

Naval Audit Service



Audit Report



Selected Contracts and Contract Activities at Fleet and Industrial Supply Center Sigonella, Italy

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N2010-0008
5 February 2010

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MEMORANDUM FOR COMMANDER, FLEET AND INDUSTRIAL SUPPLY
CENTER SIGONELLA

Subj: SELECTED CONTRACTS AND CONTRACT ACTIVITIES AT FLEET
AND INDUSTRIAL SUPPLY CENTER SIGONELLA, ITALY (AUDIT
REPORT N2010-0008)

Ref: (a) NAVAUDSVC memo 7540-N2008-NMC000-0050.040, dated 6 May 08
(b) SECNAV Instruction 7510.7F, "Department of the Navy Internal Audit"

- 1. The 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 Fleet and Industrial Supply Center Sigonella (FISCSI)/Navy Regional Contracting Detachment (NRCD) Naples meet the intent of Recommendations 1-2. 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 Research, Development, Acquisition, and Logistics Audits, XXXXXXXXXXXXXXXXXXXXXXXXXXXX, with a copy to the Director, Policy and Oversight, XXXXXXXXXXXXXXXXXXXX. Please submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.
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).
4. We appreciate the cooperation and courtesies extended to our auditors.

FOIA (b)(6)



XXXXXXXXXXXXXXXXXX
Assistant Auditor General
Research, Development, Acquisition, and
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**Subj: SELECTED CONTRACTS AND CONTRACT ACTIVITIES AT FLEET
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Executive Summary

Overview

The Fleet and Industrial Supply Center Sigonella (FISCSI), located in Sicily, Italy, provides contracting, acquisition, and contract administration support and expertise to designated Naval commands as assigned by Commander, Fleet and Industrial Supply Centers (COMFISCS). FISCSI was designated as the logistics hub for Navy Region Europe in January 2005. FISCSI is one of seven FISCs reporting to COMFISCS, which is headquartered in San Diego, CA. COMFISCS is a component of the Naval Supply Systems Command (NAVSUP).

We conducted a review of contract actions awarded out of FISCSI's office and Navy Regional Contracting Detachment (NRCD) Naples. Our universe included 2,164 contracts with a total obligated amount of about \$79.9 million awarded by the Sigonella and Naples detachments of FISCSI from 1 October 2005 through 2 June 2008. From the audit universe, we judgmentally selected 293 simplified acquisition procedure (SAP) contracts¹ for audit with an obligated dollar value of about \$6.3 million. We also audited a Mediterranean ship husbanding contract with an obligated dollar value of \$180 million, about \$491,000 of which was included in our audit universe. Exhibit C provides details of our scope and methodology.

Reason for Audit

The audit objective was to verify that contracts were awarded and administered in accordance with applicable laws and regulations, and in the best interests of the Department of the Navy, at FISCSI in Sicily, Italy.

Contract administration was identified as an area of concern in the Fiscal Year (FY) 2006 Department of the Navy Risk Assessment. Also, since January 1992, the Government Accountability Office (GAO) has identified Department of Defense (DoD) contract management as a high-risk area. This area continues to be high risk, in part because effective oversight was not in place to ensure that DoD does not pay more than the value of the goods delivered and services performed. Over the past several years, the Naval

¹ "Simplified acquisition procedures" are prescribed in Federal Acquisition Regulation (FAR) Part 13 for making purchases of supplies or services. These contract methods are less demanding than those for other contracting procedures in order to reduce administrative costs, improve opportunities for small business concerns to obtain a fair proportion of Government contracts, promote efficiency and economy in contracting, and avoid unnecessary burdens for agencies and contractors.

Audit Service, GAO, and DoD Office of the Inspector General (DoDIG) reported many findings addressing the lack of proper oversight involving Department of the Navy contracts.

Noteworthy Accomplishments

Our review of the ethics program at FISCSI found that FISCSI has an effective ethics program in place. See “Conclusions” for details.

NRCD Naples conducted a Quality Assurance Self Assessment (QASA) of some of its SAP contracts prior to our arrival on site. This review revealed the same issues we later found in our audit, and NRCD Naples has since implemented the use of a web-based QASA program to improve the review process and identify specific areas on which to focus training and process improvements.

Conclusions

For 221 of the 293 contracts we audited, the Sigonella office and NRCD Naples did not provide sufficient contract solicitation and administration oversight to ensure that such things as sole source justifications and approvals, price reasonableness determinations, quotes received, public postings, contract closeouts, and all formal records of solicitation were completed and documented in accordance with applicable guidance.

Also, the Quality Assurance Surveillance Plan (QASP) provided in Naval Regional Contracting Center (NRCC) Naples Instruction 4330.1 states, on a quarterly basis, each Contracting Officer (KO) will certify to the Director of Acquisition (DOA) that all the preceding quarter’s port visits have been reviewed, that all required reports were submitted on time, and that all prices charged to the ship either were consistent with the contract pricing or were otherwise fair and reasonable. In addition, the KO will present a report for the contracts indicating total number of visits, total dollar value, the top 10 ports by visits, and the top 10 supplies and services ordered in each port by dollar value. The DOAs at each site will forward this report to the Executive Director for use in assessing performance against standards described in the NRCC Self Assessment Plan.

These conditions occurred because FISCSI was not performing contract management oversight procedures to ensure that the documentation requirements specified above, were being followed.

As a result of not performing and documenting some required contract administration duties, FISCSI limited its opportunities to realize competition benefits, and is at risk of not ensuring compliance with the terms of the contracts and safeguarding the interests of

the Department of the Navy in its contractual relationships. Also, NRCD Naples personnel did not have sufficient visibility over the husbanding contract to ensure that the contractor was performing satisfactorily, and that contractor payments were appropriate and in accordance with the contract specifications.

The following tables show issues we found with SAP contracts at the Sigonella office and NRCD Naples (some of the SAPs may have more than one error²):

Table 1. Issues with Sigonella SAPs (see Exhibit F for details).

Issue	Discrepancies
Insufficient sole source justification	1
Insufficient quote documentation	58
No record of publicly posting solicitations over \$10,000	97
Minor administrative discrepancies ³	3
Total discrepancies	159

Table 2. Issues with NRCD Naples SAPs (see Exhibit G for details).

Issue	Discrepancies
No invoices	76
Insufficient sole source justification	5
Lack of documentation for sufficient competition	26
Insufficient quote documentation	9
No record of publicly posting solicitations over \$10,000	13
Minor administrative discrepancies	15
Total discrepancies	144

Command Ethics Program. During the audit, we reviewed FISCSI’s ethics program. We determined that the command did have an effective ethics program in place in terms of the systems, processes, procedures, etc., to reasonably ensure compliance with DoD 5500.7-R, “Joint Ethics Regulation,” and Executive Order 12674, “Principles of Ethical Conduct for Government Officers and Employees.”

Communication with Management. Throughout the audit, we kept FISCSI informed of the conditions noted. Specifically, on 25 July 2008, while we were on-site at Naval Air Station Sigonella, we met with the FISCSI Executive Officer and informed her of the problems we found with the contract files. On 14 August 2008, at Naval Support Activity Naples, we briefed the Chief of Contracting on the results of our fieldwork. We sent a discussion draft of this report to FISCSI on 17 July 2009, and held meetings with them between 27 and 31 July 2009.

² In Sigonella, 165 discrepancies were found in 132 contracts; and in Naples, 151 discrepancies were found in 89 contracts.

³ Examples of minor discrepancies include files with no record of the currency conversion rate, contractor names missing from the acceptance clause, quotes found online not accounting for quantity discounts, and lack of documentation in English.

