



INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 7, 2016



Fleet Logistics Center Norfolk Price Reasonableness Determinations for Federal Supply Schedule Orders for Supplies Need Improvement

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Results in Brief

Fleet Logistics Center Norfolk Price Reasonableness Determinations for Federal Supply Schedule Orders for Supplies Need Improvement

December 7, 2016

Objective

We determined whether Navy contracting officers made determinations of fair and reasonable pricing for General Services Administration (GSA) Federal supply schedule orders awarded for purchases of supplies. The Federal supply schedule program allows the Government to purchase commercial supplies and services at prices associated with volume buying. We reviewed a nonstatistical sample of 35 orders, valued at \$28.8 million, at the U.S. Naval Supply Systems Command Fleet Logistics Center (FLC) Norfolk. This is the second in a series of audits on GSA Federal supply schedule orders.

Finding

FLC Norfolk contracting personnel made adequate price reasonableness determinations for 14 orders, valued at \$7.8 million, of 35 orders, valued at \$28.8 million. Specifically, contracting personnel compared the prices from two quotes for six orders, valued at \$1.6 million, and compared single quotes to specific historical and market research information for eight orders, valued at \$6.2 million. Contracting personnel also documented that the prices paid for the 14 orders were fair and reasonable.

Finding (cont'd)

However, contracting personnel did not adequately document and support whether the prices paid for 21 orders,¹ valued at \$21 million, were fair and reasonable. Specifically:

- For 16 orders, contracting personnel relied on vendor price lists and blanket purchase agreement price lists of the same vendor that submitted the only quote. Contracting personnel stated that the GSA vendor was the only authorized reseller of the supplies purchased or the only source capable of providing the supplies, and that the GSA had already determined that Federal supply schedule price lists were fair and reasonable. In addition, the Navy contracting officer who awarded the blanket purchase agreements had already determined that the prices were fair and reasonable, and performing price analysis for orders awarded under blanket purchase agreements would not be productive because contracting personnel were required to use the blanket purchase agreements for the type of supplies purchased. However, DoD guidance² requires DoD contracting officers to make determinations of fair and reasonable pricing for GSA Federal supply schedule orders.
- For 4 orders, contracting personnel relied on historical information that was not specifically identified. Contracting personnel stated that this was an oversight.
- For 6 orders, contracting personnel relied on inadequate independent Government estimates that did not identify the sources of the information as required by a Defense Procurement and Acquisition Policy memorandum. This occurred because contracting personnel relied on the expertise of the preparers of the independent Government estimate rather than requesting the preparers to document and support the basis of the estimate.

¹ Each of the 21 orders had one or more of the identified problems.

² Director, Defense Procurement and Acquisition Policy, memorandum, "Class Deviation—Determination of Fair and Reasonable Prices When Using Federal Supply Schedule Contracts," March 13, 2014.



Results in Brief

Fleet Logistics Center Norfolk Price Reasonableness Determinations for Federal Supply Schedule Orders for Supplies Need Improvement

Finding (cont'd)

- For 8 orders, contracting personnel did not document whether the prices paid were fair and reasonable as required by the Federal Acquisition Regulation and the class deviation from the Federal Acquisition Regulation, that requires contracting personnel to make determinations of fair and reasonable pricing for GSA Federal supply schedule orders for supplies and fixed-price services. Contracting personnel stated that this was an oversight.

In addition, FLC Norfolk did not have standard operating procedures for making price reasonableness determinations and performing price analysis for orders of supplies. As a result, FLC Norfolk customers may have paid more than they should have for the supplies purchased.

Recommendation

We recommend that the Commander, FLC Norfolk, develop and implement standard operating procedures for making price reasonableness determinations and performing price analysis for GSA Federal supply schedule orders for supplies and train contracting personnel on the procedures.

Management Comments and Our Response

The Commander, FLC Norfolk, addressed all specifics of the recommendations, and no further comments are required. Please see the Recommendation Table on the next page.

Recommendation Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Commander, Fleet Logistics Center Norfolk		1.a, 1.b





**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

December 7, 2016

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
NAVAL INSPECTOR GENERAL
COMMANDER, U.S. NAVAL SUPPLY SYSTEMS
COMMAND, FLEET LOGISTICS CENTER NORFOLK

SUBJECT: Fleet Logistics Center Norfolk Price Reasonableness Determinations for
Federal Supply Schedule Orders for Supplies Need Improvement
(Report No. DODIG-2017-031)

We are providing this report for your information and use. Contracting personnel from the Fleet Logistics Center Norfolk made adequate price reasonableness determinations for 14 orders, valued at \$7.8 million, of 35 orders, valued at \$28.8 million. However, they did not adequately document and support whether the prices paid for 21 orders, valued at \$21 million, were fair and reasonable. As a result, Fleet Logistics Center Norfolk customers may have paid more than they should have for the supplies purchased. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. Comments from the Commander, Fleet Logistics Center Norfolk, conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9187 (DSN 664-9187).

A handwritten signature in blue ink, appearing to read "M. Roark", is positioned above the typed name.

Michael J. Roark
Assistant Inspector General
Contract Management and Payments



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Introduction

Objective

We determined whether U.S. Navy contracting officers made determinations of fair and reasonable pricing for General Services Administration (GSA) Federal supply schedule (FSS) orders awarded for purchases of supplies. See Appendix A for scope, methodology, and prior coverage. We focused on GSA FSS orders awarded by U.S. Naval Supply Systems Command (NAVSUP) Fleet Logistics Center (FLC) Norfolk. This is the second in a series of audits on GSA FSS orders awarded for purchases of supplies. In a previous DoD OIG report³ on price reasonableness determinations for FSS orders for supplies at U.S. Army Engineering and Support Center, Huntsville, in Huntsville, Alabama, we reviewed 33 orders, valued at \$13.6 million. For 25 of those orders, valued at \$10 million, contracting personnel did not adequately document and support their price reasonableness determinations.

