Audit Report

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MILITARY WORKING DOG PROCUREMENTS

Report No. D-2000-102 March 14, 2000

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Acronyms

AFB	Air Force Base
DFARS	Defense Acquisition Regulation Supplement
FAA	Federal Aviation Administration
FAR	Federal Acquisition Regulation
MWD	Military Working Dog

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

March 14, 2000

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on Military Working Dog Procurements
(Report No. D-2000-102)

We are providing this audit report for information and use. We conducted the audit in response to a request from Representative Lamar Smith. Because this report contains no findings or recommendations, no written comments were required and none were received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Garold E. Stephenson at (703) 604-9332 (DSN 664-9332) (gstephenson@dodig.osd.mil) or Mr. Eric B. Edwards at (703) 604-9219 (DSN 664-9219) (eedwards@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

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Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2000-102 **March 14, 2000**
(Project No. 9CH-5027)

Military Working Dog Procurements

Executive Summary

Introduction. This report addresses the contracting practices that the Air Force used to procure military working dogs. The audit was performed in response to a request by Representative Lamar Smith related to allegations concerning military working dog procurements.

The Air Force is responsible for procuring and managing military working dogs for the DoD. The Air Force assigned logistics management responsibilities to the Air Education and Training Command, which further assigned responsibility to the 341st Training Squadron. The 341st Training Squadron recruits, evaluates, and processes prospective military working dogs. The 341st Training Squadron has an annual budget of about $1.2 million to procure potential military working dogs.

Objectives. Our primary objective was to determine whether recent procurements of military working dogs by the 341st Training Squadron complied with section 10a, title 41, United States Code (41 U.S.C. 10a -- commonly known as the Buy American Act) and other procurement laws and regulations. We also reviewed the management control program as it related to the primary objective.

Results. Military working dog procurements in FYs 1998 and 1999 by the 341st Training Squadron complied with the Buy American Act and other procurement laws and regulations. The allegations were not substantiated. The 341st Training Squadron did not violate the Buy American Act; incur unnecessary costs to the Government for airfare, lodging, per diem, and rental car fees associated with the European trips; give preferential treatment to European vendors; or improperly pay transportation costs for dogs from European vendors. The management controls were adequate. See the Finding section for a discussion of the audit results and Appendix A for details on the management control program.

Management Comments. We provided a draft of this report on February 11, 2000. Because this report contains no adverse findings or recommendations, written comments were not required and none were received. Therefore, we are publishing this report in final form.

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Background

The audit was requested by Representative Lamar Smith on behalf of a constituent from the Hill Country Dog Center. The complainant alleged that the 341st Training Squadron (341st TRS) at Lackland Air Force Base (AFB) violated the Buy American Act and other procurement regulations when military working dogs (MWDs) were procured.

Buy American Act. The Buy American Act, enacted March 3, 1933, restricts foreign access to U.S. Government procurements by giving preference to domestically produced or manufactured products. The Federal Acquisition Regulation (FAR), part 25, "Foreign Acquisition," and Defense Acquisition Regulation Supplement (DFARS), part 225, "Foreign Acquisition," explain the policies and procedures for implementing the Buy American Act. In general, the FAR requires that only domestic end-products be acquired for public use in the United States on procurements that exceed the $2,500 micropurchase ceiling. The DoD determined that it was inconsistent with the public interest to apply the Buy American Act and Balance of Payments Program restrictions to acquisitions for public use of certain supplies that are mined, produced, or manufactured in the 17 foreign countries where memoranda of understanding or other international agreements exist. The 17 countries are identified as "qualifying countries" in DFARS 225.872, "Contracting with Qualifying Country Sources."

Military Working Dog Program. The DoD assigned the Air Force responsibility for managing the MWD program. The Air Force assigned logistics management responsibilities for the MWD program to the Air Education and Training Command, which further assigned responsibility to the 341st TRS. The 341st TRS procured, trained, and distributed all MWDs. The 341st TRS also supported dog and handler training for the Federal Aviation Administration (FAA).