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.

Recommendations 1 and 2 address issues related to internal controls over contract oversight and administration. In our opinion, the weaknesses noted in this report may warrant reporting in the Auditor General's annual FMFIA memorandum identifying management control weaknesses to the Secretary of the Navy. Over the past several years, NAVAUDSVC, GAO, and DoDIG reported many findings addressing the lack of proper oversight involving Department of the Navy contracts. However, there have been no recommendations made to FISCSI.

Corrective Actions

We recommend FISCSI establish and implement management oversight procedures to ensure that the contracting office performs and documents contract closeouts, sole source justifications and approvals, price reasonableness determinations, quotes received, public postings, and all formal records of solicitation in accordance with applicable guidance. We also recommend that FISCSI require the contracting officer for contract number N68171-07-D-0007 to monitor and report the contractor's performance in accordance with NRCC Instruction 4330.1.

Actions planned by FISCSI/NRCD meet the intent of Recommendations 1-2 (see the Finding for more details). These recommendations are considered open pending completion of the planned corrective actions.

Section A:

Finding, Recommendations, and Corrective Actions

Finding: Contract Administration and Oversight Procedures

Synopsis

Fleet and Industrial Supply Center Sigonella's (FISCSI) Sigonella office and Navy Regional Contracting Detachment (NRCD) Naples did not provide sufficient contract solicitation and administration oversight to ensure that such things as sole source justifications and approvals, price reasonableness determinations, quotes received, public postings, contract closeouts, and all formal records of solicitation were completed and documented in accordance with applicable guidance for 221 of 293 contracts we reviewed. Also, the Quality Assurance Surveillance Plan (QASP) provided in Naval Regional Contracting Center (NRCC) Naples Instruction 4330.1 states, on a quarterly basis, each Contracting Officer (KO) will certify to the Director of Acquisition (DOA) that all the preceding quarter's port visits have been reviewed, that all reports were submitted on time, and that all prices charged to the ship either were consistent with the contract pricing or were otherwise fair and reasonable. In addition, the KO will present a report for the contracts indicating total number of visits, total dollar value, the top 10 ports by visits and the top 10 supplies and services ordered in each port by dollar value. The DOAs at each site will forward this report to the Executive Director for use in assessing performance against standards described in the NRCC Self Assessment Plan.

These conditions occurred because FISCSI was not performing contract management oversight procedures to ensure that the documentation requirements specified above, were being followed. NRCD Naples did not monitor their QASP in accordance with the NRCC Instruction 4330.1.

As a result of not performing and documenting all required contract administration duties, FISCSI limited its opportunities to realize competition benefits, and is at risk of not ensuring compliance with the terms of the contract and safeguarding the interests of the Department of the Navy (DON) in its contractual relationships. Also, NRCD Naples personnel did not have sufficient visibility over the husbanding contract to ensure that the contractor was performing satisfactorily and contractor payments were appropriate and in accordance with the contract specifications.

Audit Results

We reviewed a total of 294 contracts awarded by FISCOI, 293 of which were awarded using simplified acquisition procedures (SAPs). The remaining contract reviewed was a ship husbanding contract valued at \$180 million⁴ (see Exhibit C for the Scope and Methodology).

SAP Contracts

In order for a contract to be awarded using SAPs, the contract value must not exceed the simplified acquisition threshold, which is defined in the Federal Acquisition Regulation (FAR) Subpart 2.101 as \$100,000. However, FAR Subpart 13.5 currently authorizes, as a test program, the use of SAPs for the acquisition of commercial items when the total value of the contract is \$5.5 million or less.

Of the 293 SAP contracts reviewed, 196 were awarded by the Sigonella office and 97 were awarded out of NRCD Naples. Our review of these contracts showed that FISCOI did not provide sufficient oversight of contract solicitation and administration in 221 of 293 contracts reviewed, to ensure that contracts were being awarded and delivered in accordance with FAR, Naval Supply Systems Command (NAVSUP) Instructions, standard operating procedures, and FISCOI policy memos (see Exhibit B, “Pertinent Guidance,” for more information). Specifically, our audit disclosed opportunities for improvement in the following areas of contract solicitation and administration oversight and surveillance:

- Sole Sourcing Justifications and Approvals;
- Documentation of Quotes Received;
- Price Reasonableness Determination;
- Public Posting; and
- Contract Closeout.

These conditions occurred because FISCOI was not performing contract management oversight procedures to ensure that the documentation requirements, as discussed below, were being followed. As a result of not performing and documenting all required contract administration duties, FISCOI limited its opportunities to realize competition benefits.

⁴ The husbanding contract is discussed in the Ship Husbanding Contract section.

Sole Sourcing Justifications and Approvals

Of the 293 SAP contracts reviewed, 93 were sole-sourced. Six of the 93 either had no sole source justification or the justification was insufficient. In Sigonella, 1 of 40 sole-sourced contracts contained no justification in the contract file. In Naples, 3 of 53 sole-sourced contracts contained no sole source justification. FAR Subpart 13.501 requires that justifications and approvals for sole source SAP contracts be contained in the file. For contracts under \$500,000, the KO's certification that the justification is accurate is sufficient. The contract file must also contain a brief description of procedures used to award the contract, number of offers received, and an explanation of the award decision. According to NAVSUP Instruction 4200.85D, the KO may restrict the solicitation to only one source, providing the purchase file is properly documented with a written determination explaining, the lack of competition and how the contracting officer will determine the price to be fair and reasonable. In Naples, 2 of 53 sole source contracts reviewed had potentially invalid sole source justifications. FAR Subpart 13.106-1 allows KOs to solicit simplified acquisitions from a single source if the KO determines that the circumstances of the contract action deem only one source reasonably available. The examples FAR gives for justifying soliciting from a single source are urgent need, exclusive licensing agreement, brand name requirements, or industrial mobilization.

FAR Subpart 13.104 requires the KO to promote competition to the maximum extent practicable to obtain supplies and services from the source whose offer is the most advantageous to the Government, considering the administrative cost of a SAP. By sole sourcing 54.6 percent (53 out of 97) of the contracts we reviewed, NRCD Naples is limiting its opportunities to realize competition benefits in an open market. The majority of the contracts reviewed were for commercial items, such as laboratory supplies and computer parts, for which there should be no limitation on brand or licensing agreement. NAVSUP Instruction 4200.85D, section 5-2b outlines the competition requirements for SAPs. According to this instruction, statements such as "only known source" and "only source that can meet the delivery date" are not sufficient justifications for a sole source award. A sufficient sole source justification should offer an analysis of the requirement, the marketplace in which it is found, and the reason the product or service is the only one that will meet the Government's needs.

Documentation of Quotes Received

Of the 293 SAP contracts reviewed, 67 contracts had insufficient documentation of quotes received. NAVSUP Instruction 4200.85D outlines the documentation requirements for solicitation of SAP contracts (see Exhibit B, Pertinent Guidance).

Of the 97 SAP contracts reviewed at NRCD Naples, 88 had sufficient documentation and only 9 had insufficient documentation of quotes received. We considered quote documentation to be insufficient when the file contained only a locally prepared

spreadsheet with the bidder's name and total price. Of the 196 contracts reviewed at the Sigonella office, 58 were found to have insufficient documentation of quotes received. Of these 58 contract files, 37 contained only a locally prepared competition form listing the quoter's name and the proposed price, along with a note stating quotations were received by phone, and 21 of the contract files contained the competition form listing at least 3 quoters, but only 1 or 2 bids were actually included in the file. Without sufficient documentation of quotes received, we could not determine if the contract was awarded to the lowest bidder.

