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United States General Accounting Office

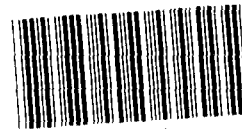
GAO

Report to the Honorable
J. Bennett Johnston, U.S. Senate

March 1988

ARMY PROCUREMENT

Contracting for Management and Operation of Government-Owned Ammunition Plants



135314

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**National Security and
International Affairs Division**

B-229050

March 8, 1988

The Honorable J. Bennett Johnston
United States Senate

Dear Senator Johnston:

In your letter of February 12, 1987, you asked us to review the Army's process for selecting the Louisiana Army Ammunition Plant's (AAP) operating contract for competition in fiscal year 1987. You expressed concern that the process was flawed and that the selection of the Louisiana plant for competition was not justified.

While our review revealed no indication that the Army's selection process was biased toward selecting the Louisiana plant, we concluded that the selection process itself was inappropriate. The Army developed the selection process to decide which operating contracts to open to competition. However, the Competition in Contracting Act of 1984 (CICA), P.L. 98-369, mandates competition for all procurements exceeding \$25,000 unless one of the seven specific statutory exceptions is met. Because contracts to operate AAPs exceed \$25,000, we believe that the Army should comply with the act by opening each AAP operating contract to competition when it expires or justify, on a case-by-case basis, why this should not be done.

Background

The U.S. Army Armament, Munitions and Chemical Command (AMCCOM), located in Rock Island, Illinois, contracts with private industry for operating and maintaining 24 of its ammunition plants. Fourteen of the plants are in operation (active). The remaining 10 plants are closed (inactive) but are being maintained. Because the plants are operated and maintained by contractors, they are called government-owned, contractor-operated (GOCO) plants.

The contracts generally cover a 5-year period (1 base year, with 4 option years) and, prior to the enactment of CICA, the Army's policy was to renew the contracts without competition at the end of the 5-year period unless (1) the incumbent contractor did not wish to continue, (2) the Army was dissatisfied with contractor performance, or (3) the Army

and the contractor could not agree on contract terms. However, to comply with CICA, the Army's Competition Advocate¹ believes that AMCCOM should open the contracts to competition, rather than simply renew them. AMCCOM officials said that they lack the expertise, time, and resources to open all of the contracts to competition when they expire. The officials plan to open one active plant contract and one inactive plant contract to competition each year and have developed a competition evaluation review plan for evaluating contractor performance and deciding which contracts to open to competition. They selected an active plant contract (Louisiana) for competition in fiscal year 1987 but did not need to select an inactive plant contract because one incumbent did not wish to continue as operating contractor.

AMCCOM used a two-step evaluation process to select the Louisiana plant for competition. First, AMCCOM applied a scoring system to rate each contractor's performance at 13 active ammunition plants. The Army excluded one active ammunition plant from the evaluation because its contract had been competitively awarded in fiscal year 1985. Second, AMCCOM attempted to determine which of five plants with closely clustered scores offered the greatest potential benefits from competition and decided on Louisiana.

In the first step of the evaluation process, a competition evaluation review team (CERT) developed criteria for measuring operating contractor performance. Contracting Officer's Representative (COR) staff at the plants and AMCCOM Headquarters staff used the criteria to rate operating contractors' performance on a scale of 1 to 10, with 10 being most effective. The team compiled the ratings for each plant, ranked the plants by score, and presented the ranking to a Senior Review Board.

The Board eliminated the two plants with the lowest scores because AMCCOM was negotiating a new contract at one plant and start-up problems adversely affected ratings for the other. The Board directed that the five plants with the next lowest scores (including Louisiana) should be evaluated to determine which one offered the greatest potential benefits from competition. Among the factors considered were the

- time since the plant's contract was last opened to competition,
- amount of the contractor's corporate general and administrative costs,
- dollar value of the contract and the contractor's fee,

¹ A Competition Advocate is a person designated to ensure maximum competition in Army procurements.

- number of employees and unions at the plant,
- contractor proprietary rights to production processes,
- performance scores of the competition evaluation review, and
- the adequacy of the contractor's property and procurement systems.