In August 1999, the DoD had an inventory of 1,326 MWDs that were performing security missions worldwide. The DoD inventory consisted of dual-purpose (patrol/explosive or patrol/drug dogs) or single-purpose patrol, explosive, or drug dogs. The 341st TRS provided training for the dogs in three areas.

- Patrol dogs were trained for a variety of tasks that included building searches, scouting, and controlled aggression.
- Explosive detector dogs were trained on different explosive substances and chemical compounds and were required to meet a 95 percent accuracy rate to pass the training.
- Drug detector dogs were trained on a variety of illicit substances and required to meet a 90 percent accuracy rate to pass.

MWD Procurements. The 341st TRS procured about 300 dogs annually to maintain the inventory of MWDs. In FYs 1998 and 1999, the 341st TRS had a

budget of $1.2 million per year for the procurement of MWDs. The 341st TRS procured MWDs from both U.S. and European vendors in FYs 1998 and 1999, as shown in Table 1.

Table 1. Military Working Dog Procurements

	Total Dogs Procured		Procurement Cost	
FY	U.S.	European	U.S.	European
1998	308	76	$1,050,529	$163,410
1999	154	125	549,090	283,292
Total	**462**	**201**	**$1,599,619**	**$446,702**

The 341st TRS used basic ordering agreements with U.S. and European vendors to meet the annual requirements for MWDs. The 341st TRS selected the potential MWDs from the vendors using a two-part evaluation process. The first part of the evaluation consisted of a medical examination by Army veterinarians to determine whether the dogs were physically suitable. The second part of the evaluation consisted of a behavior assessment of the dogs' temperament and its training potential.

Objectives

Our primary objective was to determine whether recent military working dog procurements by the 341st TRS complied with section 10a, title 41, United States Code (41 U.S.C. 10a -- commonly known as the Buy American Act) and other procurement laws and regulations. We also reviewed the management control program as it related to the primary objective. See Appendix A for a discussion of the audit process and the review of the management control program.

Allegations Concerning Military Working Dog Procurements

The recent MWD procurements by the 341st TRS complied with the Buy American Act and other procurement laws and regulations. The allegations of the complainant were not substantiated. The 341st TRS did not violate the Buy American Act; incur unnecessary costs to the Government for airfare, lodging, per diem, and rental car fees associated with the European trips; give preferential treatment to European vendors; or improperly pay transportation cost for dogs from European vendors.

Allegations and Audit Results

Allegation 1. The 341st TRS violated the Buy American Act by procuring potential MWDs directly from European vendors. In addition, the 341st TRS traveled to Europe to procure dogs before making thorough attempts to meet its requirements from U.S. vendors.

Audit Results. The allegation was not substantiated. The FAR 25.102, "Policy," allows an exception to the Buy American Act if the items, ". . . are not mined, produced, or manufactured in the United States in sufficient and reasonably available commercial quantities, of a satisfactory quality." The 341st TRS obtained approval of a "nonavailability determination" from the 37th Contracting Squadron Commander in accordance with FAR 25.102, because the U.S. vendors could not provide sufficient quantities of suitable MWDs to meet DoD requirements. Further, the 341st TRS made all of the European procurements in qualifying countries (Germany and Netherlands) where the Buy American Act does not apply. The DFARS 225.872-1, "General," states that the restrictions of the Buy American Act do not apply to the acquisition of defense equipment which is mined, produced, or manufactured in a qualifying country.

The 341st TRS initially procured MWDs directly from European vendors when the FY 1997 procurement requirement of 313 dogs was not met. Of the 495 dogs received from U.S. vendors for evaluation, the 341st TRS accepted 183, which was 130 dogs short of the FY 1997 procurement requirement. The 341st TRS conducted market surveys, advertised in the Commerce Business Daily, and trade publications, in an effort to reach the requirement from U.S. vendors. These actions allowed the 341st TRS to increase the number of basic ordering agreements with U.S. vendors from 6 to 11, and to obtain MWDs from 17 additional sources in FYs 1998 and 1999. Despite the actions of the 341st TRS, U.S. vendors were unable to provide sufficient quantities of MWDs to meet DoD requirements.