Price Reasonableness Determination

According to NAVSUP Instruction 4200.85D, regardless of the price analysis used, all purchase actions above the micro-purchase threshold of \$3,000 must be accompanied by a written determination by the KO that the awarded price was fair and reasonable. Of the 97 SAP contracts reviewed at NRCN Naples, 26 contracts were found to have no documentation of fair and reasonable price determination. All of the contracts awarded from the Sigonella office had sufficient price reasonableness documentation. Without documentation of the price analysis, it is not apparent that the KO is ensuring that the Government is getting what it pays for in terms of quality and delivery.

Public Posting

According to FAR subpart 5.101(a) (2), all solicitations expected to exceed \$10,000 must be posted either publicly or electronically for at least 10 days. FISCSI Policy Memorandum 3 prescribes European Navy Electronic Commerce Online (EuroNECO) as a means in which FISCSI has the ability to post all contract actions over \$3,000.

Of 293 contracts SAP reviewed, 183 had no issues with public posting requirements. However, none of the 97 contracts over \$10,000 reviewed at the Sigonella office had records of being publically posted. Of the 97 contracts reviewed in Naples, 13 contract files showed no evidence of the solicitation being posted on EuroNECO or any other public forum. With no documentation in the contract file, we were not able to determine whether or not the solicitation was sufficiently posted.

Contract Closeout

Of the 293 SAP contracts, 217 were properly closed out. All of the contracts were properly closed in the Sigonella office. In the Naples office, 76 of the 97 contracts reviewed, showed no documentation or indication of being closed out.

According to NAVSUP Instruction 4200.85D, contract completion documentation for SAP contracts should be minimized and limited to a statement contained in the contract file stating that the KO considers the contract closed.

The instruction states that SAP contracts can be closed when the KO receives evidence of receipt of property and final payment. A KO can also close a contract 180 days after the scheduled delivery date unless there is indication that goods or services have not yet been received. Of the 76 contracts that were not closed out, 4 contracts were from Fiscal Year (FY) 2006 and 43 contracts were from FY 2007. We conducted our review of these contracts from 28 July 2008 to 13 August 2008. All of the contracts from FYs 2006 and 2007 were 180 days past their respective delivery dates. When a contract is closed out, funds still available can be deobligated and put to other use. When a contract is not closed out in a timely manner (as soon as goods/services are received, or after 180 days unless there is an indication that the contract is not complete), the excess funds cannot be deobligated and used for other purposes, and the Navy's resources become more limited than necessary.

Ship Husbanding Contract

We reviewed the \$180 million Mediterranean ship husbanding contract, N68171-07-D-0007, awarded at FISCSI NRCD Naples. The contract was awarded in April 2007 for 1 base year and four successive 1-year option periods. We determined that NRCD Naples did not provide sufficient oversight of this contract.

Typically, the NCRD Fleet Liaison Office begins the contract administration procedures by receiving a log requirement from the ship. The log requirement lists the goods and services required for the ship-usually 10 days prior to arrival. The contractor then has 2 days to prepare the estimate based on the log requirement. The contractor will release the prices to the contracting officer for approval and forward it to the ship. The ship arrives and the supply officer verifies the supplies and services received by signing a DD Form 1449 order for supplies and services. The contractor prepares the invoice and presents it to the ship 1 day prior to departure. The supply officer gets the invoice and checks for goods and services provided. A verification process is performed to reflect the amounts charged.

A Port Visit Cost Report (PVCR) is required from the supply officer to rate the contractor's performance provided during the port visit. The PVCR must include the date, amount paid, note any problems, and rate the contractor's performance. The contractor's performance should be rated at least eighty percent for successfully providing services and supplies.

The contract specialist actually compares the Cost Reporting Analysis and Forecasting Tool (CRAFT) amounts, generated from a Government-owned Website, to the Ship's invoice for any differences. The contract specialist then informs the Fleet Liaison Officer (FLO) of any discrepancy. The FLO will investigate any discrepancy by physically visiting the ship. The KO must ensure that the husbanding contractor submits a CRAFT

Final Cost Report within 7 days of the completion of the port visit and performs the additional steps indicated below:

- Compare the PVCR and CRAFT report, to ensure that both reports contain identical items, quantities, and prices. The KO will investigate and resolve any discrepancies found between the two reports;
- Review all prices to determine that they are consistent with the contract pricing. In the case of up-priced items, the KO will determine whether the prices charged to the ship are fair and reasonable and whether there are sufficient reasons to add the items to the contract as fixed prices. If prices cannot be determined to be fair and reasonable, the KO shall take appropriate steps to recover any unreasonable charges;
- Monitor comments in the PVCRs to assure that husbanding support of the ships is acceptable and consider these comments when assessing the contractor's overall performance; and
- Identify reported costs that are based upon estimated usage (e.g. phone calls, tug charges) and assure that the estimate is closed out with an actual cost report.

Port visits and husbanding contracts must be overseen continuously to ensure that costs reported in the CRAFT reflect the charges reported by the ships. The QASP provided in NRCC Naples Instruction 4330.1 states, on a quarterly basis, each KO will certify to the Director of Acquisition (DOA) that all the preceding quarter's port visits have been reviewed, that all PVCRs and CRAFT reports were submitted on time, and that all prices charged to the ship either were consistent with the contract pricing or were otherwise fair and reasonable. In addition, the KO will present a CRAFT report for the contracts indicating total number of visits, total dollar value, the top 10 ports by visits, and the top 10 supplies and services ordered in each port by dollar value. The DOAs at each site will forward this report to the Executive Director for use in assessing performance against standards described in the NRCC Self Assessment Plan. We found that FISCSI is not assessing the contractor's performance against standards described in the NRCC Self Assessment Plan.

We also found that the KO was not certifying, on a quarterly basis, to the DOA that all the preceding quarter's port visits were reviewed, that all PVCRs and CRAFT reports were submitted on time, and that all prices charged to the ship either were consistent with the contract pricing or were otherwise fair and reasonable.

The KO did not present a CRAFT report for the contract indicating total number of visits, total dollar value, the top 10 ports by visits, and the top 10 supplies and services ordered in each port by dollar value. The KO did not perform these requirements because at FY-end 2004, NRCC converted to NRCD Naples. NRCD Naples believed that the NRCC Naples Instruction 4330.1 was cancelled. However, this instruction was not

cancelled. The last preceding quarter's port visits performed was for the period September to December FY 2005. NRCD Naples did not provide oversight for its \$180 million husbanding contract in accordance with the established QASP stated in NRCC Naples Instruction 4330.1 from FY 2006 to present. The DOAs at each site did not forward the preceding quarter's port visits reports to the Executive Director for use in assessing performance against standards described in the NRCC Self Assessment Plan.

NRCD Naples did not enforce the requirement for a QASP in conjunction with its husbanding contract because it was overlooked by the KO. Also, NRCD Naples' KO did not provide the prices charged for visits and sum the total number of visits, total dollar value, and rank the top 10 ports visited. The KO did not certify the top 10 supplies and services by dollar value.

Recommendations

Our recommendations, summarized management responses, and our comments on the responses are presented below. The complete text of FISCSI's management response, which was submitted through NAVSUP, is in the Appendix.

We recommend that FISCSI:

Recommendation 1. Establish and implement management oversight procedures to ensure that the contracting office performs and documents contract closeouts, sole source justifications and approvals, price reasonableness determinations, quotes received, public postings, and all formal records of solicitation in accordance with applicable guidance.