Use of Federal Supply Schedules

The GSA FSS program allows the Government to purchase commercial supplies and services at prices associated with volume buying. Through the program, the GSA awards indefinite-delivery contracts⁴ to provide supplies and services at discounted prices for the term of the contract. The Federal Acquisition Regulation (FAR)⁵ states that GSA has already determined that the prices of supplies and fixed-price services, as well as rates for services offered at hourly rates, under FSS schedule contracts are fair and reasonable. Therefore, ordering activities are not required to make a separate price reasonableness determination for individual orders placed against the indefinite-delivery contracts.

Class Deviation

The Director, Defense Procurement and Acquisition Policy, issued, “Class Deviation–Determination of Fair and Reasonable Prices When Using Federal Supply Schedule Contracts,” (class deviation)⁶ on March 13, 2014. The class deviation, a deviation

³ Report No. DODIG-2016-069, “U.S. Army Engineering and Support Center, Huntsville, Price Reasonableness Determinations for Federal Supply Schedule Orders for Supplies Need Improvement,” March 29, 2016.

⁴ According to FAR 16.501-2, there are three types of indefinite-delivery contracts: definite-quantity contracts, requirements contracts, and indefinite-quantity contracts. These types of contracts are used when GSA cannot determine the precise times and/or precise quantities of supplies or services that the Government will require during the contract period.

⁵ FAR Part 8, “Required Sources of Supplies,” Subpart 8.4, “Federal Supply Schedules,” 8.404(d), “Pricing.”

⁶ FAR 1.401(a) defines a deviation as the issuance or use of a policy, procedure, solicitation provision, contract clause, method, or practice of conducting acquisition actions of any kind at any state of the acquisition process that is inconsistent with the FAR. FAR 1.404 defines a class deviation as a deviation that affects more than one contract action.

from FAR 8.404(d), requires DoD contracting personnel to make determinations of fair and reasonable pricing for GSA FSS orders (hereafter referred to as orders) for supplies and fixed price services. The class deviation states:

Supplies offered on the schedule are listed at fixed prices. Services offered on the schedule are priced either at hourly rates, or at a fixed price for performance of a specific task (e.g., installation, maintenance, and repair). GSA has determined the prices of supplies and fixed-price services, and rates for services offered at hourly rates, to be fair and reasonable for the purpose of establishing the schedule contract. GSA's determination does not relieve the ordering activity contracting officer from the responsibility of making a determination of fair and reasonable pricing for individual orders, BPAs [blanket purchase agreements], and orders under BPAs, using the proposal analysis techniques at 15.404-1. The complexity and circumstances of each acquisition should determine the level of detail of the analysis required.

The class deviation remains in effect until its requirements are incorporated in the Defense Federal Acquisition Regulation Supplement or it is otherwise rescinded.

U.S. Naval Supply Systems Command

NAVSUP provides support to customers around the world along three main business lines: Weapon Systems Support, Global Logistics Support, and Sailor and Family Support. NAVSUP Global Logistics Support provides Navy, Marine Corps, and joint and allied forces with operational logistics capabilities via a network of eight subordinate NAVSUP FLCs based around the world (Norfolk, Virginia, California, Florida, Hawaii, Washington, Japan, Italy, and Bahrain). NAVSUP Global Logistics Support performs the following roles:

- manages NAVSUP FLC operations including contracting, fuels, global logistics services, hazardous material management, household goods movement support, integrated logistics support, material management, postal, regional transportation, warehousing, logistics operations, and ammunition; and
- provides base supply support for Navy installations worldwide.

During this audit, we visited two sites under the operational control of NAVSUP FLC Norfolk.

Fleet Logistics Center Norfolk, Philadelphia Site

FLC Norfolk, Philadelphia site, Philadelphia, Pennsylvania, provides technical assistance, guidance, and other aspects of functional management for acquisitions to field activities throughout the eastern United States.

Fleet Logistics Center Norfolk, Mechanicsburg Site

FLC Norfolk, Mechanicsburg site, Mechanicsburg, Pennsylvania, performs all aspects of procurement from receipt of a requirements package for a procurement to award of a contract in support of information technology procurements, including commercial hardware, software, and related support services.

Orders Reviewed

We used the Federal Procurement Data System–Next Generation (FPDS-NG)⁷ to identify the universe of orders for supplies awarded by Navy contracting personnel from March 14, 2014, through March 14, 2016. The universe consisted of 656 orders, valued at \$323 million. We selected FLC Norfolk because, according to FPDS-NG, its contracting officers awarded more orders after receiving only one quote in response to a request for quotation than any other Navy contracting office. We nonstatistically selected 35 FLC Norfolk orders, valued at \$28.8 million, for review.⁸ The 35 orders consisted of 25 orders, valued at \$20.9 million, from FLC Norfolk, Philadelphia site, and 10 orders, valued at \$7.9 million, from FLC Norfolk, Mechanicsburg site. See Appendix B for a list of the 35 orders reviewed.