Allegation 2. The Government incurred unnecessary costs for airfare, lodging, per diem, and rental car fees associated with the trips to Europe.

Audit Results. The allegation was not substantiated. The average cost of MWDs procured from the European vendors did not significantly differ from

the prices that the U.S. vendors charged. In FYs 1998 and 1999, the average costs of MWDs procured from European vendors was $3,472 and $3,265, respectively, as shown in Table 2.

Table 2. Average Cost of MWDs Procured from European Vendors in FYs 1998 and 1999

Cost Categories	1998	1999
Cost of dogs	$163,410	$283,292
Travel	72,030	51,292
Shipping	28,455	54,691
Kennel	0	18,881
Total	**$263,895**	**$408,156**
Total dogs procured	76	125
Average cost	$ 3,472	$ 3,265

The MWDs procured from the European vendors consisted primarily of untrained potential patrol/detector dogs. The FY 1998 prices for potential patrol/detector dogs from U.S. vendors ranged from $2,800 to $3,400 and in FY 1999, the prices ranged from $3,300 to $4,000. The U.S. vendor prices did not include other costs that the 341st TRS may have incurred, such as kennel and shipping costs. Despite the unique costs associated with the European trips, in FY 1998, the average cost per MWD procured from the European vendors was competitive with prices charged by the U.S. vendors. In FY 1999, the average cost of the MWDs procured from the European vendors was generally lower than the U.S. vendor prices.

Allegation 3. In March 1999, the 341st TRS paid shipping costs for about 60 untrained, untested dogs from European vendor facilities to Lackland AFB for evaluation. The complainant claimed that it would have been cheaper if the 341st TRS had made this exception to the statement of work for the U.S. vendors.

Audit Results. The allegation was not substantiated because the total cost of MWDs from the European vendors was not higher than the cost of dogs procured from U.S. vendors. The 341st TRS paid about $26,500 ($500 per dog) to ship 53 potential MWDs from Europe to Lackland AFB for evaluation in accordance with the European vendor statement of work. The 341st TRS paid the transportation costs for the European vendors because the Air Force needed 108 certified patrol/explosive MWDs to satisfy a priority requirement. The 341st TRS accepted 20 of the 53 dogs from the European vendors as untrained potential patrol/detector dogs. The average cost for the 20 European dogs was $3,218 ($2,718 plus $500 shipping), while the selling prices for similar dogs from the U.S. vendors ranged from $3,300 to $4,000.

Allegation 4. The 341st TRS evaluated the potential MWDs at the European vendors' facilities. Because the on-site evaluations occurred in a familiar, less stressful environment with the European vendors present, the European vendors had a higher acceptance rate for their dogs than the U.S. vendors.

Audit Results. The allegation was not substantiated. In addition to conducting the initial medical and behavior evaluations at the vendors' facilities in accordance with the statement of work, the 341st TRS performed a behavior evaluation at the British Air Base in Padderborn, Germany. The comparison of the rejection rates for the U.S. and European vendors showed that the European vendors did not benefit from the on-site evaluations. Table 3 shows that the rejection rates in FY 1998 were substantially higher for the European vendors, while the rejection rates in FY 1999 for the U.S. and European vendors were identical.

Table 3. Percentage of MWD Rejections for U.S. and European Vendors

	Type of Evaluation					
	Medical		Behavior		Overall	
Vendors	1998	1999	1998	1999	1998	1999
U.S.	17	25	32	37	49	62
European	8	10	73	52	81	62

Allegation 5. The 341st TRS conducted lenient medical examinations of the dogs from the European vendors, resulting in a lower rejection rate for medical reasons. In addition, the lenient medical examinations resulted in the 341st TRS accepting dogs that did not meet the requirements in the statement of work.

