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Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADCS</td>
<td>Automated Document Conversion System</td>
</tr>
<tr>
<td>DKE</td>
<td>Distributed Knowledge Environment</td>
</tr>
<tr>
<td>FAR</td>
<td>Federal Acquisition Regulation</td>
</tr>
<tr>
<td>FIRES</td>
<td>Facilities, Infrastructure and Engineering System</td>
</tr>
<tr>
<td>MIPR</td>
<td>Military Interdepartmental Purchase Request</td>
</tr>
</tbody>
</table>
MEMORANDUM FOR ASSISTANT DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS ARCHITECTURE)


We are providing this report for your information and use. We conducted the audit in response to your request dated September 11, 1998. Because this report contains no recommendations, written comments were not 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 (703) 604-9332 (DSN 664-9332) (gstephenson@dodig.osd.mil) or Mr. Eugene E. Kissner at (703) 604-9323 (DSN 664-9323) (ekissner@dodig.osd.mil). See Appendix E for the report distribution. Audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General for Auditing
Executive Summary

Introduction. We performed the audit in response to a request from the Assistant Deputy Under Secretary of Defense (Logistics Architecture). The Automated Document Conversion System Program is a Congressionally-sponsored, DoD-wide program to purchase hardware, drawing system solutions, and document conversion software and services for DoD to attain its goal of achieving a paperless, integrated, digital environment by the year 2002. Congress appropriated $45 million for the FY 1999 Automated Document Conversion System Program.

Objectives. The overall audit objective was to evaluate the effectiveness of the project selection and contract award processes for the FY 1999 Automated Document Conversion System Program. Specific objectives were to determine whether the procedures for selecting projects for contract award were adequate and complied with, and whether the procedures for awarding Automated Document Conversion System Program contracts promoted full and open competition.

Results. The process for identifying and prioritizing projects for the FY 1999 Automated Document Conversion System funding was conducted in a fair and objective manner. However, the program manager subsequently funded three projects, collectively valued at $18.44 million, that were not selected for funding by the Automated Document Conversion System Project Prioritization Integrated Team. As a result, four projects that the integrated team had recommended were not funded and the Services’ confidence in the fairness of the selection process may be diminished (finding A).

Although the Automated Document Conversion System Program Office issued guidance requiring use of full and open competition, the Services’ contracting officers used existing contracts for 13 FY 1999 Automated Document Conversion System projects, valued at about $43.8 million. As a result, the Automated Document Conversion System Program has not realized the benefits of competition, best innovative ideas, technical solutions, and prices for the program (finding B). On February 7, 2000, we made suggestions to improve the FY 2000 Automated Document Conversion System Program (see Appendix B). We are not including recommendations concerning the Automated Document Conversion System Program because management, in response to our suggestions, took action for the FY 2000 program that should correct the conditions noted in the findings (see Appendix C).
Management Comments. We provided a draft of this report on March 22, 2000. Because this report contains no recommendations, written comments were not required, and none were received. Therefore, we are publishing this report in final form.
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Background

Introduction. We performed the audit in response to a request from the Assistant Deputy Under Secretary of Defense (Logistics Architecture), Office of the Deputy Under Secretary of Defense (Logistics and Materiel Readiness). The Assistant Deputy Under Secretary requested the audit because of several queries from concerned contractors alleging favoritism and other inappropriate actions regarding the Automated Document Conversion System (ADCS) contract awards in FY 1998. The Assistant Deputy Under Secretary wanted to improve the ADCS Program contract award process for FY 1999.

The DoD ADCS Program. The ADCS Program is a Congressionally-sponsored, DoD-wide program to purchase hardware, drawing system solutions, and document conversion software and services for DoD to attain its goal of achieving a paperless, integrated, digital environment by the year 2002. The ADCS Program Office under the Assistant Deputy Under Secretary of Defense (Logistics Architecture) manages the program.