In the second step, the review team assessed the five plants according to these factors and ranked the Louisiana plant contract as the best candidate for competition. The Board agreed and recommended to the Commanding General, AMCCOM, that the Louisiana AAP operating contract be opened to competition in fiscal year 1987. The Commanding General agreed but was directed by Department of the Army Headquarters to defer any action until further notice.

Flaws in the Selection Process

We found numerous flaws in the Army's development and compilation of performance ratings during the first step of the evaluation. An in-depth audit would be required to determine the full extent of the deficiencies and their impact on the Army's decision to open the Louisiana plant contract to competition. Additional effort is not warranted, however, because, as discussed later, the selection process itself is inappropriate and unnecessary.

In the first step of the evaluation, the CERT compiled overall scores for each plant based on performance ratings for safety, quality, cost, schedule, energy use, projects, readiness, equipment management, environment, facilities engineering, security, attitude, labor, and flexibility. We noted questionable ratings in all but one performance category. In some performance categories, there were questionable ratings for all plants, and in others there were questionable ratings for one or more of the plants. We found examples of

- questionable performance criteria;
- incomplete ratings, in part, because some raters considered some performance criteria so subjective that they would not prepare ratings;
- inconsistent use of rating periods; and
- computational errors (e.g., incorrectly computed cost-performance ratings).

Some ratings in the CERT compilation did not agree with supporting documentation. For example, the CERT compilation included ratings for quality at the Kansas plant of 10.0 and the Scranton plant of 9.3. However, supporting documents showed a 9.15 rating for quality at Kansas

and a 10.0 rating at Scranton. For the most part, CERT officials attributed the inconsistencies to errors in carrying forward the ratings from supporting documents. They stated that they did not have enough time to check the quality of the performance rating process.

In addition, the COR submitted two ratings for the Louisiana AAP, because the new plant commander wanted to recognize recently improved contractor performance. The second rating was submitted after the cutoff date for submission, covered about a 2-month period ending in September 1986, was higher than the first rating, and was somewhat subjective. While the CERT used portions of each rating in compiling scores, no other plant was given more than one rating.

No Indication of Bias in the Selection Process

We found no indication that the process was biased toward selection of the Louisiana contract for competition. The flaws we noted in the first step of the process affected some ratings for all plants. The process was applicable to all plants and provided a broad assessment of contractors' performances. Both COR and Headquarters staff independently rated each contractor using the same criteria. The factors the review team considered during the second step of the process were established before the evaluations began and did not appear to be designed to favor or penalize any particular plant.

AMCCOM officials stated that the process had been directed toward identifying the operating contract that would yield the greatest benefit from competition and that the outcome had not been predetermined. We found no evidence to the contrary.

The Army's Approach Does Not Comply With CICA

The Army is not complying with CICA in its selection of two ammunition plant operating contracts for competition each year. CICA mandates that competitive procurement procedures be used unless one of the seven circumstances (exceptions) set forth in the act is met. Lack of staff, lack of resources, and lack of expertise—reasons that the Army cited for awarding contracts without competition—are not among the exceptions. By avoiding competition for the operating contracts, AMCCOM is depriving other contractors of the opportunity to compete and the government of potential cost savings that could be realized through competition.

AMCCOM officials told us that opening more than two operating contracts a year to competition is not feasible because AMCCOM lacks the necessary resources. However, AMCCOM's director for procurement and production

stated that AMCCOM has not requested funding for the resources needed. Further, AMCCOM said that opening contracts to competition as they expire would be too costly and time-consuming for operating contractors and for the Army, could result in fewer operating contractors, and could cause instability in the work force because turnover of operating contractors would create feelings of job insecurity. The officials also said that they are uncertain about the effect on competition of incumbent contractors' proprietary rights to production processes. These officials, however, did not provide analyses or other documentation to support these claims.