Audit Results. The allegation was not substantiated. We found no evidence that the 341st TRS conducted lenient medical examinations or that the 341st TRS procured dogs that did not meet the requirements. Although dogs obtained directly from the European vendors had lower rejection rates for medical reasons, the overall rejection rates for FYs 1998 and 1999 showed that the Europeans did not have an advantage in the selection of their dogs. Officials of the 341st TRS offered two possible explanations for the differences in the medical rejection rates. First, the U.S. vendors may not have offered the 341st TRS their best dogs, because they could be sold to other U.S. customers, such as police departments, at higher prices. Second, the new U.S. vendors that the 341st added during FYs 1998 and 1999 may have been unfamiliar with the medical requirements for potential MWDs.

Interviews with Military Departments and FAA program managers responsible for MWDs identified a high level of satisfaction with the MWDs received from the 341st TRS during FYs 1998 and 1999. The program managers' consensus was that the quality of MWDs had significantly improved since the 341st TRS began direct procurements from the European vendors.

Allegation 6. The 341st TRS added provisions to the statement of work after the fact regarding the mobile buy teams and modified mobile buy teams to justify procurements made on the European trips.

Audit Results. The allegation was not substantiated. The statement of work in the basic ordering agreements with the European vendors had a provision for mobile and modified buy teams before the first European trip in November 1997. In December 1997, the 341st TRS added a clause for mobile and modified buy teams to the statement of work in the basic ordering agreements with the U.S. vendors. The clause that the 341st TRS added to the statement of work for the U.S. vendors had no impact on the European trips.

Allegation 7. In July 1999, the 341st TRS gave a European vendor an unfair competitive advantage by meeting and discussing a pending contract solicitation.

Audit Results. The allegation was not substantiated. On July 5, 1999, a European vendor met with the 341st TRS and the 37th Contracting Squadron to discuss setting up U.S. based operations to bid on a pending contract solicitation. The meeting did not give the European vendor an advantage because the solicitation identified the pending contract as a 100 percent small business set-aside, in accordance with FAR 52.219-6, "Notice of Total Small Business Set-Aside." The DFARS 225.872-3, "Solicitation Procedures," states that the DoD cannot consider a bid from a foreign vendor when the solicitation reserves the contract award exclusively for a small business firm. In addition, the bids for the solicitation were due on July 9, 1999, or 4 days after the July 5, 1999, meeting with the European vendor. This did not allow the vendor sufficient time to establish a U.S. operation as a small business or gain an unfair advantage. On December 15, 1999, the 37th Contracting Squadron awarded three U.S. vendors contracts under the solicitation.

Allegation 8. On the European trips, the 341st TRS procured dogs at a cost above what U.S. vendors pay their European suppliers, raising the market price for anyone procuring MWDs.

Audit Results. The validity of the allegation could not be substantiated. On September 16, 1999, a European supplier of dogs to the complainant raised the prices of his dogs from $1,975 to $2,325. The European supplier stated that the price increase was necessary because of the DoD procuring dogs in Europe. We could not confirm that the supplier's price increase was necessary because the supplier did not provide reliable cost data to support the need for the price increase. As a private business, the supplier and complainant are guided by their profit goals and the market prices of what they buy and sell. The Government buyer, in this case the 341st TRS, must consider the cost of what they are buying. Economic choice involves weighing the utility or benefit to be gained against the cost that must be incurred. As stated in the audit response to Allegation 2, the costs incurred by the 341st TRS to procure dogs from the European vendors was competitive with the prices charged by U.S. vendors.

Allegation 9. The 341st TRS illegally fixed the prices for MWDs. In addition, the 341st TRS refused to order dogs from the complainant because his prices were higher than the prices set by the 341st TRS.

