Audit
Report

OFFICE OF THE INSPECTOR GENERAL

VENDOR PARTICIPATION IN THE FEDERAL ACQUISITION COMPUTER NETWORK

Report No. 97-002

October 4, 1996

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Acronyms

<table>
<thead>
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<th>Description</th>
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<tbody>
<tr>
<td>CCR</td>
<td>Central Contractor Registry</td>
</tr>
<tr>
<td>DISA</td>
<td>Defense Information Systems Agency</td>
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<tr>
<td>EC</td>
<td>Electronic Commerce</td>
</tr>
<tr>
<td>EDI</td>
<td>Electronic Data Interchange</td>
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<tr>
<td>FACNET</td>
<td>Federal Acquisition Computer Network</td>
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<td>VAN</td>
<td>Value-Added Network</td>
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October 4, 1996

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE
(ACQUISITION REFORM)
DIRECTOR, DEFENSE INFORMATION SYSTEMS
AGENCY


We are providing this audit report for review and comment. The Deputy Under Secretary of Defense (Acquisition Reform) did not respond to the draft report; however, comments from the Defense Information Systems Agency were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Information Systems Agency comments were partially responsive. We request additional comments on the implementation of auditing and editing features in the Electronic Commerce Processing Node, the status and solution of unresolved software problems, and results of the testing conducted on the Electronic Commerce Processing Node environment. As a result of management comments, we added a recommendation to the Office of the Deputy Under Secretary of Defense (Acquisition Reform). Therefore, we request that the Deputy Under Secretary of Defense (Acquisition Reform) provide comments on the final report, including the additional recommendation, and that the Defense Information Systems Agency provide additional comments on the unresolved recommendations by November 4, 1996.

We appreciate the courtesies extended to the audit staff. If you have any questions on this audit, please contact Ms. Kimberley A. Caprio, Audit Program Director, at (703) 604-9210 (DSN 664-9210) (KCaprio@DODIG.OSD.MIL) or Ms. Addie M. Beima, Audit Project Manager, at (703) 604-9243 (DSN 664-9243) (ABeima@DODIG.OSD.MIL). See Appendix F for the report distribution. The audit team members are listed inside the back cover.

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Report No. 97-002
(Project No. 6CA-0005)

October 4, 1996

Vendor Participation in the Federal Acquisition Computer Network

Executive Summary

Introduction. The Deputy Under Secretary of Defense (Acquisition Reform) is developing the Federal Acquisition Computer Network for Government-wide use in contracting as a means of streamlining the Federal acquisition process, reducing the cost of acquiring commercial products, and expanding business opportunities for small- and medium-size vendors. The Federal Acquisition Computer Network is a cornerstone of acquisition streamlining and reform in that it enables the Government to evolve from using a paper-burdened acquisition process to a process based on the electronic exchange of business information for small purchases ranging from $2,500 to $100,000. For DoD to achieve the goals of using the Federal Acquisition Computer Network, vendor participation is essential. In an effort to increase vendor participation, the DoD Director, Electronic Commerce, Office of the Under Secretary of Defense (Acquisition Reform), informed approximately 208,000 DoD vendors in October 1995, that the Federal Acquisition Computer Network will become the preferred method of contracting for small purchases.

Audit Objectives. The overall audit objective was to determine the reasons many vendors are not using electronic commerce to conduct small purchase transactions with DoD. The specific objective was to identify the major technical and business barriers preventing vendors from using the Federal Acquisition Computer Network. To accomplish this objective, we surveyed 100 small- and medium-size vendors. Additionally, we announced an objective to evaluate the adequacy of the management control program applicable to the primary objective; however, we did not pursue that objective because our audit work was done primarily with vendors in the private sector.

Audit Results. Out of 100 vendors surveyed, 85 identified 3 major impediments to using the Federal Acquisition Computer Network. As a result, DoD credibility with vendors regarding development and implementation of the Federal Acquisition Computer Network is impaired. Also, implementation and use of the Federal Acquisition Computer Network is not occurring, as envisioned in streamlined acquisition strategies. Clarifying the appropriateness of using the Federal Acquisition Computer Network, improving methods for disseminating information, and resolving technical problems of the Federal Acquisition Computer Network are not quantifiable characteristics. Further, benefits associated with redirecting funds for more effective outreach and training methods is undeterminable. See Part I for a discussion of the audit results.

Summary of Recommendations. We recommend that the Deputy Under Secretary of Defense (Acquisition Reform) define when use of the Federal Acquisition Computer Network is appropriate and require contracting officials to use it accordingly, identify and implement effective methods for disseminating information about the Federal Acquisition Computer Network, fund only those outreach methods that are deemed effective, and require contracting officials to reference optional Federal Acquisition Regulation clauses rather than provide the full text. We also recommend that the
Director, Defense Information Systems Agency verify that implementation of the Electronic Commerce Processing Node (new infrastructure) corrects technical problems associated with the Federal Acquisition Computer Network such as, timeliness of transactions, transmission of data, and adequacy of transaction feedback, and identify milestones for the implementation. Additionally, we recommend that the Director identify interim measures and corrective actions for resolving technical problems identified in this report, until implementation of the Electronic Commerce Processing Node is implemented.

Management Comments. The Deputy Under Secretary of Defense (Acquisition Reform) did not comment on the June 6, 1996, draft of this report. The Defense Information Systems Agency (DISA) concurred with the report and has acted to verify that implementing the new Electronic Commerce Processing Node will improve the timeliness and adequacy of feedback on transactions. DISA stated that transactions that are not compliant with the American National Standards Institute standards are rejected. By complying with those standards, improperly formatted transactions sent through the infrastructure are eliminated. Regarding unnecessary contract information, DISA stated that "boilerplate" contract information is forwarded to vendors as part of the request for quote because that information is required by existing contracting regulations. DISA also stated that it made software improvements within the infrastructure to enhance user speed of service and the accountability and processing time of transaction sets. To ensure data standardization of transaction sets, the DISA Center for Standards requires that value-added networks be tested for all transaction sets that respective trading partners may be exchanging. In addition, all Government gateways and application information systems require testing prior to obtaining certification and on a yearly basis thereafter.