Review of Internal Controls

DoD Instruction 5010.40⁹ requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified an internal control weakness with FLC Norfolk contracting personnel because they did not document or support their price reasonableness determinations. We will provide a copy of the report to the senior official responsible for internal controls at FLC Norfolk.

⁷ FPDS-NG is a web-based tool that contracting personnel use to report contract actions.

⁸ We nonstatistically selected 17 orders, valued at \$17.6 million, involving 1 quote that FLC Norfolk, Philadelphia site, contracting personnel awarded and 10 orders, valued at \$7.9 million, involving 1 quote that FLC Norfolk, Mechanicsburg site, contracting personnel awarded, of 46 orders, valued at \$31.6 million, involving 1 quote for review. We also reviewed 8 orders, valued at \$3.3 million, involving 2 quotes that FLC Norfolk, Philadelphia site, contracting personnel awarded.

⁹ DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” May 30, 2013.

Finding

FLC Norfolk Contracting Personnel Did Not Always Make Adequate Fair and Reasonable Price Determinations

FLC Norfolk contracting personnel made adequate price reasonableness determinations for 14 orders, valued at \$7.8 million, of 35 orders, valued at \$28.8 million. Specifically, contracting personnel compared the prices from two quotes¹⁰ for six orders, valued at \$1.6 million, and compared single quotes to specific historical and market research information for eight orders, valued at \$6.2 million. Contracting personnel also documented that the prices paid for the 14 orders were fair and reasonable.

However, FLC Norfolk contracting personnel did not adequately document and support whether the prices paid for 21 orders,¹¹ valued at \$21 million, were fair and reasonable. Specifically:

- For 16 orders, contracting personnel relied on vendor price lists and blanket purchase agreement (BPA) price lists of the same vendor that submitted the only quote. Contracting personnel stated that the GSA vendor was the only authorized reseller of the supplies purchased or the only source capable of providing the supplies, and that the GSA had already determined that FSS price lists were fair and reasonable. In addition, the Navy contracting officer who awarded the BPAs had already determined that the prices were fair and reasonable, and performing price analysis for orders awarded under BPAs would not be productive because contracting personnel were required to use the BPAs for the type of supplies purchased.
- For 4 orders, contracting personnel relied on historical information that was not specifically identified. FLC Norfolk contracting personnel stated that this was an oversight.
- For 6 orders, contracting personnel relied on inadequate independent Government estimates (IGEs) that did not identify the sources of the information because contracting personnel relied on the expertise of the preparers of the IGE rather than requesting the preparers to document and support the basis of the estimate.

¹⁰ FAR subpart 8.4, uses the term “quote” to refer to offers made by prospective vendors competing for orders placed under the GSA FSS. However, the class deviation requires contracting officers to use the price analysis techniques under FAR 15.404-1, which uses the term “proposal.” In this report, we use the term “quote” in reference to the offers received for the 35 orders we reviewed.

¹¹ Each of the 21 orders had one or more of the identified problems.

- For 8 orders,¹² contracting personnel did not document whether the prices paid were fair and reasonable. Contracting personnel stated that this was an oversight.

In addition, FLC Norfolk did not have standard operating procedures for making price reasonableness determinations and performing price analysis for orders of supplies.¹³ As a result, FLC Norfolk customers may have paid more than they should have for the supplies purchased.

Price Reasonableness Determinations Were Made and Supported for 14 Orders

FLC Norfolk contracting personnel adequately documented and supported that the prices paid were fair and reasonable for 14 orders, valued at \$7.8 million.

FLC Norfolk contracting personnel adequately documented and supported that the prices paid were fair and reasonable for 14 orders, valued at \$7.8 million, of 35 orders, valued at \$28.8 million. Specifically, FLC Norfolk, Philadelphia site, awarded 11 orders and FLC Norfolk, Mechanicsburg site, awarded the other 3 orders. For six orders, valued at \$1.6 million, contracting personnel performed price analysis by comparing two quotes to substantiate that the prices paid were fair and reasonable. For eight orders, valued at \$6.2 million, contracting personnel performed price analysis by comparing single quotes to specific historical prices and specific market research. The FAR¹⁴ states that the Government may use these price analysis techniques to ensure a fair and reasonable price. Contracting personnel also documented that the prices paid for the 14 orders were fair and reasonable. The class deviation requires contracting personnel to make price reasonableness determinations and perform price analysis using the price analysis techniques found in FAR 15.404-1. The price analysis techniques include comparing quotes to (1) other proposed prices, (2) historical prices paid, (3) published price lists, (4) IGEs, and (5) prices obtained through market research.

For example, order N00189-15-F-Z084 demonstrated how the contracting officer complied with the class deviation. On May 18, 2015, an FLC Norfolk contracting officer awarded order N00189-15-F-Z084, valued at \$288,948, for a software licensing agreement after receiving one quote. The contracting officer compared the quote to the GSA price list¹⁵ and commercial price list of the same vendor that

¹² Six of the eight orders involved one quote and two of the eight orders involved two quotes.

¹³ The 35 orders we reviewed were GSA FSS orders for supplies.

¹⁴ FAR Part 15, "Contracting by Negotiation," Subpart 15.4, "Contract Pricing," 15.404-1, "Proposal Analysis Techniques."

