furnishings, automated central inventory,

⁸ Includes everything in the room plus painting of walls and minor repairs.

pre-negotiated quantity discounts for bundling purchases, and use of a specification manual.

Air Force. We visited Langley Air Force Base and interviewed the installation furniture manager to identify best business practices in the procurement of furnishings from another Department of Defense (DoD) service. BH furnishings can be procured using any vendor, but they rely mainly on one contractor for their BH furnishings. Langley uses standardized furnishings mainly in new facilities. For example, at one installation, BH furnishings for 11 buildings were replaced using the same contractor which facilitated standardization. The Air Force has specific guidelines that outline the procurement of their furnishings. They also have a Quarterly Improvement Plan committee that identifies ways of improving barracks' conditions. The best business practices we identified at the Air Force include: the use of a specification manual, and standardized furnishings for new facilities.

Army. We interviewed the Installation Housing Management Specialist at Fort Eustis, and the program manager for Army Corps of Engineers in Huntsville, AL, to identify best business practices. The Army Centralized Barracks Management System, located in Huntsville, is used by the entire Department of the Army to procure furnishings. This facility procures furnishings for large purchases using any vendor, and does the centralized buying for the Bachelor Quarters. The Army's furnishings are standardized and must follow their unaccompanied personnel housing specification guidelines. The furnishings are similar enough in appearance to mix vendor products and even interchange them from one installation to another. They receive bulk discounts for bundling purchases. The best business practices identified for the Army include: specification guidance, procurement procedures centralized at one location, standardized furnishings for new facilities, and bulk discounting.

State-Chartered University. We visited a state-chartered university and interviewed a furniture specialist to identify best business practices in the procurement of furnishings from an entity outside of DoD. This state-chartered university goes through their respective state correctional enterprise to procure their dormitory furniture or obtain a waiver. Since all the new purchases of furnishings are procured at once, and because the state correctional labor rate is \$0.40 per hour, a discounted rate is already imbedded in the contract price. Since each dormitory is different in size and age, the furnishings are standardized to each dormitory or group of similar type dormitories. The best business practices identified at this university are: standardized furniture, centralized purchasing at one location, and bulk buys at pre-negotiated prices.

Private Industry. We interviewed the procurement and supplier personnel for the private industry consortium to identify best business practices that can be used by the Navy's BH community. A combined consortium of five major hotel chains with more

than 4,000 rooms, procure their room furnishings using the same suppliers. A single professional procurement service is used for the replacement of existing furniture and an architectural and construction subsidiary is responsible for procuring furniture for new construction hotels and major refurbishments. Based on their combined procurements, they can obtain a negotiated quantity discount for their furnishings. For example, the bedding supplier used by the consortium and subsidiary offers a negotiated reduced discounted price based on standardized products, longevity, and historical and estimated demand. The best business practices from private industry include: centralization of procurements, standardized furnishings, and pre-negotiated discounts.

Exhibit D:

Activities Visited and/or Contacted

Commander, Navy Installation Command (CNIC), Anacostia, MD *

CNIC Fleet and Family Readiness (N9) Millington Detachment, Transient Furnishings Procurement, Millington, TN

Commander, Navy Region Mid-Atlantic, Norfolk, VA*

Naval Amphibious Base Little Creek, Norfolk, VA *

Naval Air Station Oceana, Virginia Beach, VA *

Fleet Combat Training Center Atlantic Dam Neck Annex, Virginia Beach, VA *

Naval Station Norfolk, Norfolk, VA *

Commander, Navy Region Northwest, Bangor, WA

Commander, Navy Region Southeast, Jacksonville, FL *

Naval Air Station Jacksonville, FL*

Naval Station Mayport Mayport, FL *

Naval Air Station Pensacola, FL

Naval Submarine Base Kings Bay, GA *

Commander, Navy Region Southwest, San Diego, CA *

Naval Base Coronado, CA *

Naval Base Point Loma, CA, *

Naval Base San Diego, CA*

Transient Personnel Unit, San Diego, CA*

Commander, Navy Region Hawaii, Pearl Harbor, HI

Fleet and Industrial Supply Center, Norfolk, VA *

Fleet and Industrial Supply Center, Jacksonville, FL *

Navy Exchange Service Command, Virginia Beach, VA *

Private Industry Company A

Private Industry Company B

Private Industry Company C

State-Chartered College *

U. S. Army – Unaccompanied Personnel Housing, Fort Eustis, VA *

U. S. Air Force – Furniture Management Office, Langley, VA *

U.S. General Services Administration, Arlington, VA *

* Activities Visited

Appendix:

Management Response Letter from Commander, Navy Installations Command



DEPARTMENT OF THE NAVY
COMMANDER, NAVY INSTALLATIONS COMMAND
716 SICARD STREET, SE, SUITE 1009
WASHINGTON NAVY YARD, DC 20384-5149