Audit Response. We consider DISA comments partially responsive. We agree that compliance with the American National Standards Institute standards would eliminate improperly formatted transactions; however, vendors stated that not all transaction sets received are compliant with those standards. It was our understanding that the new Electronic Commerce Processing Node would contain auditing and editing features to permit users to obtain reliable transaction sets. We disagree with comments concerning the transmission of "boilerplate" contract information to vendors. Although the Federal Acquisition Regulation requires that specific clauses be included in full, many of the clauses are required in full only when applicable, and some of them are optional. Transmitting "boilerplate" information rather than referencing the clause and effective date of the clause, when possible, is not cost-effective to the vendor or to the Government. Therefore, we added a recommendation to the Deputy Under Secretary of Defense (Acquisition Reform) to require contracting officials, when possible, to improve the current practices associated with the transmission of Federal Acquisition Regulation clauses. Regarding interim measures taken to resolve technical problems, we commend DISA for its efforts. However, as of August 1996, four software problems and one communication problem remained unresolved.

We request that DISA provide additional comments on the implementation of auditing and editing features in the new Electronic Commerce Processing Node and on the status and solution of unresolved software and communication problems. Furthermore, we request additional comments on the implementation of the transaction feedback capability in the Electronic Commerce Processing Node and the results of the operational testing and functional acknowledgment capability testing conducted on the Electronic Commerce Processing Node environment. We also ask that the Deputy Under Secretary of Defense (Acquisition Reform) respond to the final report. All comments should be provided by November 4, 1996.
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Part I - Audit Results
Audit Background

Federal Acquisition Streamlining Act of 1994. The Federal Acquisition Streamlining Act of 1994 (the Streamlining Act), simplified and streamlined the Federal Government acquisition system by requiring the Government to transition from a labor-intensive, paper-burdened acquisition process to a more efficient process using electronic commerce (EC)/electronic data interchange (EDI) technologies. The Streamlining Act authorized contracting officials to simplify acquisition procedures for procurements up to $100,000 (small purchase transactions) by using the Government-wide Federal Acquisition Computer Network (FACNET). FACNET is an EC/EDI communications network that enhances access to DoD procurement information for small businesses and allows acquisition information to be exchanged between Federal Government agencies and industry using a standard format. The Streamlining Act requires that FACNET be implemented Government-wide no later than January 2000 (the Streamlining Act originally required that FACNET be implemented by January 1997).

National Defense Authorization Act. The National Defense Authorization Act of FY 1996 (the Authorization Act) amends the Streamlining Act by allowing agencies to test alternative EC procurement methods or systems that are not contingent on full FACNET implementation. The Authorization Act also eliminates the requirement for a contracting organization to be FACNET certified in order to use simplified acquisition procedures for procurements up to $100,000. However, if the organization is not full FACNET capable by December 31, 1999, the simplified acquisition threshold for procurements reverts back to $50,000. Furthermore, the Authorization Act does not prohibit the use of other procurement methods, such as Government credit cards, electronic bulletin boards, and the Internet, for conducting small purchase transactions.

Federal Electronic Commerce Acquisition Instructions. According to Federal Electronic Commerce Acquisition Instructions, March 10, 1995, vendors must register in the Central Contractor Registry (CCR) to establish a trading partner relationship with the Government to conduct business with Federal Government agencies using EC/EDI technologies, including FACNET, or manual procurement methods. The CCR is a master registration data base intended to replace the repetitive manual registration process at Government contracting organizations (such as the Small Business Administration procurement automated source system and individual bidder lists at each DoD contracting organization). Within DoD, there are approximately 1,400 DoD contracting organizations that vendors would be required to register with to receive requests for quote and send bids. However, the CCR is intended to allow vendors to register once to do business with any contracting organization in the Federal Government.

FACNET Infrastructure. The FACNET infrastructure is designed to provide widespread public notice of Government contracting opportunities and to allow Government contracting organizations to electronically receive bids and award contracts for products and services. The primary benefits of sharing a common
FACNET infrastructure are reduced overall cost and increased business opportunities. As Executive Agent, DoD is developing the FACNET infrastructure for Government-wide use based on recommendations from acquisition streamlining initiatives.

The FACNET document flow and infrastructure are presented below (see Appendix C for a glossary of terms).

![DOCUMENT FLOW AT A GLANCE](image)

*Activity and Organization are used interchangeably in this report.*


Figure 1. FACNET Document Flow and Infrastructure

Concerns Related to Vendor Participation. This audit was prompted by concerns voiced by senior DoD procurement officials and the Office of Federal Procurement Policy that the lack of vendor participation jeopardized successful FACNET implementation. The audit was designed to assist the Deputy Under Secretary of Defense (Acquisition Reform) in identifying barriers to vendor participation in using FACNET.

We conducted a telephone survey of Government vendors from December 1995 through February 1996 to obtain their experiences and to identify barriers in using FACNET.
Audit Results

Audit Objectives

The overall audit objective was to determine the reasons vendors are not using EC to conduct small purchase transactions with the DoD. The specific objective was to identify impediments preventing vendors from using FACNET. Additionally, we announced an objective to evaluate the adequacy of the management control program applicable to the primary objectives; however, we did not pursue that objective because our audit work was done primarily with vendors in the private sector. See Appendix A for a discussion of the scope and methodology and Appendix B for a discussion of prior audits and other reviews.
Vendor Participation in FACNET

Out of 100 vendors surveyed, 1 85 identified impediments to using FACNET to conduct small purchase transactions with the DoD. Vendors are not participating because:

- they are not aware of FACNET (46),
- FACNET is not an appropriate procurement method for some small- and medium-size vendors (61), and
- FACNET is unreliable (14).

As a result, DoD credibility with vendors regarding development and implementation of FACNET is impaired. Also, implementation and use of FACNET is not occurring as envisioned in Federal streamlined acquisition strategies.