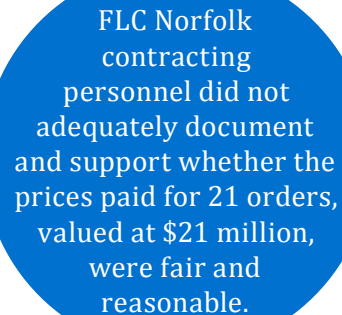
¹⁵ A GSA price list shows the price of each product offered under a GSA FSS contract.

submitted the quote. The contracting officer then compared the quoted price for a random sample of products, both GSA and open market products,¹⁶ to the prices paid on a recent order that identified the specific products purchased. Because the acquisition was sole-source and the contracting officer could not find comparable GSA pricing, he also compared a sample of GSA schedule quoted items to specific items from published commercial pricing found online. After completing the price analysis and before awarding the order, the contracting officer documented in the contract file that the price paid was fair and reasonable.

Price Reasonableness Was Not Adequately Determined for 21 Orders

FLC Norfolk contracting personnel did not adequately document and support whether the prices paid for 21 orders,¹⁷ valued at \$21 million, were fair and reasonable. Specifically, each of the 21 orders had one or more of the following problems.

- For 16 orders, contracting personnel relied on vendor price lists and BPA prices of the same vendor that submitted the only quote.
- For 4 orders, contracting personnel relied on unspecific historical information that was not identified.
- For 6 orders, contracting personnel relied on inadequate IGEs that did not identify the sources of the information.
- For 8 orders, contracting personnel did not document whether the prices paid were fair and reasonable.



FLC Norfolk contracting personnel did not adequately document and support whether the prices paid for 21 orders, valued at \$21 million, were fair and reasonable.

The chart in Appendix C shows the orders with inadequate price reasonableness determinations at FLC Norfolk, Philadelphia site, and FLC Norfolk, Mechanicsburg site.

¹⁶ Open market products are products that are not on a GSA FSS contract. Open market products are commonly referred to as commercial products or commercial items.

¹⁷ FLC Norfolk, Philadelphia site, awarded 14 of the 21 orders and FLC Norfolk, Mechanicsburg site, awarded the other 7 orders.

FLC Norfolk Contracting Personnel Relied on the Price List of the Vendor That Submitted the Quote

FLC Norfolk contracting personnel limited their price analysis to comparing the quote to the price lists and BPA price lists of the same vendor that submitted the only quote as a price analysis technique for 16 orders. Contracting personnel at FLC Norfolk, Philadelphia site, awarded 9 of the 16 orders and contracting personnel at FLC Norfolk, Mechanicsburg site, awarded the other 7 orders.

While the FAR¹⁸ cites comparison with competitive published price lists as a price analysis technique, comparing the vendor's proposed price to the same vendor's published price list is not a valid basis for determining that the proposed price is fair and reasonable. FLC Norfolk contracting personnel stated that they used this method of price analysis for the following different reasons:

- For 8 orders, the GSA vendor was the only authorized reseller of the supplies purchased or the only source capable of providing the supplies.
- For 7 orders, contracting officers were either required to use BPAs or they relied on BPA prices that had previously been determined to be fair and reasonable by the contracting officers who awarded the BPAs.
- For 1 order, the GSA had already determined that the price was fair and reasonable.

The following examples identify two different reasons why contracting officers did not perform additional price analysis beyond comparing the quote to the price list of the same vendor that submitted the only quote.

- **Order N00189-14-F-Z096.** On June 1, 2014, a contracting officer awarded this order for software licenses, valued at \$11 million, under BPA M67854-12-A-4701, after receiving one quote. The contracting officer's primary price analysis consisted of comparing the quote to the same vendor's BPA price list. The contracting officer stated that she did not perform any additional price analysis because it would be a waste of time and resources because she was required to purchase the software licenses through the software licensing agreement established under the BPA. In addition, the contracting officer did not document whether the \$11 million price paid was fair and reasonable. Even though the contracting officer was required to use the BPA for the type of supplies purchased, the contracting officer could have performed price analysis to determine whether pricing that was more advantageous to the Government existed. Had the contracting officer found more advantageous pricing, she could have used the information to attempt to negotiate better pricing for order N00189-14-F-Z096.

¹⁸ FAR 15.404-1.

- **Order N00189-14-F-Z075.** On May 8, 2014, a contracting officer awarded this order, valued at \$347,418, for hardware and software to support fielding and training of one Air Defense System Integrator¹⁹ after receiving one quote. The contracting officer's primary price analysis consisted of comparing the quote to the same vendor's GSA and commercial price lists. The contracting officer stated that her price analysis was limited to comparing the quote to the same vendor's price list because she was unable to locate any other pricing for this highly specialized and unique communication equipment. However, the contracting officer did not document her efforts to locate the other pricing.

FLC Norfolk Contracting Personnel Relied on Unspecific Historical Information

FLC Norfolk, Mechanicsburg site, contracting personnel relied on the comparison of the quote to historical prices paid as a price analysis technique for four orders, each involving one quote. However, this price analysis technique was inadequate because contracting personnel did not identify the specific historical information used, as required by the Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Information.²⁰ That guidance states:

When the contracting officer is relying on data obtained from sources other than the offeror, the contracting officer must obtain and document sufficient data to confirm that previous prices paid by the Government were based on a thorough price . . . analysis. For example, it would not be sufficient to use price(s) from a database paid by another contracting officer without understanding the type of analysis that was performed to determine the price(s), and without verifying that the quantities were similar for pricing purposes. This does not necessarily need to be another analysis, but there should be coordination with the other office that acknowledges an analysis was performed previously.