7510
Ser NOOG/8032211
29 Sep 08

From: Commander, Navy Installations Command
To: Assistant Auditor General for Installations and
Environment Audits, Naval Audit Service
Subj: CONTRACTING FOR BACHELOR HOUSING FURNISHINGS (DRAFT
AUDIT REPORT N2007-NIA000-0077)
Ref: (a) NAVAUSVC memo 7510 N2007-NIA000-0077.000 of
21 Aug 08

1. Per reference (a), the following response to recommendations
1 through 4 are provided:

a. Recommendation 1: Establish standard specifications for
BH furnishings, which will consider quality, durability,
competitive discounts, and suitability for the different
geographical areas.

CNIC Response: Concur. Development of specifications will
require research and coordination with CNIC Regions and NAVSOP.
Specifications developed for bachelor housing furnishings will
consider quality, durability, competitive discounts, and
suitability for the different geographical areas. CNIC's Navy
BH furnishings procurement policy will reflect newly available
business process options that can generate cost savings and
efficiencies. Interim completion date (1): Complete
discussions with FISC Norfolk on requirements and specifics of
orders using BPAs - 15 November 2008. Interim completion date
(2): Complete development and coordination with regions on
development of standard furnishings specifications - 30 Mar 2009.
Target completion date: Publish CNIC Desk Guide for furnishings
specifications - 30 July 2009.

b. Recommendation 2: Establish CNIC policy requiring the
use of FISC Norfolk's Blanket Purchase Agreements (BPA's) to
foster standardization and bundling at the region and
installation levels until further guidance is developed that
incorporates best business practices.

CNIC Response: Concur. CNIC will update the Navy BH
furnishings procurement policy to reflect newly available
business process options that can generate cost savings and
efficiencies. The loss of the GSA Whole Room Concept (WRC),
which provided an efficient tool for procuring furniture and
coordinating associated maintenance, created a void in the

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Subj: CONTRACTING FOR BACHELOR HOUSING FURNISHINGS (DRAFT
AUDIT REPORT N2007-NIA000-0077)

procurement processes that spawned a variety of contracting approaches by the CNIC regions. With the introduction of the FISC Norfolk Strategic Sourcing initiative for office and housing furnishings and the corresponding development of BPAs, CNIC has an opportunity to replace the GSA WRC with the FISC Norfolk initiative that will provide the capability to standardize furnishings quality and generate favorable pricing reflecting the economies of bulk purchases in a competitive environment. CNIC policy will include the requirement for use of BPAs for both housing and office furnishings. CNIC will coordinate implementation requirements and policy with NAVSUP and issue policy to the CNIC regions to utilize FISC Norfolk BPAs for all furnishings acquisition. Target completion date: 30 January 2009.

c. Recommendation 3: Partner with FISC Norfolk under the "Furniture Strategic Sourcing Initiative" to structure a process of critically analyzing BH furnishings procurements, which incorporates the best business practices we identified: 1) specification manuals, 2) centralized procedures, 3) standardized furnishings, and 4) bulk discounts/pre-negotiated prices.

CNIC Response: Concur. Refer to our comments/response in recommendations 1 and 2. Interim Completion Date (1): Complete discussions to confirm CNIC requirements to enable FISC Norfolk to support best business practices as recommended - 30 January 2009. Target completion date: Issue CNIC Desk Guide for furnishings procurement by 30 July 2009.

d. Recommendation 4: Establish internal controls and provide continuous oversight to ensure that CNIC regions and installations are compliant with the CNIC implementation of BH furnishings procurement best business practices.

CNIC Response: Concur. CNIC N93 will develop housing furnishings procurement policy that will be the foundation of the internal controls and oversight responsibilities. Interim completion date for establishing the requirement to order through FISC Norfolk BPAs: 30 January 2009. By January 2009, we will begin an initial review of the furnishing program. Target completion date: Implementation of internal controls through release of the housing furnishings desk guide will include a methodology for ensuring the regions are complying with the best business practices identified in this report - 30 July 2009.

3. This report does not contain any information that is deemed "For Official Use Only."

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APPENDIX: MANAGEMENT RESPONSE FROM COMMANDER, NAVY INSTALLATIONS COMMAND

Subj: CONTRACTING FOR BACHELOR HOUSING FURNISHINGS (DRAFT
AUDIT REPORT N2007-NIA000-0077)

4. For technical assistance regarding this audit please contact
██████████, CNIC N9, at ██████████. For Audit Liaison
assistance, please contact ██████████, CNIC OIG, at ██████████
██████████.

██████████

By direction

Paragraph 4 contains personally identifiable information that is exempt from release under Exemption (b)(6) of the Freedom of Information Act.

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