Use of FACNET in Support of DoD Contracting

**Participation in FACNET.** In September 1993, the National Performance Review recommended expanded use of EC/EDI within the Federal acquisition system. In response to the National Performance Review, the Under Secretary of Defense (Acquisition Reform) established a DoD EC Process Action Team to work with industry to identify EC/EDI opportunities for DoD. The development and implementation of the EC/EDI FACNET infrastructure evolved as a result of the team effort.

The DoD EC Process Action Team anticipated that FACNET would be a vast improvement over the manual acquisition system for small purchase transactions and would enhance access to DoD procurement opportunities for small businesses. As a result, the DoD EC Process Action Team anticipated that vendors would voluntarily participate in FACNET to conduct small purchase transactions with DoD. The DoD EC Process Action Team also anticipated that vendors would register in the CCR because it would eliminate the need to register individually with each DoD contracting organization that the vendor chose to conduct business with.

However, during the development and implementation of FACNET, officials in DoD as well as the Office of Federal Procurement Policy, Office of

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1 Thirty-six of the vendors surveyed identified more than 1 impediment, and 15 vendors surveyed provided no comments on impediments.
Management and Budget, expressed concerns that vendors were not voluntarily using FACNET or registering in the CCR (see Appendix D for a discussion of the CCR).

**Federal Acquisition Circular.** Federal Acquisition Circular (the Circular), 90-29, "Electronic Commerce in Contracting," subpart 4.5, July 3, 1995, revised the requirement that the Government or industry use FACNET. Instead, the Circular states that FACNET is the "preferred method" of conducting small purchases up to $100,000, and "should be used whenever practicable or cost effective."

**DoD Director, EC in Contracting Memorandum.** In October 1995, to encourage more vendors to participate in FACNET and to register in the CCR, the Director, Electronic Commerce, Office of the Deputy Under Secretary of Defense (Acquisition Reform), issued a memorandum to approximately 208,000 vendors identified by DoD contracting organizations. Contrary to the Circular, the memorandum stated that when FACNET becomes fully implemented, DoD contracting organizations may decline transactions not received through FACNET. The memorandum also encouraged vendors to register in the CCR to do business with DoD.

**Vendor Survey and Results**

**Vendor Survey.** To evaluate why vendors were not more actively using FACNET, we conducted a telephone survey of 100 vendors from December 1995 through February 1996. We selected the vendors from lists of Government vendors maintained by the following five sources:

- Small Business Administration;
- Office of Electronic Commerce, DoD;
- Defense Information Systems Agency (DISA);
- Value-Added Networks (VANs); and
- Assistant Secretary of the Army (Research, Development, and Acquisition).

We selected vendors from the Small Business Administration, the DoD Electronic Commerce office, and DISA, to include vendors who may or may not have been aware of FACNET. We selected vendors from the remaining two sources, to include vendors who were known to be either users of FACNET, or at least familiar with it, and could provide information about impediments to using FACNET (see Appendix A for a discussion of the methodology used to select vendors).
Vendor Participation in Using FACNET

Survey Results. Of the 100 vendors surveyed, 85 identified impediments to FACNET use. The remaining 15 vendors had no comments on impediments. The table below identifies the three major impediments the vendors cited.

<table>
<thead>
<tr>
<th>Major Impediments to Using FACNET</th>
<th>Sample Sources</th>
<th>Frequency of Impediments Identified by Vendors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Judgment</td>
<td>CCR</td>
</tr>
<tr>
<td>Vendors unaware of FACNET</td>
<td>0</td>
<td>23</td>
</tr>
<tr>
<td>Not appropriate for some small vendors to use</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DoD using non-FACNET Systems</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Not cost-effective</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Not suitable</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Subtotals</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>Not reliable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transactions not timely</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Not transmitting standard data</td>
<td>2</td>
<td>0</td>
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<tr>
<td>Not providing adequate feedback on transactions</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Subtotals</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Totals for the three impediments</td>
<td>17</td>
<td>29</td>
</tr>
</tbody>
</table>

<sup>1</sup>Small Business Administration
<sup>2</sup>DoD Electronic Commerce Office
<sup>3</sup>Of the 85 vendors, 36 identified more than 1 impediment; therefore, the number of impediments exceeds number of vendors surveyed.

Vendor Awareness

The intent of FACNET was to make Federal acquisitions more accessible to small- and medium-size vendors who may not have participated previously by providing widespread notice of Federal Government procurement opportunities. Of the 100 vendors surveyed, however, 46 stated that they were not aware of FACNET.
Outreach and Training Efforts. The Federal Government funds a variety of vehicles to increase awareness of FACNET among small- and medium-size vendors. In addition, the following variety of non-Government sources provides information, seminars, and training on FACNET.

**Electronic Commerce Resource Centers.** DoD expended approximately $122.8 million from FYs 1993 through 1995 to fund 11 regional Electronic Commerce Resource Centers to provide outreach, training, consultation, and technical support to small- and medium-size vendors. DoD plans to spend another $68.6 million for FYs 1996 through 1998. Specifically, the Electronic Commerce Resource Centers focused on EC/EDI related opportunities with the Government, including FACNET. The Under Secretary of Defense (Acquisition Reform) and the Acting Director, Defense Advanced Research Projects Agency, signed a memorandum of understanding on June 12, 1995, to establish an agreement regarding support by the Electronic Commerce Resource Centers to assist DoD suppliers in making the transition to EC/EDI. As a result of the memorandum of understanding and the emphasis on supporting small- to medium-size vendors, the Electronic Commerce Resource Centers contract was modified in June 1995 to include a requirement that they allocate at least 50 percent of their resources to assisting small- and medium-size vendors. Specifically, resources would be used to assist Government procurement sites by providing general EDI education and training to small- and medium-size vendors and by providing technical assistance to those small- and medium-size vendors who have decided to implement EC/EDI.

**Procurement Technical Assistance Centers.** DoD, with assistance from state and local Governments, annually funds 109 Procurement Technical Assistance Centers to provide management assistance to small businesses. Assistance includes helping small businesses market their goods and services to compete for contracts with Federal agencies in support of acquisition streamlining strategies. The annual budget for the Procurement Technical Assistance Centers is approximately $12 million.