The Contract Review Board Presentation document that contracting personnel prepared for three orders, valued at \$893,000, only included the year, the vendor's name, and an amount of a prior purchase, but no description of the specific source of the information (for example, contract number of prior purchase). For the fourth order, valued at \$180,925, the Contract Review Board Presentation did not identify the specific historical information used but, instead, stated that the quoted unit prices were the same as the last period of performance of the previous task order. Contracting personnel stated that this was an oversight for all four orders.

¹⁹ The Air Defense Systems Integrator system is composed of a number of software and hardware modules that provide data links; interfaces to radar; and receives, displays, and translates data from electronic intelligence interfaces.

²⁰ DFARS Procedures, Guidance, and Information Part 215, "Contracting by Negotiation," Subpart 215.4, "Contract Pricing" 215.404-1, "Proposal Analysis Techniques."

FLC Norfolk Contracting Personnel Relied on Inadequate IGEs

For six orders, FLC Norfolk contracting personnel used the comparison of the quote with inadequate IGEs as a price analysis technique.

For six orders, FLC Norfolk contracting personnel used the comparison of the quote with inadequate IGEs as a price analysis technique. FLC Norfolk, Philadelphia site, contracting personnel awarded three of the six orders and FLC Norfolk, Mechanicsburg site, awarded the other three orders. The IGEs were inadequate because they were unsigned, undated, or did not identify the specific sources of the information. The FAR²¹ states that contracting personnel may establish price reasonableness by comparing proposed prices to IGEs. A Defense Procurement and Acquisition Policy memorandum²² states that the contracting officer should analyze the IGE to determine how the IGE was developed, what assumptions were made, what information and estimating tools were used, where the information was obtained, and how previous estimates compared with prices paid. For example, the IGE for order N00189-14-F-Z193, valued at \$1.1 million, for the purchase of office furniture, was unsigned, undated, and did not identify the source of the information. The contracting officer stated that he did not request the IGE preparer to provide the source of the information because he relied on the preparer's expertise rather than asking the preparer to provide the source of the information.

FLC Norfolk Contracting Personnel Awarded Orders Without Price Reasonableness Determinations

For eight orders, FLC Norfolk contracting personnel did not document whether the prices paid were fair and reasonable. The FAR²³ states that the contracting officer is responsible for evaluating the reasonableness of the offered prices. The class deviation also requires contracting officers to make determinations of fair and reasonable pricing for individual orders, BPAs, and orders under BPAs, using the proposal analysis techniques found in FAR 15.404-1.

For eight orders, FLC Norfolk contracting personnel did not document whether the prices paid were fair and reasonable.

The Table summarizes the reasons that contracting personnel gave for not documenting whether the prices paid were fair and reasonable.

²¹ FAR 15.404-1.

²² Defense Procurement and Acquisition Policy Memorandum, "Contracting Practices—Independent Government Estimates, Government Surveillance, and Contract Quality Assurance," September 17, 2007.

²³ FAR 15.404-1.

Table. Contracting Officers’ Reasons for Not Documenting Whether Prices Paid Were Fair and Reasonable

Order No.	Order Value (in thousands)	Award Date	Reasons
1. N00189-14-F-Z096	\$11,000	June 1, 2014	It would be a waste of time and resources because the contracting officer was required to use the BPA for the type of supplies purchased.
2. N00189-15-F-Z324	1,345	September 28, 2015	Because the template the contracting officer used did not include the words fair and reasonable.
3. N00189-14-F-Q226	1,300	September 5, 2014	Due to an oversight by the contracting officer.
4. N00189-15-F-Q155	620	September 29, 2015	Due to an oversight by the contracting officer.
5. N00189-15-F-Z295	335	September 26, 2015	It was obvious by the documentation in the files that the prices paid were fair and reasonable.
6. N00189-15-F-Z260	284	September 26, 2015	Due to an oversight by the contracting officer.
7. N00189-15-F-Z262	275	September 15, 2015	Because the template the contracting officer used did not include the words fair and reasonable.
8. N00189-15-F-Q090	181	August 6, 2015	Due to an oversight by the contracting officer.
Total	\$15,340		

Note: Amounts are rounded.

Standard Operating Procedures Not Established

FLC Norfolk did not have standard operating procedures for making price reasonableness determinations and performing price analysis for orders of supplies. FLC Norfolk contracting personnel gave us a NAVSUP Instruction²⁴ that included information on price reasonableness determinations and price analysis techniques; however, the Instruction is for purchases using simplified acquisition procedures under FAR Part 13, “Simplified Acquisition Procedures.”



FLC Norfolk did not have standard operating procedures for making price reasonableness determinations and performing price analysis for orders of supplies.

²⁴ NAVSUP Instruction 4200.85D, “Department of the Navy (DON) Simplified Acquisition Procedures,” April 25, 2005.

The 35 orders we reviewed were orders awarded using procedures under FAR subpart 8.4. FAR 8.404 states that FAR part 13 does not apply to orders. The class deviation requires contracting personnel to make price reasonableness determinations and perform price analysis using the price analysis techniques found in FAR 15.404-1. The Commander, FLC Norfolk, should develop and implement standard operating procedures for making price reasonableness determinations and for performing price analysis for GSA FSS orders for supplies. The Commander, FLC Norfolk, should train contracting personnel on the procedures.

Conclusion

Documentation is a necessary part of an effective internal control system. However, FLC Norfolk contracting personnel relied on inadequate documentation when performing price analysis and making price reasonableness determinations for 35 orders, valued at \$28.8 million. As a result, FLC Norfolk customers may have paid more than they should have for supplies purchased.