Automated Document Conversion Strategy. The 1995 Defense Appropriations Act, section 8114, requires that DoD establish and implement a master plan for all acquisitions of ADCS equipment, and technologies. In April 1995, the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) issued the "Automated Document Conversion Master Plan," that established the DoD management strategy. The strategy focuses on the effective conversion of documents to an electronic or digital format for use in a computer, and the management of converted documents throughout the life of the documents. Engineering drawings, in particular, represent a formidable challenge for automated conversion because they contain both complex graphics and text.

Funding for the ADCS Program. Funding for the ADCS Program was not included in the President's budget requests. Congress funded the program through annual appropriations. The House Committee on Appropriations, in Report 105-591 on the 1999 DoD Appropriations Bill, stated that the ADCS Program continues to perform a critical role in attaining the DoD goal of achieving a paperless, integrated, digital environment by the year 2002. The Committee stressed that given the significant conversion requirement remaining in each Service, and the need to continue the Services' efforts, additional funding is required to digitize legacy engineering documents. Congress appropriated $45 million for the FY 1999 ADCS Program.
Objectives

The overall objective was to evaluate the effectiveness of the project selection and contract award processes for the FY 1999 ADCS Program. Specific objectives were to determine whether the procedures for selecting ADCS projects for contract award were adequate and complied with, and whether the procedures for awarding ADCS contracts promoted full and open competition. See Appendix A for a discussion of the audit scope and methodology.
A. Project Selection Process

The Services and the ADCS Project Prioritization Integrated Team (the Integrated Team) identified and prioritized projects for the FY 1999 ADCS funding in a fair and objective manner. However, the ADCS Program Manager subsequently funded three projects, collectively valued at $18.44 million, that were not recommended by the team for funding. Two projects were funded based on guidance from the Assistant Deputy Under Secretary of Defense (Logistics Architecture) after inquiries from two members of Congress and the Principal Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics. The third project was added to address an ADCS goal, to develop smart product models, that was not addressed by the projects the Integrated Team recommended for funding. As a result, four projects that the Integrated Team had recommended were not funded. Additionally, the Services' confidence in the fairness of the selection and approval processes may be diminished.

ADCS Project Selection Phases

The FY 1999 ADCS project selection process included two phases. In the first phase, the Services reviewed their document conversion requirements and submitted proposed projects for the FY 1999 ADCS Program. In the second phase, the Integrated Team, established by the Deputy Under Secretary of Defense (Logistics and Materiel Readiness), prioritized the projects. The Deputy Under Secretary of Defense (Logistics and Materiel Readiness) approved the projects.

Project Submissions from the Services. The Services reviewed their document conversion requirements and submitted proposed FY 1999 ADCS projects to the Deputy Under Secretary of Defense (Logistics and Materiel Readiness). The Deputy Under Secretary stressed that the Services' conversion efforts should focus on one or more of the following goals: raster (paper) to vector (digital) requirements for legacy paper or proprietary digital drawings, foldout drawings contained in legacy technical manuals to support interactive electronic technical manual development, and development of smart product models to be used in simulation-based activities. The Services proposed 86 projects (18 Army, 48 Navy, 16 Air Force, 2 Marine Corps, and 2 Joint), valued at $206.9 million for the FY 1999 ADCS Program.

Priority and Approval Selection Criteria. The Deputy Under Secretary of Defense (Logistics and Materiel Readiness) directed that the Integrated Team review and rank order the proposed FY 1999 ADCS projects using the following criteria.

- Does the conversion requirement produce digital products that can be used within the overall supply chain to reduce administrative and/or production lead time?
• Does the conversion focus on "smart" information such as Interactive Electronic Technical Manuals and Smart Product Models to allow for process change rather than digitizing the "as-is" processes by converting paper to digits?

• Will the overall project and associated conversion of legacy documentation lead to a reduction in total ownership costs of the specific weapon system?

• Has a sound business case for the information conversion requirement been developed that supports a true return on investment?

• If the information conversion requirement is a continuation of a previously funded effort, has a solid return been realized from information now in digital format?