Management response to Recommendation 1. Concur. With regards to contract closeout, FISCSI/NRCD Naples has established a working group to standardize FISCSI closeout procedures and conduct training with the purchasing offices. The group's recommendations are expected to be identified and implemented by 30 June 2010.

With regards to sole source justifications and approvals, FISCSI/NRCD Naples will ensure completion of DoD's competition training tool by all contracting personnel by 30 June 2010. However, we do wish to note that while our FY 2009 actual competition numbers have not yet been finalized by NAVSUP, it is anticipated that FISCSI will exceed its 80 percent goal with actual competition of 83 percent. This amount compares quite favorably to the most recent 64 percent competition rate achieved by the entire DoD, as discussed in the 14 September 2009 Director, Defense Procurement and Acquisition Policy policy memo.

With regards to price reasonableness determinations, FISCSI/NRCD Naples will conduct price reasonableness training reinforcing the importance of documentation for every purchase, discussing the latest NAVSUP instructions updates located on the CKS website and targeting price reasonableness determinations as part of our Quality Assurance Self Assessment (QASA) review program. If the QASA review finds that a price justification is not in the contract file, the reviewer will require the 1102 or 1105 staff member to put the Price Reasonableness Memorandum in the file.

With regards to the documentation of quotes received, it is FISCSI/NRCD Naples intention to provide training concerning both FAR and NAVSUP file documentation requirements. To that end, documentation training will be held with all our sites at the next scheduled FISCSI Code 200 conference.

With regards to public posting, FISCSI/NRCD Naples will conduct training to reemphasize its established public posting policy provided in Policy Memorandum 03, entitled Posting to EuroNeco, dated 22 April 2008, and also addressed in its OCONUS Simplified Acquisition Procedures guidebook. The QASA system will also be used to reinforce the requirement for public posting since it is an area for review on every acquisition over \$10,000.00.

With regards to all formal records of solicitation, it is FISCSI/NRCD Naples intention to provide training concerning FAR and NAVSUP file documentation requirements. We plan to offer documentation training to all our sites at the next scheduled FISCSI Code 200 conference.

The estimated target completion date for completing all planned corrective actions on this recommendation is 30 June 2010.

Naval Audit Service comment on response to Recommendation 1. We note that contract closeouts, sole source justifications, and quotes received were a part of FISCSI/NRCD Naples QASA review implemented in January 2009. Therefore, with the addition of the items noted above, all of the contract administration issues we found will be addressed in the next QASA review scheduled for completion by 30 June 2010. Actions taken and planned meet the intent of the recommendation. Recommendation 1 considered open until action is completed by 30 June 2010.

Recommendation 2. Require the KO for contract number N68171-07-D-0007 to monitor and report the contractor's performance in accordance with NRCC Instruction 4330.1. Specifically, the contracting officer must certify to the DOA all preceding port visits have been reviewed on a quarterly basis; certify the effect of prices charged and sum the total number of visits, total dollar value, and rank the top

ten ports visited. Also, the contracting officer must certify the top ten supplies and services by dollar value.

Management response to Recommendation 2. Concur with recommendation. FISCSI and NRCD Naples are planning revisions to its own PORT VISIT AND HUSBANDING CONTRACT ADMINISTRATION PROCEDURES memo and its husbanding contracts QASP. It is anticipated that our revisions will incorporate changes in the administration and surveillance of the husbanding contracts to reflect the unique dual responsibilities of ship's Supply Officers as ordering officers when they order items priced under the husbanding contracts, and as KOs when they procure unpriced items from the husbanding contractor. It should be noted that in accordance with NAVSUP P-738, ordering officers using FISCSI contractual vehicles are "responsible for all procurement actions related to the award of the delivery/task order including any contract administration." The FISCSI QASP goal is to provide additional oversight rather than relieve the ordering officers of their responsibilities. In addition, competitive opportunities were realized through the competitive award of the contract referenced. Contracting actions executed outside the purview of the husbanding contract by ship's supply officers are solely their responsibility. The estimated target completion date for completing all planned corrective actions on this recommendation is 30 June 2010.

Naval Audit Service comment on response to Recommendation 1.

Removing the requirement for the KO to rank the top 10 port visits and certify the top 10 supplies and services by dollar values appears to be reasonable, since this information can be obtained from CRAFT if needed. Action planned meets the intent of the recommendation. Recommendation 2 considered open until action is completed by 30 June 2010.

Section B:

Status of Recommendations

Recommendations							
Finding ⁵	Rec. No.	Page No.	Subject	Status ⁶	Action Command	Target or Actual Completion Date	Interim Target Completion Date ⁷
1	1	11	Establish and implement management oversight procedures to ensure that the contracting office performs and documents contract closeouts, sole source justifications and approvals, price reasonableness determinations, quotes received, public postings, and all formal records of solicitation in accordance with applicable guidance.	O	FISCI	06/30/2010	
1	2	12	Require the KO for contract number N68171-07-D-0007 to monitor and report the contractor's performance in accordance with NRCC Instruction 4330.1. Specifically, the contracting officer must certify to the DOA all preceding port visits have been reviewed on a quarterly basis; certify the effect of prices charged and sum the total number of visits, total dollar value, and rank the top ten ports visited. Also, the contracting officer must certify the top ten supplies and services by dollar value.	O	FISCI	06/30/2010	

⁵ / + = Indicates repeat finding.

⁶ / 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.

⁷ If applicable.

Exhibit A:

Background

The Fleet and Industrial Supply Centers (FISCs) provide logistics, business, and support services to fleet, shore, and industrial commands of the Navy, Coast Guard, and Joint and Allied Forces. The supply centers provide material management, contract services, transportation and consolidated mail services, technical and customer support, defense fuel products, worldwide movement of personal property, and other logistics services.

The Commander, Fleet and Industrial Supply Centers (COMFISCS), is responsible for overseeing field operations across seven FISCs. The seven FISCs are located in:

- San Diego, CA;
- Norfolk, VA;
- Jacksonville, FL;
- Yokosuka, Japan;
- Pearl Harbor, HI;
- Sigonella, Italy; and
- Bremerton (Puget Sound), WA.

COMFISCS's mission is to operate as a single cohesive team and provide worldwide logistics services from more than 100 locations across 14 time zones. COMFISCS serves as the Administrative Contracting Offices for Regional Commander Support. COMFISCS is a component of the Naval Supply Systems Command (NAVSUP) and acts as the single point of contact in coordinating NAVSUP support for base operating support functions.

FISC Sigonella (FISCSI) was established by COMFISCS as the logistics hub of Navy Region Europe in March 2005. FISCSI delivers direct logistical support to 13 contracting offices, including one at Naval Air Station Sigonella, and one at Naval Support Activity Naples.

Exhibit B:

Pertinent Guidance

Naval Supply Systems Command (NAVSUP) Procurement Policy. NAVSUP issued supplemental procurement guidance and policy to the Federal Acquisition Regulation (FAR) guidance. It provides stricter requirements for contract administration.

NAVSUP Instruction 4200.85D states the Contracting Officer (KO) must solicit a reasonable number of quotes from qualified suppliers to promote competition to the maximum extent practicable. Sole source contracts must be accompanied by a sufficient justification.