**Small Business Development Centers.** The Small Business Administration funds more than 1,000 Small Business Development Centers, subcenters, and satellite locations to provide a variety of business and technical services such as, counseling and training, to assist small businesses in identifying business opportunities.

**Non-Government Sources.** Non-Government sources, including private contractors and VANs, also promote and provide training opportunities and assistance on EC/EDI technologies and FACNET.

**Effectiveness of Efforts to Make Vendors Aware of FACNET.** The survey demonstrated that almost half of the vendors contacted were not aware of FACNET. These results indicate that the outreach and training efforts funded by Government and private sources have not been effective. In fact, only 10 of the 54 vendors who were aware of FACNET learned about it through the Electronic Commerce Resource Centers.
Vendor participation in using FACNET is critical to vendor participation in FACNET. If vendors are not aware of FACNET, DoD cannot expect their participation. Current methods used by the Government to make vendors aware of FACNET have not been effective. The Government and DoD in particular need to reevaluate the training and outreach methods being funded and used. (We are addressing the effectiveness of the Electronic Commerce Resource Centers' outreach and training efforts in a separate audit).

Commercial Efforts Toward Vendor Participation. In the private sector, examples of successful implementation of EC/EDI capabilities similar to FACNET have been accomplished when the procuring organization mandates that vendors use the EC/EDI technology and assist, as necessary, in their implementation of the technologies. For example, the DoD Process Action Team met with officials who worked for RJR Nabisco, Incorporated, to discuss that company's efforts in implementing EC/EDI. Nabisco officials stated that they successfully implemented EC/EDI because they required their vendors to participate.

DoD needs to reevaluate the methods used to make vendors aware of EC/EDI and FACNET and fund methods that are effective. For example, similar to the private sector, DoD could consider mandating the use of FACNET for some or all small purchases or for certain Federal supply classes, or place the responsibility for informing vendors at the DoD contracting organizations making small purchases.

Appropriateness of FACNET Use

Of the 100 vendors surveyed, 6 stated that using FACNET could improve their business opportunities with the Government and streamline their procurement functions. However, 48 of the vendors surveyed stated that FACNET was not an appropriate procurement method for small purchases (13 of the 48 identified more than 1 impediment). Specifically, vendors stated that:

- DoD contracting organizations with which they conduct business use procurement methods other than FACNET for small purchases (25),
- FACNET is not suitable for some small- and medium-size enterprises (20), and
- FACNET requires a large investment or is not profitable to use (16).

Use of Alternative Procurement Methods. Of the 48 vendors, 25 stated that they did not use FACNET because the DoD contracting organizations with which they conduct business did not use FACNET to initiate the procurement request. For example, the Defense Industrial Supply Center, Defense Logistics Agency, uses other EC/EDI procurement methods, such as electronic bulletin boards, to purchase commodities, that is, metals, gaskets, and springs on a recurring basis. Using electronic bulletin boards, the Defense Industrial Supply
Vendor Participation in Using FACNET

Center reduced costs, back order age, administrative and production lead times, and inventory. As another example, the Defense Personnel Support Center, Defense Logistics Agency, buys medical supplies on a recurring basis from a specific group of vendors by establishing direct electronic links with vendors. Therefore, widespread notice of procurement requests is not needed. According to Defense Logistics Agency officials, the alternative EC/EDI procurement methods are more efficient and appropriate than FACNET to the types of products procured. As a result, neither the Defense Logistics Agency nor its vendor trading partners see an incentive to using FACNET.

Suitability of Using FACNET. Of the 48 vendors surveyed, 20 stated that they either were not using or would not use FACNET because FACNET was not capable of processing all business transactions associated with the acquisition of products or services (9 of the 20 were not aware of FACNET, but gave us their perception based on their use of other EC/EDI systems or other vendors' experiences in using FACNET). For example, vendors stated that FACNET was not capable of exchanging business documents, such as invoices and payment orders, or technical data packages and drawings. Such capabilities were not envisioned to be included in the early phases of FACNET. As a result, until FACNET is mature, vendors question the suitability of using FACNET and are reluctant to use it.

Investment in Using FACNET. Vendor use of FACNET requires monetary investments, including computer capabilities, EDI software to access FACNET, and subscription with a DoD-certified VAN. Officials in the DoD Electronic Commerce Information Center stated that EC/EDI technology, including FACNET, uses resources already available within most businesses and does not require a large investment. Specifically, the officials estimated that hardware and software costs generally range from $2,100 to $5,800, and VAN services generally include a start-up fee of up to $1,200 and recurring monthly charges. Of the 48 vendors surveyed that were familiar with FACNET, 4 stated that the cost to implement FACNET, including operating and programming costs, ranged from $6,000 to $30,000.

In addition to the monetary investment, 12 of the 48 vendors stated that FACNET was not profitable to use. For example, 7 of the 12 vendors stated that their businesses were so small and their profit margins so limited that increased competition, as envisioned in using FACNET, could jeopardize their profit margins and their continued operation. In order for those vendors to be competitive under FACNET, their traditional 9- or 10-percent profit margin had to be reduced to about 3 percent, a level that could drive them out of business. The seven vendors perceived that the reason for the decrease in profit margins was that the Government accepted bids through FACNET strictly on the basis of cost rather than on product or service quality. As a result, vendors were concerned that the investment in FACNET may not be worthwhile, and in fact, may be detrimental to some small businesses.
FACNET Reliability

Technical Impediments to Using FACNET. Of the 54 vendors surveyed who were familiar with FACNET, 14 identified specific technical problems related to the reliability of using FACNET. The 14 vendors either have experienced problems with or have concerns about FACNET being able to:

- provide adequate transaction feedback to determine whether their bids were successful (8);
- transmit requests for quotes in a timely manner (5); or
- transmit EC/EDI data (2).

Of the 14 vendors, 1 identified more than 1 of the above specific technical problems.

Providing Feedback on Transactions. Vendors stated that they were not receiving feedback or acknowledgments of transactions sent through the FACNET. In addition, vendors were not provided with feedback on which vendor won the bid.