Audit Results. The allegation was not substantiated. The 341st TRS was not under any obligation to order dogs from vendors with basic ordering agreements whose prices were too high. The FAR 16.703, "Basic Ordering Agreements," states that a basic ordering agreement shall not state or imply any agreement by the Government to place future contracts or orders with the contractor. The 341st TRS wanted to limit the price paid for potential MWDs, and in July 1999 conducted a historical review of the prices. The 341st TRS determined that $4,200 was a fair and reasonable price to pay for potential MWDs. According to contracting officials, the $4,200 was a Government cost estimate, not a cost limitation. After the 341st TRS established the cost estimate, it continued to order and procure potential MWDs from the complainant that were within an acceptable price range. The complainant received orders for delivery of 30 dogs from July through August 1999, of which the 341st TRS accepted 8 dogs at a total cost of $31,500.

Allegation 10. The 341st TRS intentionally procured (less costly) single-purpose dogs from European and U.S. vendors and subsequently trained them as dual-purpose dogs. For example, the 341st TRS rejected a male dog named Frieda as a dual-purpose dog because he did not meet the height requirement. The 341st TRS procured Frieda for $1,000 less as a detector dog and then entered him into training as a dual-purpose dog.

Audit Results. The allegation was not substantiated. The 341st TRS did not intentionally buy single-purpose dogs and subsequently train them as dual-purpose MWDs. The process that the 341st TRS used to procure a potential MWD included evaluating such factors as the dog's ability to chase, bite, carry a moving object, recognize an odor, and react to gunfire. The evaluation process did not guarantee that the 341st TRS could train the dog as originally evaluated. Our review of the 341st TRS procurements for FY 1998 identified three MWDs procured as single-purpose dogs that were later converted to dual-purpose MWDs. For example, a U.S. vendor sold a dog in April 1998 to the 341st TRS as an explosive-FAA dog for $3,075. The 341st TRS trained the dog as an explosive/patrol MWD. At the time, the U.S. vendor was selling explosive/patrol dogs for $4,115 or $1,040 more than an explosive-FAA dog. We also identified seven cases where the 341st TRS procured dual-purpose dogs that could only be trained as single-purpose MWDs.

Frieda, the dog on which the allegation was based, was an example of a dog that the 341st TRS could train only as a single-purpose MWD. The complainant sold Frieda as a explosive-FAA dog for $3,350. The 341st TRS did not reject Frieda as a dual-purpose dog because he did not meet the height requirement. The statement of work contained a single height requirement of 22 inches, not a separate requirement for dual-purpose or single-purpose dogs. Frieda was 23 inches in height. The 341st TRS only began training Frieda as a dual-purpose (patrol/explosive) MWD for DoD after he was removed from the FAA program for being too aggressive. Frieda was unable to pass the explosive training and the Army was using him as a patrol dog. If the 341st TRS had procured Frieda as a patrol dog, he would have cost $2,250 or $1,100 less than Frieda's original purchase price.

Allegation 11. The complainant lost $50,000 in revenue because the 341st TRS stopped accepting dogs from U.S. vendors during a 6-week period from October through November 1998, while procuring dogs in Europe.

Audit Results. The validity of the allegation was not substantiated. The 341st TRS did not place any orders with U.S. vendors for the delivery of dogs in November 1998. As discussed in Allegation 9, the 341st TRS had no contractual obligation to order any dogs from vendors with basic ordering agreements. However, the 341st TRS tried to minimize the impact that the lack of orders for November 1998 would have on the U.S. vendors. On October 14, 1998, the 341st TRS sent a letter to the U.S. vendors that stated it would not accept dogs for evaluation from November 1 through November 21, 1998, because of a buying trip to Europe. The letter also informed the vendors that the 341st TRS would anticipate a slight increase in the number of dogs ordered for December 1998.

