



INSPECTOR GENERAL

U.S. Department of Defense

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**Department of Defense Office of Inspector General
for a hearing on**

**“Hotline Truths II:
Audit Reveals Inconsistencies in Defense
Subcontracting”**

**Before the
Subcommittee on Contracting and Workforce
Committee on Small Business
U.S. House of Representatives
May 17, 2018**

Good morning Chairman Knight, Ranking Member Murphy, and distinguished members of the Subcommittee. Thank you for the opportunity to appear before you today to discuss our audit of Army small business contracting.

March 2018 Audit Report on Army Small Business Contracting

During the audit on Army small business contracting, we visited two Army Contracting Command (ACC) contracting centers. ACC-Redstone supports the development, acquisition, and fielding of aviation and missile systems. ACC-Warren supports the development, acquisition, and fielding of soldier and ground systems.

Our audit objective was to determine whether ACC-Redstone and ACC-Warren contracting officials took appropriate actions to ensure that prime contractors met their small business subcontracting goals. For this audit, we reviewed a sample of 50 contracts (valued at approximately \$1.6 billion) of 216 contracts (valued at approximately \$7.6 billion) that ACC-Redstone and ACC-Warren awarded to other than small businesses with estimated completion dates in Fiscal Years 2015 and 2016.

Overall, ACC-Redstone and ACC-Warren generally provided small businesses with the opportunity to compete for prime contracts; however, contracting officials did not ensure that prime contractors provided small businesses adequate subcontracting opportunities. We made a total of 8 recommendations to the Army to address the deficiencies identified during the audit.

Small Businesses Subcontracting Opportunities for Army Contracts

ACC-Redstone and ACC-Warren contracting officials ensured that prime contractors provided small businesses with adequate subcontracting opportunities for 27 (valued at \$693.5

million) of 50 contracts reviewed (valued at \$1.6 billion) with estimated completion dates in FYs 2015 or 2016.

However, ACC-Redstone and ACC-Warren contracting officials did not ensure that prime contractors provided small businesses with adequate subcontracting opportunities for 23 (valued at \$914.8 million) of 50 contracts (valued at \$1.6 billion). Specifically, ACC-Redstone and ACC-Warren contracting officials:

- awarded 6 contracts, valued at \$330.7 million, without a subcontracting plan or a determination that no subcontracting possibilities existed;
- did not monitor prime contractors' compliance with individual subcontracting plans for 11 contracts, valued at \$480.3 million;
- did not determine why prime contractors with individual subcontracting plans did not meet their small business subcontracting goals for 5 contracts, valued at \$81.6 million; and
- accepted an Individual Subcontracting Report for one contract, valued at \$22.1 million, which may have misreported subcontracting awards.

Each of these items are required by the Federal Acquisition Regulation (FAR) Subpart 19.7.

These problems occurred because of three primary causes. First, ACC-Redstone and ACC-Warren contracting officials stated that some contracting personnel did not understand subcontracting plan requirements. For example, ACC-Redstone did not provide adequate training or procedures on administering subcontracting plans. Second, ACC-Redstone and ACC-Warren contracting officials noted that administering contracting plans was not a high priority. Third, subcontracting plan administration guidance at both locations did not address the transfer of subcontracting plan administration duties required by the FAR when a contract is assigned to

a new contracting officer. For example, the Army FAR Supplement (AFARS) did not address the transfer of subcontracting plan administration duties.¹

Status of Army Recommendations

The report made 8 recommendations to ACC-Redstone, ACC-Warren, and the Deputy Assistant Secretary of the Army for Procurement to improve small business contracting procedures. Specifically, we recommended that ACC-Redstone ensure individual subcontracting reports are entered into the Electronic Subcontracting Reporting System for seven contracts, and determine whether liquidated damages can be imposed against the contractors. We also recommended that ACC-Redstone determine whether the contractors for two contracts made a good-faith effort to meet their subcontracting goals, and if not, whether liquidated damages may be imposed against the contractor. ACC-Redstone agreed with each recommendation and is in the process of taking corrective actions.

In addition, the report recommended that ACC-Warren ensure that individual subcontracting reports are entered into the Electronic Subcontracting Reporting System for three contracts, and determine whether liquidated damages may be imposed against the contractors. We recommended that ACC-Warren determine whether the contractors for three contracts made a good-faith effort to meet the subcontracting goals in their plans, and if not, whether liquidated damages can be imposed against the contractors. We also recommended that ACC-Warren require one contractor to submit a corrected individual subcontracting report in the Electronic Subcontracting Reporting System, and determine whether liquidated damages may be imposed against the contractor if a good-faith effort was not made to meet subcontracting goals.

¹ AFARS Subpart 5119.7.

ACC-Warren agreed with each recommendation and is in the process of completing corrective actions.

Finally, the report recommended that the Deputy Assistant Secretary of the Army for Procurement train contracting officers on FAR 19.7 responsibilities for approving and administering subcontracting plans. We also recommended that the Army revise the AFARS, and alert contracting officials, regarding procedures for transferring subcontracting plan administration duties when a contract is transferred from one contracting officer to another.²

ACC-Redstone and ACC-Warren May Have Missed Opportunities to Recoup Liquidated Damages

As a result, small businesses may not have received subcontract work that prime contractors for Army contracts were required by the FAR to make a good-faith effort to provide. Contracting officials did not obtain subcontracting reports and did not follow-up on reports that showed that contractors were not meeting their small business goals. Therefore, ACC-Redstone and ACC-Warren may have missed opportunities to recoup liquidated damages of up to \$82.3 million. We made recommendations to ACC-Redstone, ACC-Warren, and the Deputy Assistant of the Army for Procurement to improve procedures for administering subcontracting plans submitted by prime contractors.

Results of Series of Five Audits on DoD Small Business Subcontracting

The subject of today's hearing is our March 2018 audit report on Army small business contracting, however, this is only our most recent report on this subject. We issued a total of five

² AFARS Subpart 5119.7.

reports on Marine Corps, Air Force, and Army small business subcontracting from 2015 to 2018. We initiated the audits on DoD small business contracting based on a hotline complaint alleging that two Marine Corps contracting commands did not ensure small businesses were awarded a sufficient number of contracts and did not hold large prime contractors accountable for meeting small business subcontracting goals. Specifically, we conducted two audits of Marine Corps contracting commands (Marine Corps Installations National Capital Region-Regional Contracting Office and Marine Corps Systems Command); a follow-up audit to determine whether Marine Corps Installations National Capital Region-Regional Contracting Office implemented our recommendations; an audit on two Air Force contracting commands, and an audit on two Army contracting commands.

In these five reports, we identified that contracting officials had consistent challenges monitoring prime contractors' compliance with individual subcontracting plans, and determining why prime contractors with individual subcontract plans did not meet their small business subcontracting goals.

These challenges existed because training and guidance provided to contracting officials were not adequate, and administering subcontracting plans was often not a high priority. Shortfalls also commonly existed with high turnover rates among contracting personnel negatively impacting transferring duties to administer subcontracting plans from one contracting official to another. Contracting officers also did not consistently enter data correctly into the Federal Procurement Data System-Next Generation that allowed contracting officials to monitor compliance with small business subcontracting plans or enable contractors to submit individual subcontracting reports in the Electronic Subcontracting Reporting System. This concludes my statement and I would be happy to answer any questions you have.