NAVSUP Instruction 4200.85D provides that a file documenting all actions taken should be maintained for each individual purchase action regardless of which simplified acquisition method is used. Files may be maintained in any medium as long as the requirements of this paragraph are met. Each purchase file should include at least the following information:

- a. Identification of quoter, including business name, address, phone number, and point of contact;
- b. Date and time of quotation received;
- c. Quoter's business size representation;
- d. Other representations of quoter's qualifications, if applicable;
- e. Brand name and model, part or catalog number of each item quoted on;
- f. Country of origin of quoted item;
- g. Unit and extended price for each item or service;
- h. Total price of all items quoted;
- i. Proposed delivery date if different from Navy's required delivery date;
- j. Transportation terms and, if applicable, transportation charges;
- k. Quantity or trade discounts offered; if applicable;
- l. Minimum order charge, if applicable, and;
- m. Prompt payment discounts, if any.

According to NAVSUP Instruction 4200.85D, all purchase actions above the micro-purchase threshold of \$3,000 must be accompanied by a written determination by the KO, that the awarded price is fair and reasonable.

NAVSUP Instruction 4200.85D states that KOs can close contracts 180 days after the scheduled delivery date unless there is indication that goods or services have not been received.

NAVSUP Instruction 4205.3C requires that the KO annually meet with the Contracting Officer's Representative (COR) to review the COR's files and adherence to appointed duties.

Federal Acquisition Regulation (FAR). FAR establishes contract administration requirements for all Governmental contracts.

- FAR Subpart 13.104, "Promoting competition," requires that the KO must promote competition to the maximum extent practicable to obtain supplies and services from the source whose offer is the most advantageous to the Government.
- FAR Subpart 5.101, "Methods of disseminating information," provides that for proposed actions expected to exceed \$10,000, but not expected to exceed \$25,000, KOs must disseminate information on proposed contract actions by displaying in a public place, or by any appropriate electronic means, an unclassified notice of the solicitation or a copy of the solicitation. The notice must include a statement that all responsible sources may submit a response which, if timely received, must be considered by the agency. The information must be posted not later than the date the solicitation is issued, and must remain posted for at least 10 days or until after quotations have been opened, whichever is later.
- FAR Subpart 46.401, "Government Contract Quality Assurance," provides that a Quality Assurance Surveillance Plan (QASP) should be prepared in conjunction with preparation of the statement of work and should specify all work requiring surveillance and the method of surveillance.
- FAR Subpart 46.103, "Contracting Officer's Responsibilities," provides that KOs are responsible for receiving a QASP from the requesting activity when contracting for services.

Fleet and Industrial Supply Center (FISC) Sigonella Policy. FISCSI issued implementing procurement guidance and policy to FAR, Department of Defense, and NAVSUP guidance. It provides additional requirements for contract administration.

FISCSI Policy Memorandum 3 names European Navy Electronic Commerce Online (EuroNECO) as the preferred method for publicly displaying solicitations estimated at \$10,000 or more.

Exhibit C:

Scope and Methodology

Our audit was conducted from 5 May 2008 to 19 November 2009. We conducted our review of contract actions obligated by Fleet and Industrial Supply Center Sigonella (FISCSI), Italy. To identify our universe of contract actions obligated, we queried the Federal Procurement Data System – Next Generation (FPDS-NG). We considered the information obtained through this process as sufficiently reliable for the purposes of our audit of contract administration. We did not perform additional tests to validate the FPDS-NG database since it was beyond the scope of our audit. 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. Over the past several years, the Naval Audit Service, Government Accountability Office, and Department of Defense Office of the Inspector General reported many findings addressing the lack of proper oversight involving DON contracts. The previous reports did not cover the same area as this audit; therefore, no followup is required.

Our audit universe consisted of 2,164 contract actions with a total obligated amount of about \$79.9 million from 1 October 2005 through 2 June 2008. From the audit universe, we selected our audit sample by assigning risk values to all contract actions in the universe based on dollars obligated, type of contract, extent competed, solicitation year, and contracts per vendor. Based on our sample selection techniques, we judgmentally selected 293 simplified acquisition procedures (SAPs) for audit with an obligated dollar value of about \$6.3 million. We also reviewed one ship husbanding contract with an obligated dollar value of about \$180 million, about \$491,000 of which was included in our audit universe (see Exhibit E, “Contracts Reviewed”).

We identified and reviewed relevant guidance from the Federal Acquisition Regulation (FAR) and Naval Supply Systems Command (NAVSUP) instructions. We held meetings and discussions with contracting officers (KOs) at FISCSI, and gathered pertinent contract administration documentation from the KOs’ files for the contracts under review.

To determine the effectiveness and efficiency of the contract administration process, we reviewed 293 SAP contracts for compliance with established regulations. We relied on the contract administration data provided by the KOs and personnel at FISCSI. As part of our analysis, we assessed the completeness and adequacy of the contract administration documentation included in each SAP contract file. In addition, we

assessed whether the contract documentation that was provided complied with the appropriate guidance to evaluate internal controls.

Exhibit D:

Activities Visited and/or Contacted

- Commander, Fleet and Industrial Supply Centers, San Diego, CA
- Naval Supply Systems Command Inspector General, Mechanicsburg, PA
- Fleet and Industrial Supply Center Sigonella, Sicily, Italy*
- Navy Regional Contracting Detachment Naples, Naples, Italy*

* Commands visited

Exhibit E:**Contracts Reviewed**

Location	Number of contracts reviewed	Dollar value of contracts reviewed
Detachment Sigonella SAPs*	196	\$ 3,937,221.05
NRCD Naples SAPs	97	2,340,023.60
Total SAPs	293	\$ 6,277,244.65
Naples husbanding contract	1	180,935,108.30
Total contracts reviewed	294	\$187,212,352.95

* SAP = Simplified Acquisition Procedures

Exhibit F:**Issues with Sigonella Simplified Acquisition Procedures (SAPs)**

Contract number	Insufficient Sole Source Justification	Insufficient Quote Documentation	No Record of Publically Posting Solicitations Over \$10,000	Minor Administrative Discrepancies
N68171-06-P-2033			X	
N68171-06-P-2039			X	
N68171-06-P-2049		X		
N68171-06-P-2056			X	
N68171-06-P-2065			X	
N68171-06-P-2080		X	X	
N68171-06-P-2085			X	
N68171-06-P-2093			X	
N68171-06-P-2100			X	
N68171-06-P-2115			X	
N68171-06-P-2128			X	
N68171-06-P-2156			X	
N68171-06-P-2167		X		
N68171-06-P-2173		X	X	
N68171-06-P-2175		X		
N68171-06-P-2184		X		
N68171-06-P-2214			X	
N68171-06-P-2219			X	
N68171-06-P-2223		X		
N68171-06-P-2232		X		
N68171-06-P-2240			X	
N68171-06-P-2246		X		
N68171-06-P-2249		X		
N68171-06-P-2256			X	
N68171-06-P-2262			X	
N68171-06-P-2265			X	
N68171-06-P-2266			X	
N68171-06-P-2289			X	
N68171-06-P-2293		X		
N68171-06-P-2305			X	
N68171-06-P-2333		X	X	
N68171-06-P-2334			X	
N68171-06-P-2350			X	
N68171-06-P-2351			X	