The complainant stated that during the 6-week period, the Hill Country Dog Center lost $18,300 in profit; $14,313 for boarding and maintaining 30 dogs; and $12,600 for boarding dogs that could not be shipped in, because of the shutdown. The $18,300 in lost profit was not a valid loss, because the complainant could have submitted the dogs in December 1998. The effects that the moratorium may have had on the complainant's boarding costs are undeterminable. Although the complainant stated that it had 30 dogs ready at the start of the 6-week period, the complainant submitted only 8 of 15 dogs that the 341st TRS requested for December 1998. In addition, the complainant assumed the risk of incurring additional expenses by having dogs available without a specific order from the 341st TRS.

Allegation 12. The 341st TRS unfairly denied the complainant transportation costs of about $1,500 for the return shipping of eliminated dogs in accordance with the statement of work.

Audit Results. The allegation that the 341st unfairly or arbitrarily denied payment to the complainant was not substantiated. The statement of work provided for reimbursement of transportation costs of rejected dogs back to the vendor's facility. Although the amount stated in the complaint was $1,500, the complainant actually submitted 5 invoices requesting reimbursement of transportation costs of $2,200. The complainant used a cost of $100 per dog to calculate the $2,200 transportation cost for picking up 22 dogs on 5 trips. Officials of the 341st TRS believed that reimbursement for a flat rate of $100 per dog for transportation within the San Antonio area was excessive and requested that the complainant resubmit the invoices with an itemized cost breakdown per dog. As of January 10, 2000, the complainant was recalculating the transportation costs but had not submitted an itemized invoice to the 341st TRS for review and approval.

Appendix A. Audit Process

Scope and Methodology

Work Performed. In evaluating the validity of the allegations, we reviewed the actions that the 341st TRS and the 37th Contracting Squadron took to comply with the Buy American Act and other procurement regulations. We reviewed the purchase orders that the 341st TRS and the 37th Contracting Squadron issued to the U.S. and European vendors during FYs 1998 and 1999. We reviewed the rationale that the 341st TRS used to justify the European trips as well as its efforts to obtain potential MWDs from U.S. vendors. We evaluated the cost effectiveness of the European trips and the potential impact of these trips on U.S. vendors. The European trips conducted by the 341st TRS occurred on five different occasions from November 1997 to June 1999. We also reviewed the process that the 341st TRS used to procure the MWDs from U.S. and European vendors. The documentation that we reviewed included statement of works, cost data, procurement histories, inventory records, contractor price lists, and trip reports.

We also interviewed officials from the 341st TRS and the 37th Contracting Squadron as well as the complainant. We interviewed the program managers responsible for MWDs in the Military Services and the FAA and officials from the 89th Security Forces Squadron at Andrews AFB. Our review covered the period from October 1997 through January 2000.

Use of Computer-Processed Data. We did not rely on computer-processed data during the audit.

Use of Technical Assistance. We obtained legal assistance from the Office of General Counsel, DoD, concerning the application of the Buy American Act to the MWD procurements.

DoD-Wide Corporate Level Government Performance and Results Act Goals. In response to the Government Performance Results Act, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals and performance measures. This report pertains to achievement of the following goal.

> **FY 2000 Subordinate Performance Goal 2.4:** Meet combat forces' needs smarter and faster, with products and services that work better and cost less, by improving the efficiency of DoD's acquisition processes. **(00-DoD-2.4)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Contract Management high-risk area.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from August 1999 through January 2000 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included such tests of the management controls that we deemed necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and the FAA. Further details are available upon request.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that program are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. The 341st TRS and the 37th Contracting Squadron did not identify compliance with the Buy American Act as an assessable unit and, therefore, did not identify or report any material management control weaknesses in this area. We reviewed the adequacy of the 341st TRS and the 37th Contracting Squadron management controls over the management and administration of the basic ordering agreements for the procurement of MWDs and the implementation of the Buy American Act.

Adequacy of Management Controls. The 341st TRS and the 37th Contracting Squadron management controls were adequate in that we identified no material management control weaknesses.

Prior Coverage

No prior coverage has been conducted on the subject during the last 5 years.

Appendix B. Report Distribution

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