Recommendation, Management Comments, and Our Response

Recommendation 1

We recommend that the Commander, Fleet Logistics Center Norfolk:

- a. Develop and implement standard operating procedures for making price reasonableness determinations and performing price analysis for General Services Administration Federal supply schedule orders for supplies.**

Fleet Logistics Center Norfolk Comments

The Chief of Staff, NAVSUP, responding for the Commander, FLC Norfolk, agreed, stating that NAVSUP will develop and implement standard operating procedures for making price reasonableness determinations and performing price analysis for GSA FSS orders. These procedures will be incorporated into the NAVSUP Contracting Handbook, which is estimated to be completed by June 30, 2017.

- b. Train contracting personnel on the procedures for making price reasonableness determinations and performing price analysis for General Services Administration Federal supply schedule orders for supplies.**

Fleet Logistics Center Norfolk Comments

The Chief of Staff, NAVSUP, responding for the Commander, FLC Norfolk, agreed, stating that training to increase the level of competence on the procedures for making price reasonableness determinations and performing price analysis for GSA FSS orders has already commenced at FLC Norfolk. The Commander also stated that NAVSUP will direct all the NAVSUP FLCs to provide this training and all training will be completed by September 30, 2017.

Our Response

The Commander addressed all specifics of the recommendation and no further comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from March 2016 through October 2016, 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.

Universe and Sample

We used the FPDS-NG to identify the universe of GSA FSS orders that Navy contracting personnel awarded for purchases of supplies from March 14, 2014, through March 14, 2016. We eliminated:

- contract modifications, and
- orders valued below the \$150,000 simplified acquisition threshold.

The Navy universe consisted of 656 orders, valued at \$323 million. From the 656 orders, we identified contracting offices that awarded orders where only one quote was received, resulting in a modified universe of 348 orders, valued at \$193 million. We selected FLC Norfolk because, according to FPDS-NG, its contracting officers awarded more orders involving one quote than any other Navy contracting office.

We nonstatistically selected 25 FLC Norfolk, Philadelphia site, Philadelphia, Pennsylvania, orders, valued at \$20.9 million, to review. Seventeen orders, valued at \$17.6 million, involved one quote, and eight orders, valued at \$3.3 million, involved two quotes. We selected the eight orders involving two quotes to confirm that competition occurred and that competition was the basis for supporting contracting officer's determination of fair and reasonable pricing. We also selected 10 FLC Norfolk, Mechanicsburg site, Mechanicsburg, Pennsylvania, orders, valued at \$7.9 million, that involved 1 quote to review.

Overall, we nonstatistically selected 35 FLC Norfolk orders, valued at \$28.8 million, to review.²⁵ (See Appendix B for a list of GSA FSS orders reviewed.)

²⁵ We nonstatistically selected 17 orders, valued at \$17.6 million, involving 1 quote that FLC Norfolk, Philadelphia site, contracting personnel awarded. We selected 10 orders, valued at \$7.9 million, involving 1 quote that FLC Norfolk, Mechanicsburg site, contracting personnel awarded, of 46 orders, valued at \$31.6 million, involving 1 quote for review. We also reviewed 8 orders, valued at \$3.3 million, involving 2 quotes that FLC Norfolk, Philadelphia site, contracting personnel awarded.

Work Performed

We collected, reviewed, and analyzed documents for 35 orders, valued at \$28.8 million, to determine whether FLC Norfolk contracting officers made adequate determinations of fair and reasonable pricing. We obtained documentation from the contract files, which included orders, vendor quotes, contracting officer's determinations, and IGEs. We reviewed documentation dated from September 2007 through July 2016.

We used the following criteria as the basis for our analysis:

- FAR subpart 4.8, "Government Contract Files;"
- FAR subpart 8.4, "Federal Supply Schedules;"
- FAR subpart 15.4, "Contract Pricing;"
- Defense Procurement and Acquisition Policy Memorandum, "Contracting Practices—Independent Government Estimates, Government Surveillance, and Contract Quality Assurance," September 17, 2007; and
- Director, Defense Procurement and Acquisition Policy, "Class Deviation—Determination of Fair and Reasonable Prices When Using Federal Supply Schedule Contracts," March 13, 2014.

We interviewed contracting personnel from Philadelphia and Mechanicsburg who awarded the orders to determine whether they were aware of the class deviation and to analyze their documentation of price analysis and price reasonableness determinations. We also met with personnel from the Office of the Director, Defense Procurement and Acquisition Policy, to discuss items we identified during our review of price reasonableness documentation and meetings with FLC Norfolk contracting personnel.

Use of Computer-Processed Data

We did not use computer-processed data to perform this audit.

Use of Technical Assistance

We received technical assistance from the Department of Defense Office of Inspector General Quantitative Methods Division to select a nonstatistical sample of orders to review.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the Department of Defense Office of Inspector General (DoD OIG) issued two reports related to the class deviation since it became effective on March 13, 2014.

Unrestricted GAO reports can be accessed at <http://www.gao.gov>.

GAO

Report No. GAO-15-590, “Federal Supply Schedules: More Attention Needed to Competition [sic] and Prices,” July 9, 2015

GAO’s analysis of publicly reported Federal procurement data shows that Federal use of the FSS program has declined from \$31.8 billion in 2010 to \$25.7 billion in 2014—a 19-percent inflation-adjusted decrease. Agencies are paying insufficient attention to prices when using the FSS. Ordering agencies did not consistently seek discounts from schedule prices, even when required by the FAR. In addition, GAO found cases in which officials did not assess prices for certain items, as required, or had insufficient information to assess prices.