Contract number	Insufficient Sole Source Justification	Insufficient Quote Documentation	No Record of Publically Posting Solicitations Over \$10,000	Minor Administrative Discrepancies
N68171-06-P-2352		X		
N68171-06-P-2356			X	
N68171-06-P-2360		X	X	
N68171-06-P-2363		X		
N68171-06-P-2367		X	X	
N68171-06-P-2369		X		
N68171-06-P-2370			X	
N68171-07-P-2022			X	
N68171-07-P-2039			X	
N68171-07-P-2041			X	
N68171-07-P-2052			X	
N68171-07-P-2055		X		
N68171-07-P-2059		X		
N68171-07-P-2071			X	
N68171-07-P-2097		X	X	
N68171-07-P-2104		X	X	
N68171-07-P-2114			X	
N68171-07-P-2121			X	
N68171-07-P-2127			X	X
N68171-07-P-2131			X	
N68171-07-P-2132		X		
N68171-07-P-2133			X	
N68171-07-P-2134		X	X	
N68171-07-P-2137			X	
N68171-07-P-2156			X	
N68171-07-P-2157			X	
N68171-07-P-2160		X		
N68171-07-P-2161			X	
N68171-07-P-2170		X	X	
N68171-07-P-2174			X	
N68171-07-P-2185		X		
N68171-07-P-2186		X	X	
N68171-07-P-2188		X		
N68171-07-P-2192		X		
N68171-07-P-2201			X	
N68171-07-P-2204			X	
N68171-07-P-2205			X	
N68171-07-P-2216			X	X
N68171-07-P-2223		X	X	
N68171-07-P-2226		X	X	
N68171-07-P-2228		X		

Contract number	Insufficient Sole Source Justification	Insufficient Quote Documentation	No Record of Publically Posting Solicitations Over \$10,000	Minor Administrative Discrepancies
N68171-07-P-2233		X		
N68171-07-P-2240		X	X	
N68171-07-P-2243		X	X	
N68171-07-P-2244		X	X	
N68171-07-P-2245		X	X	
N68171-07-P-2246			X	
N68171-07-P-2252		X		
N68171-07-P-2255			X	
N68171-07-P-2256			X	
N68171-07-P-2258			X	X
N68171-07-P-2270			X	
N68171-07-P-2274			X	
N68171-07-P-2277		X		
N68171-07-P-2279		X	X	
N68171-07-P-2286			X	
N68171-07-P-2293			X	
N68171-07-P-2299			X	
N68171-07-P-2300		X		
N68171-07-P-2305			X	
N68171-07-P-2312		X		
N68171-07-P-2314			X	
N68171-07-P-2318		X	X	
N68171-07-P-2325			X	
N68171-07-P-2328		X	X	
N68171-07-P-2331			X	
N68171-07-P-2337		X	X	
N68171-07-P-2341			X	
N68171-07-P-2345		X	X	
N68171-07-P-2350			X	
N68171-07-P-2351		X		
N68171-07-P-2356		X	X	
N68171-07-P-2357		X	X	
N68171-07-P-2364		X	X	
N68171-07-P-2372		X		
N68171-07-P-2374		X	X	
N68171-07-P-2378		X		
N68171-07-P-2379			X	
N68171-07-P-2382		X		
N68171-08-F-2019	X			
N68171-08-P-2004			X	
N68171-08-P-2013			X	

Contract number	Insufficient Sole Source Justification	Insufficient Quote Documentation	No Record of Publically Posting Solicitations Over \$10,000	Minor Administrative Discrepancies
N68171-08-P-2022			X	
N68171-08-P-2023			X	
N68171-08-P-2028			X	
N68171-08-P-2035			X	
N68171-08-P-2038			X	
N68171-08-P-2044			X	
N68171-08-P-2045			X	
N68171-08-P-2051				
N68171-08-P-2052		X		
N68171-08-P-2064				
N68171-08-P-2066			X	
N68171-08-P-2119		X	X	
N68171-08-P-2125				
N68171-08-P-2144			X	
N68171-08-P-2148		X		
N68171-08-P-2150		X	X	
TOTAL	1	58	97	3

Exhibit G:**Issues with Naples Simplified Acquisition Procedures (SAPs)**

Contract number	No Contract Closeout	Insufficient Sole Source Justification	Lack of Doc. for Sufficient Competition	Insufficient Quote Doc.	No Record of Publically Posting Solicitations over \$10K	Minor Admin. Discrepancies
N68171-06-C-0033	X					X
N68171-06-F-0033						
N68171-06-P-0027	X					
N68171-06-P-0063						
N68171-06-P-0103						
N68171-06-P-0169						
N68171-06-P-0231	X					
N68171-06-P-0232	X					
N68171-07-C-0009	X					X
N68171-07-C-0023	X					
N68171-07-C-0033	X		X			
N68171-07-C-H001	X					
N68171-07-D-0012	X		X			
N68171-07-F-0040	X					
N68171-07-F-0058	X					
N68171-07-F-8106	X					
N68171-07-G-0002	X		X			X
N68171-07-G-0006	X		X			X
N68171-07-G-0008	X		X			X
N68171-07-G-0016	X		X			X
N68171-07-P-0001					X	
N68171-07-P-0005						
N68171-07-P-0006	X					
N68171-07-P-0008	X					
N68171-07-P-0013	X					
N68171-07-P-0015	X			X		
N68171-07-P-0018	X	X				
N68171-07-P-0029	X					
N68171-07-P-0031	X					
N68171-07-P-0032		X				
N68171-07-P-0033	X		X			
N68171-07-P-0036	X		X			
N68171-07-P-0042	X					
N68171-07-P-0044	X					

Contract number	No Contract Closeout	Insufficient Sole Source Justification	Lack of Doc. for Sufficient Competition	Insufficient Quote Doc.	No Record of Publically Posting Solicitations over \$10K	Minor Admin. Discrepancies
N68171-07-P-0051	X		X		X	
N68171-07-P-0055			X			
N68171-07-P-0056	X					
N68171-07-P-0060						
N68171-07-P-0068	X					
N68171-07-P-0072						X
N68171-07-P-0073	X					
N68171-07-P-0077						
N68171-07-P-0086	X			X		
N68171-07-P-0101	X				X	
N68171-07-P-0102	X					X
N68171-07-P-0103	X					
N68171-07-P-0108					X	
N68171-07-P-0110					X	
N68171-07-P-0121			X	X	X	
N68171-07-P-0122	X					
N68171-07-P-0123	X					
N68171-07-P-0135	X		X			
N68171-07-P-0137					X	
N68171-07-P-0151						
N68171-07-P-0159					X	
N68171-07-P-0170	X				X	
N68171-07-P-0175	X					
N68171-07-P-0176	X					
N68171-07-P-0185	X					
N68171-07-P-0186	X					
N68171-07-P-0190	X		X		X	
N68171-07-P-0191	X		X		X	
N68171-07-P-0195	X					
N68171-07-P-8011	X					
N68171-08-F-0001	X		X	X		
N68171-08-F-0002	X	X	X	X		
N68171-08-P-0003	X		X			X
N68171-08-P-0002			X			
N68171-08-P-0007	X					
N68171-08-P-0010	X			X		
N68171-08-P-0016	X		X			
N68171-08-P-0017	X		X		X	
N68171-08-P-0018	X		X			
N68171-08-P-0019	X		X			
N68171-08-P-0021	X					
N68171-08-P-0023	X		X			X

Contract number	No Contract Closeout	Insufficient Sole Source Justification	Lack of Doc. for Sufficient Competition	Insufficient Quote Doc.	No Record of Publically Posting Solicitations over \$10K	Minor Admin. Discrepancies
N68171-08-P-0024	X	X	X			
N68171-08-P-0027	X					X
N68171-08-P-0028	X				X	
N68171-08-P-0032	X					
N68171-08-P-0033	X					
N68171-08-P-0034	X					
N68171-08-P-0037	X					X
N68171-08-P-0039						
N68171-08-P-0044						
N68171-08-P-0047	X					
N68171-08-P-0048	X		X	X		X
N68171-08-P-0051	X					
N68171-08-P-0052	X			X		
N68171-08-P-0054	X					
N68171-08-P-0055	X			X		
N68171-08-P-0059	X					
N68171-08-P-0064	X					
N68171-08-P-0065		X	X			
N68171-08-P-0069	X					
N68171-08-P-0078	X					X
N68171-08-P-0096	X					X
TOTAL	76	5	26	9	13	15