Sending Timely Transactions. Vendors stated that they were not certain that they were receiving requests for quotes from DoD contracting organizations or that their quotes were being received by DoD. Vendors, DoD contracting organizations, and VANs have experienced problems with the reliability of data transmission through FACNET. Specifically, vendor quotes are getting lost or arriving too late for consideration by the DoD (the issues of FACNET reliability and reported problems are being addressed by the Office of the Inspector General, DoD, in a separate audit).

Transmitting Data. By design, vendors incur costs for the transmission of FACNET data through VANs. Vendors stated that they receive either improperly formatted transactions or useless contractor information, but for which they are still required to pay their VANs. FACNET lacks a query capability to allow network entry points and gateways to return improperly formatted transactions to the originator and to allow VANs to filter out unnecessary information before downloading it to vendors. Recent revisions to the VAN certification process may help resolve or diminish the problems associated with transmitting improperly formatted transaction sets through FACNET. The revised VAN certification process requires VANs and their trading partners to demonstrate that they can exchange transaction sets in a standard format before the VAN is certified to conduct business with the Government. Concerning unnecessary contractor information, vendors stated that they receive contract solicitations that are not applicable to their Federal supply class and solicitations that contain the full text of Federal Acquisition Regulation clauses. As a result, vendors have limited their use of FACNET to avoid the unnecessary costs associated with receipt of that type of information. Although the Federal Acquisition Regulation requires that the full text of many applicable clauses be included in contracts and contract solicitations, optional
Vendor Participation in Using FACNET

clauses may be included in contracting documents by reference, meaning clause numbers and dates only. Therefore, to avoid unnecessary costs, the Deputy Under Secretary of Defense (Acquisition Reform) should require contracting officers to provide only clause numbers and dates, when possible, in contracts and contract solicitations.

Solution to Reliability Impediments. DISA is redesigning the FACNET infrastructure, referred to as the Electronic Commerce Processing Node. According to DISA officials, the redesign should improve FACNET reliability, including lost and late transactions, the inability to track transactions, and the lack of acknowledgments for receipt of transactions. The redesign, however, may not resolve problems relating to invalid data input into FACNET. At present, DISA has not established milestones for implementation of the Electronic Commerce Processing Node. In conjunction with the redesign, DISA needs to verify that the impediments identified by the vendors are adequately considered. Failure to adequately consider vendor concerns could further damage DoD credibility with vendors and further discourage vendor participation in using FACNET.

Summary

Vendors are either not aware of or are not willing to participate in FACNET to conduct small purchase transactions with DoD. Until vendors are aware of FACNET, consider it appropriate to their business needs, and consider it reliable, DoD credibility in the development and implementation of FACNET will continue to be impaired. Furthermore, widespread vendor participation in FACNET will not occur, as envisioned in acquisition streamlining strategies.

Efforts to make vendors aware of EC/EDI technologies, including FACNET, have not proved worthwhile. Accordingly, DoD needs to reevaluate the methods used to disseminate information on FACNET and channel funds where they can realize the greatest benefit.

In addition, Federal Acquisition Circular 90-29 and recent changes to the Federal Acquisition Streamlining Act provide flexibility for when FACNET, or other procurement methods, may be used for small purchases. By contrast, the DoD Director, Electronic Commerce, issued guidance that FACNET will be the method of choice in DoD. Guidance is needed to clarify when FACNET should be used.

Finally, DISA needs to resolve quickly the problems in the transmission of data through FACNET by implementing either the Electronic Commerce Processing Node or interim measures. Either alternative should address the issues identified in this report.
Revised Recommendations. As a result of management comments, we added Recommendation 1.d. to require contracting officials, when possible, to improve the current practices associated with the transmission of Federal Acquisition Regulation clauses through the FACNET. We request that the Deputy Under Secretary of Defense (Acquisition Reform) comment on the added recommendation in response to the final report.

1. We recommend that the Deputy Under Secretary of Defense (Acquisition Reform):

   a. Define when the Federal Acquisition Computer Network is appropriate for small purchases, and require contracting officials to use it accordingly.

   b. Identify effective outreach methods for disseminating information to vendors on DoD electronic commerce/electronic data interchange technologies and the Federal Acquisition Computer Network and implement the most effective outreach methods.

   c. Redirect DoD funding currently earmarked for specific outreach methods to those methods identified in Recommendation 1.b.

   d. Require contracting officials to reference the number and date of Federal Acquisition Regulation clauses, when possible, rather than include the full text of those clauses as a means of reducing the amount of data transmitted to vendors through the Federal Acquisition Computer Network, thereby reducing the cost of transmitting data.

Management Comments and Audit Response. The Deputy Under Secretary of Defense (Acquisition Reform) did not provide comments on a draft of this report. Therefore, we request that the Deputy Under Secretary of Defense (Acquisition Reform) provide comments in response to the final report.

2. We recommend that the Director, Defense Information Systems Agency:

   a. Verify that implementation of the Electronic Commerce Processing Node will correct technical problems associated with the Federal Acquisition Computer Network such as timeliness of transactions, data standardization, and adequacy of transaction feedback, and identify milestones for the implementation of corrective actions.

Defense Information Systems Agency Comments. DISA concurred with the recommendation and has already begun to take action in response to specific areas.
DISA conducted a series of operational tests of transactions transmitted through the new Electronic Commerce Processing Node environment. The tests showed that the time to process transactions, the average speed of service, and the adequacy of feedback on transactions was timely and reliable.

With regard to data standardization, all transaction sets that are not compliant with the American National Standards Institute standards are rejected. In addition, commercial VAN networks connected to the Government's infrastructure are required to be in compliance with those standards. By complying with standards established by the American National Standards Institute, improperly formatted transactions sent through the infrastructure are eliminated. Receiving unnecessary contract information, on the other hand, is a separate issue from data standardization. Unnecessary contract information is "boilerplate" contract information that is forwarded to vendors as part of a request for quote because that information is required by existing contracting regulations.