DoD OIG

Report No. DODIG-2016-069, “U.S. Army Engineering and Support Center, Huntsville, Price Reasonableness Determinations for Federal Supply Schedule Orders for Supplies Need Improvement,” March 29, 2016

For this audit, the first in a series on GSA FSS orders awarded for purchases of supplies, we reviewed 33 orders, valued at \$13.6 million. For 25 of those orders, valued at \$10 million, contracting personnel at U.S. Army Engineering and Support Center, Huntsville, in Huntsville, Alabama, did not adequately document and support their price reasonableness determinations.

Appendix B

General Services Administration Federal Supply Schedule Orders Reviewed

GSA FSS Order Number	Order Value (in thousands, rounded)	No. of Quotes Received	Description of Supplies Purchased
FLC Norfolk, Philadelphia Site, One-Quote and Two-Quote Orders Reviewed			
1. N00189-14-F-Z096	\$11,000	1	Microsoft licenses annual software assurance
2. N00189-14-F-Z201	1,200	1	Furniture
3. N00189-14-F-Z193	1,100	1	Office furniture
4. N00189-15-F-Z209	622	1	3D laser scanner
5. N00189-15-F-Z264	393	1	Library furniture
6. N00189-14-F-Z075	347	1	Hardware and software to support fielding and training of one Air Defense System Integrator
7. N00189-14-F-Z194	343	1	Annual software licenses renewal
8. N00189-15-F-Z295	335	1	Furniture
9. N00189-16-F-Z005	327	1	Furniture
10. N00189-15-F-Z084	289	1	Licensing agreement
11. N00189-15-F-Z260	284	1	Digital camera
12. N00189-14-F-Z151	267	1	Office furniture
13. N00189-16-F-Z023	265	1	Decision Lens software and maintenance
14. N00189-14-F-Z258	224	1	Decision Lens Advanced Tier 3 annual license
15. N00189-14-F-Z266	219	1	Statistical Analysis System software licenses and maintenance
16. N00189-15-F-Z044	217	1	VMWare maintenance
17. N00189-15-F-Z299	214	1	Furniture
Sub-Total One-Quote	\$17,646		
18. N00189-15-F-Z324	1,345	2	IBM software application support
19. N00189-15-F-Z049	363	2	Office furniture
20. N00189-14-F-0151	343	2	Redseal perpetual licenses and maintenance
21. N00189-15-F-Z323	331	2	Informatica-branded software
22. N00189-15-F-Z262	275	2	Vehicle monitoring
23. N00189-15-F-Z110	246	2	KOFAX Transformation Modules

General Services Administration Federal Supply Schedule Orders Reviewed (cont'd)

GSA FSS Order Number	Order Value (in thousands, rounded)	No. of Quotes Received	Description of Supplies Purchased
24. N00189-14-F-Z122	182	2	Oracle/Sun maintenance support
25. N00189-15-F-Z091	174	2	Adobe Connect Platinum software and support
Sub-Total Two-Quotes	\$3,259		
Total	\$20,905		
FLC Norfolk, Mechanicsburg Site, One-Quote Orders Reviewed			
26. N00189-14-F-Q288	4,000	1	IBM PureData (netezza) Analytics Platform
27. N00189-14-F-Q226	1,300	1	Microsoft licenses and assurance
28. N00189-15-F-Q155	620	1	Statistical Analysis System software licenses
29. N00189-14-F-Q362	459	1	Statistical Analysis System software and support
30. N00189-15-F-Q053	383	1	Teradata hardware and software maintenance support renewal
31. N00189-15-F-Q159	269	1	Software AG—ARIS products and support
32. N00189-15-F-Q033	255	1	SAP Business Objects PSLE SW license renewal
33. N00189-16-F-Q015	255	1	SAP Business Objects PSLE SW license renewal
34. N00189-15-F-Q090	181	1	Raytheon High Speed Guard software maintenance and support
35. N00189-14-F-Q254	157	1	IT Solution
Total One-Quote	\$7,879		
Total	\$28,784		

Appendix C

Orders With Inadequate Price Reasonableness Determinations

GSA FSS Order Number	Order Value (in thousands, rounded)	No. of Quotes Received	No Fair and Reasonable Price Determination Made	Inadequate Comparison of Quote to Price List of Same Vendor That Submitted Quote	Inadequate Comparison of Quote to Historical Prices Paid	Inadequate Comparison of Quote to IGE
FLC Norfolk, Philadelphia Site, Orders						
1. N00189-14-F-Z096	\$11,000	1	X	X		
2. N00189-14-F-Z201	1,200	1		X		
3. N00189-14-F-Z193	1,100	1		X		X
4. N00189-14-F-Z075	347	1		X		
5. N00189-14-F-Z194	343	1		X		
6. N00189-15-F-Z295	335	1	X			
7. N00189-16-F-Z005	327	1		X		
8. N00189-15-F-Z260	284	1	X			
9. N00189-14-F-Z151	267	1		X		X
10. N00189-14-F-Z258	224	1		X		
11. N00189-14-F-Z266	219	1		X		
12. N00189-15-F-Z299	214	1				X
13. N00189-15-F-Z324	1,345	2	X			
14. N00189-15-F-Z262	275	2	X			
Sub-Total	\$17,480		5	9	0	3
FLC Norfolk, Mechanicsburg Site, Orders						
15. N00189-14-F-Q226	1,300	1	X	X		
16. N00189-15-F-Q155	620	1	X	X		X