Appendix:

Management Response From Naval Supply Systems Command/Fleet and Industrial Supply Center Sigonella



DEPARTMENT OF THE NAVY
NAVAL SUPPLY SYSTEMS COMMAND
3450 CARUSLE PIKE
PO BOX 2050
MECHANICSBURG PA 17055-0791

TELEPHONE NUMBER
COMMERCIAL
AUTOVON
IN REPLY REFER TO:
N2009-0140
SUP 91A
28 Jan 2010

From: Commander, Naval Supply Systems Command
To: Assistant Auditor General for Research, Development,
Acquisition and Logistics Audits

Subj: NAVAL AUDIT SERVICE DRAFT AUDIT REPORT ON SELECTED
CONTRACTS AND CONTRACT ACTIVITIES AT FLEET AND
INDUSTRIAL SUPPLY CENTER SIGONELLA, ITALY
(N2009-NAA000-0140)

Ref: (a) NAVAUDSVC memo 7510/N2009-NAA000-0140 of
19 Nov 09
(b) NAVSUP ltr N2009-0140 SUP 91A of 22 Dec 09

Encl: (1) NAVSUP comments to subject draft audit report

1. We have reviewed reference (a), and enclosure (1) provides our comments to Finding 1 and Recommendations 1 and 2. We are providing revised comments to Recommendation 2 based on questions that you had after we initially provided comments to Finding 1 and Recommendations 1 and 2 under reference (b).

2. Our point of contact for this audit is [redacted] email: [redacted] Please call or e-mail [redacted] if you have questions. Thank you for your support.

[redacted]
By direction:

Copy to:
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FOIA (b)(6)

FOIA (b)(6)

**NAVAL SUPPLY SYSTEMS COMMAND COMMENTS ON
NAVAL AUDIT SERVICE DRAFT AUDIT REPORT N2009-NAA000-0140
OF 19 NOVEMBER 2009 ON SELECTED CONTRACTS AND CONTRACT
ACTIVITIES AT FLEET AND INDUSTRIAL SUPPLY CENTER SIGONELLA,
ITALY**

Finding 1:

Fleet and Industrial Supply Center Sigonella's (FISCSI) Sigonella office and Navy Regional Contracting Detachment (NRCD) Naples did not provide sufficient contract solicitation and administration oversight to ensure that such things as sole source justifications and approvals, price reasonableness determinations, quotes received, public postings, contract closeouts, and all formal records of solicitation were completed and documented in accordance with applicable guidance for 221 of 293 contracts we reviewed. Also, the Quality Assurance Surveillance Plan (QASP) provided in Naval Regional Contracting Center (NRCC) Naples Instruction 4330.1 states, on a quarterly basis, each Contracting Officer (KO) will certify to the Director of Acquisition (DOA) that all the preceding quarter's port visits have been reviewed, that all reports were submitted on time, and that all prices charged to the ship either were consistent with the contract pricing or were otherwise fair and reasonable. In addition, the KO will present a report for the contracts indicating total number of visits, total dollar value, the top ten ports by visits and the top ten supplies and services ordered in each port by dollar value. The DOAs at each site will forward this report to the Executive Director (ED) for use in assessing performance against standards described in the NRCC Self Assessment Plan.

These conditions occurred because FISCSI was not performing contract management oversight procedures to ensure that the documentation requirements specified above, were being followed. NRCD Naples did not monitor their QASP in accordance with the NRCC Instruction 4330.1

As a result of not performing and documenting all required contract administration duties, FISCSI limited its opportunities to realize competition benefits, and is at risk of not ensuring compliance with the terms of the contract and safeguarding the interests of the Department of the Navy (DON) in its contractual relationships. Also, NRCD Naples personnel did not have sufficient visibility over the husbanding contract to ensure that the contractor was performing satisfactorily and contractor

ENCLOSURE(1)

payments were appropriate and in accordance with the contract specifications.

**Fleet and Industrial Supply Center Sigonella (FISCSI)/Navy
Regional Contracting Detachment (NRCD) Naples comment**

Concur with the finding.

Recommendation 1

We recommend that the Commander, Fleet and Industrial Supply Center Sigonella establish and implement management oversight procedures to ensure that the contracting office performs and documents contract closeouts, sole source justifications and approvals, price reasonableness determinations, quotes received, public postings, and all formal records of solicitation in accordance with applicable guidance.

**Fleet and Industrial Supply Center Sigonella (FISCSI)/Navy
Regional Contracting Detachment (NRCD) Naples comment**

Concur with the recommendation.

With regards to contract closeout, FISCSI/NRCD Naples has established a working group to standardize FISCSI closeout procedures and conduct training with all the purchasing offices. The group's recommendations are expected to be identified and implemented by 30 June 2010.

With regards to sole source justifications and approvals, FISCSI/NRCD Naples will ensure completion of DoD's competition training tool by all contracting personnel by 30 June 2010. However, we do wish to note that while our FY 2009 actual competition numbers have not yet been finalized by NAVSUP, it is anticipated that FISCSI will exceed its 80 percent goal with actual competition of 83 percent. This amount compares quite favorably to the most recent 64 percent competition rate achieved by the entire Department of Defense (DoD) as discussed in the 14 September 2009 Director, Defense Procurement and Acquisition Policy (DPAP) policy memo.

With regards to price reasonableness determinations, FISCSI/NRCD Naples will conduct price reasonableness training reinforcing the importance of documentation for every purchase, discussing the latest NAVSUP instructions updates located on the CKS website, and targeting price reasonableness determinations as part of our Quality Assurance Self Assessment (QASA) review program. If the QASA review finds that a price justification is

not in the contract file, the reviewer will require the 1102 or 1105 staff member to put the Price Reasonableness Memorandum in the file.

With regards to the documentation of quotes received, it is FISCSCI/NRCD Naples intention to provide training concerning both FAR and NAVSUP file documentation requirements. To that end, documentation training will be held with all our sites at the next scheduled FISCSCI Code 200 conference.

With regards to public posting, FISCSCI/NRCD Naples will conduct training to reemphasize its established public posting policy provided in Policy Memorandum 03 entitled Posting to EuroNeco dated 22 April 2008, and also addressed in its OCONUS Simplified Acquisition Procedures guidebook. The QASA system will also be used to reinforce the requirement for Public posting since it is an area for review on every acquisition over \$10,000.00.

With regards to all formal records of solicitation, it is FISCSCI/NRCD Naples intention to provide training concerning FAR and NAVSUP file documentation requirements. We plan to offer documentation training to all our sites at the next scheduled FISCSCI Code 200 conference.

The estimated target completion date for completing all planned corrective actions on this recommendation is 30 June 2010.

Recommendation 2

We recommend that the Commander, Fleet and Industrial Supply Center Sigonella require the KO for contract number N68171-07-D-0007 to monitor and report the contractor's performance in accordance with NRCC Instruction 4330.1. Specifically, the contracting officer must certify to the DOA all preceding port visits have been reviewed on a quarterly basis; certify the effect of prices charged and sum the total number of visits, total dollar value, and rank the top ten port visited. Also, the contracting officer must certify the top ten supplies and services by dollar value.