Concerning transaction feedback, it is not cost-effective to include a functional acknowledgment capability to the existing infrastructure. That capability will be included as part of the new VAN license agreement, "Transaction Acknowledgment," and will be designed into the new Electronic Commerce Processing Node environment. DISA and DoD tested the functional acknowledgment capability as part of the new Electronic Commerce Processing Node operational environment.

Testing of the new Electronic Commerce Processing Node environment was completed on June 7, 1996. Migration to the new environment will probably occur during the first quarter of FY 1997. To further improve the timeliness and the adequacy of feedback on transactions, the Electronic Commerce Processing Node will incorporate DoD gateway functionality during the second and third quarters of FY 1997.

**Audit Response.** Management comments are partially responsive. Concerning timeliness of transactions and transaction feedback, we request that DISA provide a copy of the formal test reports that identify results of the operational testing and the functional acknowledgment capability testing of the new Electronic Commerce Processing Node environment.

Concerning transmitting standard data, we agree that compliance with the American National Standards Institute standards would eliminate improperly formatted transactions; however, the vendors stated that not all transaction sets received by the network entry point and gateways are compliant with those standards. Therefore, noncompliant transaction sets are not always rejected by FACNET. We could not discern from DISA comments whether the Electronic Commerce Processing Node environment contains the envisioned auditing and editing capabilities to permit users to obtain reliable transactions, return bad transactions to originators, and retransmit or reprocess corrected transactions. Therefore, we request that DISA provide additional comments concerning the implementation of auditing and editing features.
We disagree that "boilerplate" contract information, such as the "optional" clauses in the Federal Acquisition Regulation, need to be included in full text with transactions sent through the FACNET infrastructure. Transmitting that information in full rather than referencing the number and effective date of the clause is not cost-effective to either the vendor or the Government. To reduce related unnecessary costs, we added the recommendation to the Deputy Under Secretary of Defense (Acquisition Reform) to require contracting officials to reference only the numbers and dates of optional clauses when possible.

b. Identify interim measures for resolving technical problems identified in this report until the Electronic Commerce Processing Node is implemented.

Management Comments. DISA concurred with the recommendation and has taken several steps to resolve technical problems.

To enhance user speed of service, accountability, and system throughput of the existing environment, DISA engineers made software improvements at the network entry points. DISA engineering teams provided in-service support and are continuing to be available on an as-needed-basis.

To ensure data standardization, DISA Center for Standards tests all transaction sets that VANs and their respective trading partners exchange. The tests are conducted as part of the VAN certification process for all VANs connected to and operating on the Government infrastructure. In addition, all Government gateways and application information systems are tested before being certified and on a yearly basis thereafter.

Audit Response. DISA comments are partially responsive. Due to recent changes to the VAN licensing agreement, dated August 23, 1996, we agree that the VAN certification process should ensure that VANs and their trading partners are able to exchange transactions sets in a standard format. The more stringent functional tests may also help to eliminate the transmission of improperly formatted transactions as discussed in the DISA response to Recommendation 2.a. We commend DISA for the efforts taken to resolve technical problems. However, our records indicate that as of August 20, 1996, four software problems on the new EC/EDI software version 1.07, which supports the Electronic Commerce Processing Node environment, and one communication problem remain unresolved. As a result of those problems, DISA postponed implementation of the new environment until the first quarter of FY 1997. We request that DISA provide additional comments in response to the final report on how and when those software problems will be resolved.
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Part II - Additional Information
Appendix A. Scope and Methodology

Scope

Vendor Surveys. Using a questionnaire, we conducted 100 telephone surveys of vendors from December 1995 through February 1996, to determine whether vendors were familiar with FACNET and to determine what their experiences were using FACNET. The questionnaire queried vendors' background, cost incurred to use the FACNET, extent of FACNET training, percentage of business with DoD, and vendors' experience with using the FACNET. For the 100 vendors surveyed, we obtained information from either the business owner or a sales representative. We did not verify the information obtained from the questionnaire; however, we did discuss the vendor survey results with the DoD Director, Electronic Commerce; the Office of the Assistant Secretary of the Army (Research, Development, and Acquisition); the Office of the Assistant Secretary of the Navy (Research, Development, and Acquisition); the Secretary of the Air Force (Acquisition); and the Joint Interoperability Engineering Organization at DISA. We did not audit management controls.

Use of Computer-Processed Data. We relied on computer-processed data from the DoD Director, Electronic Commerce, and the Small Business Administration to provide us with a reasonable representation of about 60 vendors conducting business with the Federal Government. We performed limited tests of the computer-processed data to determine reliability. We determined that the data from the DoD Director, Electronic Commerce, contained duplicate vendor records and that the Small Business Administration data contained vendors who were not interested in conducting business with the DoD and who were not interested in using FACNET. Therefore, we were unable to get a statistically reliable sample of vendors from the computer-processed data.

Audit Periods, Standards, and Locations. We performed this program audit from October 1995 through May 1996 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. See Appendix E for organizations visited or contacted. A list of vendors contacted will be made available upon request.

Methodology

We determined that we would survey about 30 vendors each from the DoD Director, Electronic Commerce, and the Small Business Administration data bases and from the CCR list provided by DISA. Further, we determined that we would survey about 10 vendors from the VAN and the Office of the Assistant Secretary of the Army (Research, Development, and Acquisition) lists of vendors to reach our goal of 100 telephone surveys. To reach that goal, we
made 153 attempts to contact vendors from the 5 sources. The other 53 vendors declined to participate in the survey, had invalid phone numbers, or did not respond to our telephone message. The actual number of vendors surveyed from each source is as follows:

- 38 vendors from the Procurement Automated Source System data base of about 220,000 vendors;
- 31 vendors from the DoD Director, Electronic Commerce Office data base of 208,915 vendors;
- 20 vendors from the DISA vendor list of 492 vendors who were registered in the CCR as of August 1995;
- 10 vendors from the VAN list of 18 vendors; and
- 1 vendor identified by the Office of the Assistant Secretary of the Army (Research, Development and Acquisition).