Orders With Inadequate Price Reasonableness Determinations (cont'd)

GSA FSS Order Number	Order Value (in thousands, rounded)	No. of Quotes Received	No Fair and Reasonable Price Determination Made	Inadequate Comparison of Quote to Price List of Same Vendor That Submitted Quote	Inadequate Comparison of Quote to Historical Prices Paid	Inadequate Comparison of Quote to IGE
17. N00189-14-F-Q362	459	1		X		
18. N00189-15-F-Q053	383	1		X	X	
19. N00189-15-F-Q033	255	1		X	X	
20. N00189-16-F-Q015	255	1		X	X	X
21. N00189-15-F-Q090	181	1	X	X	X	X
Sub-Total	\$3,453		3	7	4	3
Total	\$20,933		8	16	4	6

Management Comments

Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

18 NOV 2016

MEMORANDUM FOR CONTRACT MANAGEMENT AND PAYMENTS,
DEPARTMENT OF DEFENSE, INSPECTOR GENERAL

SUBJECT: Fleet Logistics Center Norfolk Price Reasonableness Determinations for
Federal Supply Schedule Orders for Supplies Need Improvement (Project
No. D2016-D000CF-0102.000)

The attached comments are provided by the Department of the Navy in response
to your draft audit report dated October 21, 2016.

My point of contact for this action is [REDACTED]

A handwritten signature in cursive script, reading "L. Dwayne Weaver", is positioned above the typed name.

L. Dwayne Weaver
Executive Director
Deputy Assistant Secretary of the Navy
(Acquisition and Procurement)

Attachments:
As stated

Department of the Navy Comments (cont'd)



DEPARTMENT OF THE NAVY
NAVAL SUPPLY SYSTEMS COMMAND
5450 CARLISLE PIKE
PO BOX 2050
MECHANICSBURG PA 17055-0791

IN REPLY REFER TO
7510
Ser NOIG/16040

NOV 14 2016

From: Commander, Naval Supply Systems Command
To: Assistant Secretary of the Navy for Research, Development and Acquisition

Subj: NAVSUP COMMENTS ON DODIG DRAFT AUDIT REPORT D2016-0102,
"FLEET LOGISTICS CENTER NORFOLK PRICE REASONABLENESS
DETERMINATIONS FOR FEDERAL SUPPLY SCHEDULE ORDERS FOR
SUPPLIES NEED IMPROVEMENT"

Ref: (a) DoDIG Draft Audit Report D2016-0102

Encl: (1) NAVSUP Comments on DoDIG Draft Audit Report D2016-0102, "Fleet Logistics
Center Norfolk Price Reasonableness Determinations for Federal Supply Schedule
Orders for Supplies Need Improvement"

1. Enclosure (1) is provided in response to reference (a).

2. For any questions, please contact [REDACTED]
[REDACTED]


E. A. MORGAN
Chief of Staff

Copy to:
NAVINGEN

Department of the Navy Comments (cont'd)

NAVSUP COMMENTS ON DODIG DRAFT AUDIT REPORT D2016-0102, "FLEET LOGISTICS CENTER (FLC) NORFOLK PRICE REASONABLENESS DETERMINATIONS FOR FEDERAL SUPPLY SCHEDULE ORDERS FOR SUPPLIES NEED IMPROVEMENT"

DoDIG Draft Audit Report:

"FLC Norfolk did not have standard operating procedures for making price reasonableness determinations and performing price analysis for orders of supplies. FLC Norfolk contracting personnel gave us a NAVSUP Instruction (4200.85D) that included information on price reasonableness determinations and price analysis techniques; however, the Instruction is for purchases using simplified acquisition procedures under FAR Part 13, "Simplified Acquisition Procedures". The 35 orders we reviewed were orders awarded using procedures under FAR subpart 8.4. FAR 8.404 states that FAR part 13 does not apply to orders. The class deviation requires contracting personnel to make price reasonableness determinations and perform price analysis using the price analysis techniques found in FAR 15.404-1"

Recommendations: We recommend that the Commander, Fleet Logistics Center Norfolk:

Recommendation 1.a: Develop and implement standard operating procedures for making price reasonableness determinations and performing price analysis for General Services Administration Federal supply schedule orders for supplies.

NAVSUP Comments on 3 Nov 2016: Concur. NAVSUP will develop and implement standard operating procedures for making price reasonableness determinations and performing price analysis for General Services Administration Federal supply schedule orders. The procedures will be incorporated into the NAVSUP Contracting Handbook which is currently being developed. Estimated completion date for NAVSUP to develop standard operating procedures and implement them through the NAVSUP Contracting Handbook is 30 June 2017.

Department of the Navy Comments (cont'd)

Recommendation 1.b: Train contracting personnel on the procedures for making price reasonableness determinations and performing price analysis for General Services Administration Federal supply schedule orders for supplies.

NAVSUP Comments on 3 Nov 2016: Concur. Training to increase the level of competence on the procedures for making price reasonableness determinations and performing price analysis for General Services Administration Federal supply schedule orders has already commenced at FLC Norfolk. NAVSUP will direct all the NAVSUP FLCs to provide training. All training will be completed by 30 September 2017.

Acronyms and Abbreviations

BPA	Blanket Purchase Agreement
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System–Next Generation
FLC	Fleet Logistics Center
FSS	Federal Supply Schedule
GSA	General Services Administration
IGE	Independent Government Estimate
NAVSUP	Naval Supply Systems Command

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U.S. DEPARTMENT OF DEFENSE

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