We did not attempt to determine whether any of the circumstances set forth in CICA might currently or in the future justify AMCCOM's use of other than full and open competition to select a contractor for any of the ammunition plants. In the past, one reason AMCCOM has used to justify sole-source procurement procedures to negotiate follow-on plant contracts is that a change in contractors would adversely affect the mobilization base readiness, a circumstance that is currently set forth in CICA as justifying the use of other than full and open competition. AMCCOM's recent decision to subject all plants to a selection process suggests, however, that the mobilization issue may no longer be of such magnitude as to justify continued sole-source contracting. Further, AMCCOM officials have looked for other justifications for avoiding competition. However, these justifications, as previously discussed, do not meet the tests for exempting operating contracts from competitive procedures.

AMCCOM has, in some instances, used "class" justifications to support the use of sole-source contracting procedures or restricted competition. A "class" justification is a document that justifies exempting a broad category or class of products or services from competitive procedures. We recognize that the Federal Acquisition Regulation permits the use of class justifications. In our report Federal Regulations Need to Be Revised to Fully Realize the Purposes of the Competition in Contracting Act of 1984 (GAO/OGC-85-14, Aug. 21, 1985), however, we said that such class justifications do not meet the intent of the act.

In discussing our findings, officials of the Office of the Secretary of Defense and the Department of the Army said that they fully support opening ammunition plant operating contracts to competition. They said that significant savings should accrue, citing the savings that accrued from the recent competition of the Lake City AAP contract. They cautioned, however, that there may be practical limits to the number of contracts that can be opened to competition each year and that this concern

will remain until they are able to gain some experience in opening the contracts to competition.

Conclusions

AMCCOM's process for selecting the Louisiana AAP operating contract for competition in fiscal year 1987 was flawed. However, we found no evidence that the process was biased toward selecting the Louisiana contract.

More importantly, the Army should not use a selection process to choose operating contracts for competition. CICA requires that all contracts be opened to competition unless a sole-source or restricted competition is appropriate under the circumstances (exceptions) set forth in the act. This determination is required to be made on a case-by-case basis. In our opinion, AMCCOM, by including all plants in the selection process, implies that the statutory exceptions to full and open competition may no longer be appropriate for justifying the use of sole-source procedures to select contractors to operate the ammunition plants.

Recommendation

We recommend that the Secretary of the Army direct the Commanding General of AMCCOM to comply with CICA by either opening all ammunition plant operating contracts to full and open competition as they expire or justifying, on a case-by-case basis, the use of other than competitive procedures based on one of the exceptions in the act.

Agency Comments

Officials of the Department of Defense reviewed a draft of this report and provided us official oral comments. They generally agreed with our conclusions and recommendation. They said that the Army will issue guidance to its field activities to ensure that the selection process is not used in the future and that renewed emphasis be given to CICA and those provisions of the Federal Acquisition Regulation relating to competition so that decisions on whether or not to compete GOCOS are made on a case-by-case basis solely in compliance with the provisions of law and regulation.

Objectives, Scope, and Methodology

We did our work primarily at AMCCOM, Rock Island, Illinois, because that command made the decision to open the Louisiana operating contract to competition. We interviewed officials to identify policies for opening contracts to competition and to learn about the evaluation process that led to the selection of the Louisiana plant as the choice for competition.

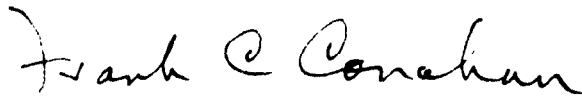
To assess the fairness and consistency with which the Army conducted its evaluation, we reviewed documents supporting the plant performance ratings used to decide which ammunition plant contract would be awarded through competition. We visited the Louisiana AAP to discuss the evaluation process and the plant's performance rating with the Army's COR staff and the plant manager.

In addition, we spoke with the Army Competition Advocate about CICA's applicability to ammunition plant operating contracts and the Army's approach to complying with the act.

We performed our review from March to August 1987 in accordance with generally accepted government auditing standards.

Unless you publicly announce its contents earlier, no further distribution of this report will be made until 10 days from its date. At that time, we will make copies available to the Secretary of Defense, the Secretary of the Army, and other interested parties.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

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