We collected data from the five sources by telephone interview. If businesses were not familiar with FACNET but were interested in learning more about it, we provided a brief overview of FACNET and a toll-free number to the DoD Electronic Commerce Information Center in Virginia for further information.
Appendix B. Summary of Prior Audits and Other Reviews

Report No. 96-172, Inspector General, DoD, "Certification and Management of Value-Added Networks," June 21, 1996. DISA did not establish an adequate Government VAN certification process and did not adequately monitor the VAN license agreement to verify compliance with its provisions. As a result, 15 of the 25 VANs were certified even though the adequacy of their financial resources was questionable, and the Government cannot ensure that control is exercised to prevent and resolve deficient services by the VANs. Also, the Government and vendors may be affected by the potential loss of business. The report recommends that the Director, DISA, issue policy for evaluating business qualifications, for monitoring VANs for compliance with the VAN license agreement, and to expedite the completion and issuance of the new VAN license agreement. Management concurred with the recommendations on monitoring VANs and expediting the new VAN license agreement, but nonconcurred with the recommendation to issue policy for evaluating business qualifications. Due to the more stringent functional tests in the new VAN licensing agreement, issued August 23, 1996, we considered the comments responsive.

Report No. 96-129, Inspector General, DoD, "Audit of DoD Implementation of Electronic Commerce in Contracting for Small Purchases," May 24, 1996. The audit identified a series of issues involved in the implementation of EC within DoD. The issues were identified during a review of the implementation of FACNET at DoD buying organizations, gateways, network entry points, and VANs. The issues include realization of the "single face to industry" concept, adequacy of the transmission of data by the DoD FACNET infrastructure, implementation of security controls, level of vendor participation, adequacy of management controls for FACNET transactions, and adequate development of FACNET implementation plans. The Deputy Under Secretary of Defense (Acquisition Reform) and the DISA are aware of the issues and are implementing corrective actions; therefore, the report contained no recommendations and management did not comment on the report.

Report No. 96-057, Inspector General, DoD, "DoD Use of Electronic Bulletin Boards in Contracting," January 8, 1996. DoD procurement offices were not using electronic bulletin boards as a means of circumventing or impeding FACNET implementation. Rather, procurement offices were using bulletin boards as an interim means to meet their procurement requirements until the Government-wide FACNET was fully operational. No recommendations were made; however, the Deputy Assistant Secretary of the Air Force (Contracting), Office of the Assistant Secretary of the Air Force (Acquisition), commented on the report. The Deputy Assistant Secretary concurred with the audit results and emphasized the need for a common set of goals and definitions to be used in implementing EC/EDI. Also, the Deputy Assistant Secretary requested that the terms "full operational capability" and "single face to industry" be further defined.
Appendix C. Glossary of Terms

Electronic Commerce. Electronic commerce integrates electronic data interchange, electronic mail, electronic bulletin boards, and internal automated processing into a comprehensive system supporting all business functions.

Electronic Data Interchange. Electronic data interchange exchanges business data from computer to computer in a standardized format. Its prime function is to help businesses exchange data quickly and without error.

Gateway. A gateway is a system of both hardware and software that provides the ability to electronically exchange data between computer applications using standard EC/EDI transactions.

Network Entry Point. A network entry point is a collection of hardware and software that provides connectivity to commercial VANs to transmit transactions between DoD and its trading partners and vice versa.

Trading Partner. A trading partner is a customer, supplier, or service provider that conducts business with a DoD organization.

Value-Added Network (VAN). A VAN is a commercial communications network that provides a variety of services that allows trading partners to have one procurement environment.
Appendix D. Other Matters of Interest

Effectiveness of the Central Contractor Registry Process. Of the 100 vendors surveyed, 9 identified that the CCR was not effective in providing feedback on whether their registrations for the CCR were received and validated. The CCR is a single registration intended to replace the repetitive, manual registration at each procurement office throughout the Federal Government and to streamline the acquisition and payment process by collecting standard information. Although vendors who register in the CCR are not necessarily planning to use FACNET or to become EC/EDI capable, the CCR is one measure that DoD has to determine the extent vendors are participating in FACNET since vendors must eventually register in the CCR to use it. As of March 1996, only 767 vendors out of approximately 300,000 Government-wide are registered in the CCR. The Office of Federal Procurement Policy within the Office of Management and Budget expressed concerns that significant numbers of vendors are not registering in the CCR to use FACNET.

Efforts to Correct CCR Deficiencies. DISA is developing a new version of the CCR data base that should correct deficiencies cited by vendors. However, implementation of the new version is already 1 year behind schedule, and no definite milestones for full operational capability have been established. During our audit, we determined that the Defense Logistics Agency may have a viable solution for satisfying deficiencies and for increasing vendor registration in the CCR data base using available technologies. We also determined that the Small Business Administration could use its existing Procurement Automated Source System data base of vendors to populate the CCR data base.

Request to Review CCR. The Chair of the CCR Financial Work Group requested that the Inspector General, DoD, conduct a systems review and risk assessment of management controls over the sufficiency, integrity, and security of information contained in the CCR. The Inspector General, DoD, plans to address management controls as well as the effectiveness and program management of the CCR in a separate audit.
Appendix E. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology, Washington, DC
Deputy Under Secretary of Defense (Acquisition Reform), Washington, DC
Electronic Commerce Office, Washington, DC

Department of the Army

Assistant Secretary of the Army (Research, Development, and Acquisition),
Washington, DC
Auditor General, Department of the Army, Washington, DC

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller),
Washington, DC
Assistant Secretary of the Navy (Research, Development, and Acquisition),
Washington DC

Department of the Air Force

Assistant Secretary of the Air Force (Acquisition), Washington, DC
Assistant Secretary of the Air Force (Financial Management and Comptroller),
Washington, DC

Other Defense Organizations

Defense Information Systems Agency, Arlington, VA
C4 Intelligence Programs, Arlington, VA
Electronic Commerce/Electronic Data Interchange Program Management Office,
Falls Church, VA
Joint Interoperability and Engineering Organization, Herndon, VA
Defense Logistics Agency, Alexandria, VA