Fleet and Industrial Supply Center Sigonella (FISCSCI)/Navy Regional Contracting Detachment (NRCD) Naples comment

Concur with the recommendation. On 20 January 2010, FISCSCI placed Policy Memo (PM) #20A in effect (See Attachment A). PM #20A revised Port Visit and Husbanding Contract Administration Procedures and implemented a consistent and uniform approach in the administration of port visits under the husbanding contracts

awarded and administered by FISCSI Code 200 and all associated Detachments and Sites. PM #20A cancels and supersedes Navy Regional Contracting Center (NRCC) Instruction 4330.1 and PM #20 of 27 November 2009. NRCC Instruction 4330.1 only provided minimal benefit to the husbanding contract process in comparison to the total resources expended. PM #20A has removed the requirement for the contracting officer to make after the fact "price reasonableness determinations" on contracts awarded outside the scope of the husbanding contract by contracting officers' exercising their authority. PM #20A now requires the contracting officer for the husbanding contract to assist the Fleet Supply Officers (SUPPOs) in determining price reasonableness if such support is requested.

Specifically, the PM #20A revisions consist of the contracting officer certifying to the Director of Acquisition (DOA) that all preceding port visits have been reviewed on a quarterly basis, certify the effect of prices charged, sum the total number of visits, and total the dollar value of site visits. Removed from PM #20A is the requirement to rank the top ten port visits and to certify the top ten supplies and services by dollar values. These were NRCC internal requirements that in our opinion did not add much value to the process. This information can be obtained from the Cost Reporting and Forecasting Tool (CRAFT) if needed.

The contracting officer for contract number N68171-07-D0007 will monitor and report the contractor's performance in accordance with PM #20A. Specifically, the contracting officer will certify to the DOA all preceding port visits have been reviewed on a quarterly basis, certify the effect of prices charged, sum the total number of visits, and total the dollar value of site visits.

The estimated target completion date for completing all planned actions on contract number N68171-07-D0007 is 30 June 2010.



**DEPARTMENT OF THE NAVY
FLEET AND INDUSTRIAL SUPPLY CENTER SIGONELLA
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IN REPLY REFER TO:
4200
Ser 205P1/0065
PM# 20A
20 Jan 10

From: Commanding Officer, Fleet and Industrial Supply Center Sigonella

Subj: PORT VISIT AND HUSBANDING CONTRACT ADMINISTRATION
PROCEDURES

1. Purpose. The purpose of this policy memo is to develop a consistent and uniform approach for the administration of port visits under the husbanding contracts awarded and administered by the Fleet and Industrial Supply Center Sigonella (FISCSI) Code 200 and all Detachments and Sites.

2. Cancellation. This change cancels and supersedes NRCC NAPLESINST 4330.1 and PM #20 dated 27 Nov 09.

3. Background. Port visits and husbanding contracts must be overseen continuously to assure that:

a) The costs reported in the Cost Reporting Analysis and Forecasting Tool (CRAFT)/ Logistics Support Services Repository (LogSSR) reflect the charges reported by the ships in their Port Visit Cost Reports (PVCR) [when required];

b) Prices charged by husbanding contractors are consistent with the contract pricing;

c) Items not covered by the contract are charged at fair and reasonable prices;

d) Unpriced items are converted to fixed prices when appropriate (i.e.. their dollar amounts or order frequencies require it);

e) Invoice prices based upon estimates are reconciled against actual costs; and

f) Opportunities for fleet cost savings or avoidances are considered.

4. Responsibilities. The Directors of Acquisition and the detachment Officers in Charge will ensure that their Fleet Liaison Offices (FLO) and Contracting Officers (KO) review all port visits to assure compliance with the procedures set out below. The KO who signs the contract is

Attachment A

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responsible for appointing and overseeing the Contracting Officer Representative (COR)'s performance of duties.

5. Procedures:

a. The FLO at each site will:

(1) Forward a copy of the unclassified (UNCLAS) logistics requisition (LOGREQ) and UNCLAS LOGREQ cancellation messages to the KO;

(2) Maintain a list of all LOGREQs identifying upcoming port visits;

(3) Maintain a listing of all port visits showing a LOGREQ's cancellation or a PVCRC that "closed out" the LOGREQ;

(4) Forward a copy of the LOGREQ cancellation or PVCRC to the KO;

(5) Contact the ship's Supply Officer if it is necessary to resolve any issues involving the PVCRCs or the contractor's CRAFT/LogSSR reports;

(6) Process the payment of submarine port visits and resolve any outstanding payment or performance issues.

b. The KO shall:

(1) Ensure that the husbanding contractor submits a CRAFT/LogSSR Estimated Report within two (2) days of the receipt of the LOGREQ;

(2) Review all prices on the CRAFT/LogSSR Estimate Report to determine that they are consistent with the contract's pricing. When requested by the Supply Officer, the KO will request the necessary documentation to verify that the competition process was followed for each unpriced item arranged for/procured by the ship, or, in the event that competition did not take place, to document why there was no competition. If prices cannot be determined to be fair and reasonable, the KO shall notify the KO under whose authority the item was ordered so that they may take appropriate steps to recover any unreasonable charges;

(3) Determine whether there is sufficient rationale to add previously ordered unpriced items to the contract as fixed prices;

(4) Compare the two reports, PVCRC and CRAFT/LogSSR Final Cost Reports, to ensure that both reports contain identical quantities and prices for the high cost items. The KO will investigate and resolve any discrepancies found between the two reports;

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(5) Monitor comments in the PVCs to assure that husbanding support of the ship is acceptable. Any negative comments will be investigated by the KO who will resolve any disputes;

(6) Track the costs based upon estimated quantities and reported by the contractor on Disbursement of Account as "to be reconciled";

(7) Monitor the contractor's overall performance. The contractor's performance is based on the following performance standards:

- a) timely submission of Cost Reporting Analysis and Forecasting Tool (CRAFT) estimates;
- b) timely submission of Cost Reporting Analysis and Forecasting Tool (CRAFT) actual (final) cost report;
- c) accuracy of the actual (final) CRAFT report compared to the ship's port visit cost report;
- d) ship's satisfaction of the contractor's services during the port visit as identified in the ship's port visit cost report, and
- e) timely submission of all necessary documentation required to support the competition process for all unpriced items arranged for/procured by the ship in excess of the micro purchase threshold per line item or per order;

(8) Annually assess contractor's performance in the Contractor Performance Assessment Reporting System (CPARS).

(9) On a quarterly basis, certify to the Director of Acquisition (DOA) that all the preceding quarter's port visits have been reviewed, that all PVCs and CRAFT/LogSSR reports were submitted on time, and that all prices charged to the ship either were consistent with the contract pricing. In addition advise the DOA of instances where a ship Supply Officer requested assistance.

(10) Appoint the COR in accordance with NAVSUPINST 4205.3 (series).

c. The COR shall:

- (1) Provide technical advice and clarifications of the specifications/statement of work;
- (2) Monitor contractor performance to ensure performance in accordance with the contract statement of work and terms and conditions;
- (3) Maintain a file containing documentation relative to the action taken as a COR;

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(4) When it is required, review Contractor's invoices and complete and sign the Contractor Invoice Review Form and insert it in the COR file.

(5) Quarterly submit to the KO a written report which addresses the Contractor's performance.

(6) Complete a Contractor Performance Assessment Report (CPAR) in the Contractor Performance Assessment Reporting System (CPARS). The initial CPAR must reflect evaluation of at least 180 days of performance under the contract.

6. The FISCSI point of contact is [REDACTED] who can be reached via email at [REDACTED] or by phone at [REDACTED] or Commercial [REDACTED]

[REDACTED]
[REDACTED]
By direction

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