Non-Defense Federal Organizations

Electronic Commerce Acquisition Program Management Office, Washington, DC
General Accounting Office, Washington, DC
Small Business Administration, Washington, DC

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Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Deputy Under Secretary of Defense (Acquisition Reform)
  Director of Defense Procurement
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Information Systems Agency, Arlington, VA
Director, Defense Logistics Agency
Other Defense Organizations (Cont'd)

Director, National Security Agency
   Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
   General Accounting Office
Small Business Administration

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

   Senate Committee on Appropriations
   Senate Subcommittee on Defense, Committee on Appropriations
   Senate Committee on Armed Services
   Senate Committee on Governmental Affairs
   House Committee on Appropriations
   House Subcommittee on National Security, Committee on Appropriations
   House Committee on Government Reform and Oversight
   House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
   House Committee on National Security
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Part III - Management Comments
MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
ATTN: Director, Contract Management

SUBJECT: Draft Audit Report on Vendor Participation in the Federal Acquisition Computer Network (Project No. 6CA-0005)

Reference: DODIG Report, subject as above, 6 Jun 96

The Defense Information Systems Agency (DISA) has reviewed the subject draft report and concurs with the findings and recommendations. Our detailed management comments are enclosed. The point of contact for this action is Ms. Sandra J. Sinkavitch, Audit Liaison, on (703) 607-6316.

FOR THE DIRECTOR:

[Signature]

RICHARD T. RACE
Inspector General

Quality Information for a Strong Defense
COMMENTS TO DODIG DRAFT AUDIT REPORT ON
VENDOR PARTICIPATION IN THE FEDERAL ACQUISITION COMPUTER NETWORK
(Project No. 6CA-0005)

1. RECOMMENDATION 2.a: Verify that implementation of the
Electronic Commerce Processing Node will correct technical
problems associated with PACNET such as timeliness of
transactions, data standardization, and adequacy of transaction
feedback and identify milestones for the implementation.

RESPONSE: Concur. DISA has outlined actions taken in response to
each specific area identified in the recommendation:

a) Timeliness of Transactions: To document the new
Electronic Commerce Processing Node environment, DISA conducted a
test of the new system from 23 April 1996 to 8 May 1996. Testing
consisted of various operational scenarios between the Joint
Interoperability Test Center (JITC) and the Operational Support
Facility. Under the worst case scenario, systems throughput was
measured at 98.45%, transaction accountability at 99.95%, and
Average Speed of Service at 73 minutes. This test was duplicated
between 4 and 7 June 1996; however, testing was conducted in the
operational environment using the system's production locations
(Defense Megacenters Ogden and Columbus). Transaction
stimulation was again injected by JITC. Again, various
operational scenarios were run with system throughput measured at
98.5%, Accountability at 99.98%, and Average Speed of Service
being measured at 56 minutes (measurements taken under worst case
operational scenario). JITC's measurements of the new
infrastructure validated the timeliness of the new environment to
process transactions. Formal test reports are available upon
request.

b) Data Standardization: All transaction sets used by the
Department's infrastructure are supposed to be American National
Standards Institute (ANSI) X12 compliant. Transaction sets
received by the Network Entry Point/Electronic Commerce
Processing Node/Gateway are rejected if they are not compliant
with the Federal Government's standards. Commercial Value Added
Networks connected to the Government's infrastructure are
required to be in compliance with these standards. By complying
with these standards, improperly formatted transactions sets are
eliminated. Page 12 of the draft audit report, paragraph
titled "Transmitting Standard Data" discusses vendors concerns
with "unnecessary contract information that is useless to them but for which they are still required to pay their VANs." This is a separate issue from data standardization. The issue here is that vendors are questioning why they have to receive this "boiler plate" information and why the EC/EDI system cannot filter out this data. The "boiler plate" information is forwarded to the vendors because it is required by existing contract regulations. To ensure an equitable system to all users of the EC/EDI system, boiler plate contract information is provided. The Government has no way of knowing whether a particular vendor already has this boiler plate information when they establish a session with their respective VAN. Therefore, the boiler plate data is always submitted as part of the Request for Quote transaction set.

c) Transaction Feedback: Working with the functional proponent, it was determined not to be cost effective to require this change be made to the existing infrastructure. However, DISA was asked to have this included as part of the new Van License Agreement (section 1.2.4.4 (Transaction Acknowledgment)) and also have this capability designed into the new Electronic Commerce Processing Node environment. This functional acknowledgment capability was tested as part of the DISA and DOD tests of the new operational environment.

d) Time lines: Testing of the DOD's infrastructure was completed on 7 June 1996. Migration to the new Electronic Commerce Processing Node environment will most likely occur during first quarter of FY97. To further improve service, the existing DOD Gateways will be collapsed into the new Electronic Commerce Processing Nodes during the second and third quarters of FY97. This move will further improve transaction processing timeliness and accountability of transactions.

2. RECOMMENDATION 2.b: Until implementation of the Electronic Commerce Processing Node is implemented, identify interim measures for resolving technical problems identified in this report.

RESPONSE: Concur. DISA has taken several steps to resolve technical problems. To enhance timeliness of the existing environment, DISA's engineering teams have worked with both Network Entry Points to "fine tune" the software in order to
improve the users speed of service, accountability, and throughput. When problems arise, engineering teams have either remotely logged into the operational systems or physically went to the Network Entry Point locations to work with the operators to fix system problems. This in-service engineering support continues to be available to the operational community on an as needed basis. To ensure data standardization of transaction sets, DISA's Center for Standards is part of the Value Added Network (VAN) certification process. All VANs currently connected to the Department's infrastructure, currently in the testing phase, or in the que to become a certified VAN and operate on the infrastructure, must be tested for all transactions sets they may process for their respective trading partners. Additionally, our process requires all Government Gateways and Application Information Systems to be tested prior to obtaining certification and thereafter on a yearly basis. Transaction feedback is discussed in Recommendation 2a, above. Other problems identified with the infrastructure are worked on a case-by-case basis by the operational community and engineering team.
Audit Team Members

This report was produced by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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