The Integrated Team, led by the Assistant Deputy Under Secretary of Defense (Logistics Architecture), included representatives from the Services; the Assistant Secretary of Defense (Command, Control, Communications and Intelligence); the Director, Defense Procurement; the Director, Program Analysis and Evaluation; and the Director, Test Systems Evaluation; the Defense Advanced Research Projects Agency; and the Defense Logistics Agency. The Services' representatives presented their proposed projects to the Integrated Team. The Integrated Team met three times during the period October 1998 through January 1999 to review, discuss, and prioritize the proposed projects. The Assistant Deputy Under Secretary presented the Integrated Team's project recommendations to the Deputy Under Secretary of Defense (Logistics and Materiel Readiness) and the Principal Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics. The Deputy Under Secretary of Defense (Logistics and Materiel Readiness) approved 14 projects for full funding ($45 million) for the FY 1999 ADCS Program.

Changes to the Approved ADCS Projects

After the Deputy Under Secretary of Defense (Logistics and Materiel Readiness) approved the 14 projects for the FY 1999 ADCS Program, the ADCS Program Manager funded three projects, collectively valued at $18.44 million, that were not identified for funding by the Integrated Team. The ADCS Program Manager funded the Facilities, Infrastructure and Engineering System and the Abrams Tank Drawing Conversion projects based on guidance from the Assistant Deputy Under Secretary of Defense (Logistics Architecture), after inquiries from two members of Congress, and the Principal Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics. The third project was added to address an ADCS goal that was not addressed when the Integrated Team recommended funding. The ADCS Program Manager did not coordinate the addition of the projects with the Integrated Team or the sponsors of the approved projects that were affected when the projects were added.
Facilities, Infrastructure and Engineering System Project. The Facilities, Infrastructure and Engineering System (FIRES) Project was designed to convert legacy (paper format) drawings of the infrastructure of the Panama Canal and United States military facilities in Panama to digital drawings. In May 1999, the FIRES Project Manager visited the ADCS Program Office seeking funds for his project. After receiving inquiries from two members of Congress and the Principal Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics, the Assistant Deputy Under Secretary (Logistics Architecture) advised the ADCS Program Manager to fund the FIRES Project. The FIRES Project received $9.77 million ($5.3 million in June and $4.47 million in September 1999) of the $45 million appropriated for the FY 1999 ADCS Program. The FIRES project received $4.1 million more than any of the projects selected for funding by the Integrated Team and approved by the Deputy Under Secretary of Defense (Logistics and Materiel Readiness).

Abrams Tank Drawing Conversion Project. The Abrams Tank Drawing Conversion Project was the procurement and installation, by General Dynamics Land Systems, Incorporated, of the software necessary to convert legacy Abrams tank drawings from raster (paper) format to vector (digital) format. Under the project, General Dynamics procured automatic data conversion software, 300 licenses, and training on the use of the software from Audre, Incorporated, San Diego, California. After receiving inquiries from a Congressional member, the Assistant Deputy Under Secretary (Logistics Architecture) advised the ADCS Program Manager to fund the Abrams Tank Drawing Conversion Project. The Assistant Deputy Under Secretary stated that the decision to fund the project was based on a justification provided by the Abrams Tank Program Manager. However, the only justification the ADCS Program Office could provide was a June 1998 memorandum from the Abrams Tank Program Manager forwarding a request from General Dynamics Land Systems requesting 300 copies of the Audre software. In January 1999, the Abrams Tank Drawing Conversion Project received $3.94 million of the $45 million appropriated for the FY 1999 ADCS Program.

Distributed Knowledge Environment Project. The Distributed Knowledge Environment (DKE) Project was an effort to develop an integrated methodology and support system to apply advanced information technology and advanced modeling and simulation technology to reduce the total cost of ownership of military systems. The DKE Project creates a collaborative environment connecting people from different sites and enabling them to communicate electronically. It connects logisticians worldwide, incorporates customer service, resolves problems, and finds solutions without the need for people being physically located together. The DKE Project was added to develop smart product models for use in simulation-based activities, a goal that was not addressed by the projects the Integrated Team recommended for FY 1999 ADCS funding. The DKE Project received $4.73 million of the $45 million appropriated for the FY 1999 ADCS Program.
Approved ADCS Projects Without Funding

As a result of the three added projects, four projects that the Integrated Team prioritized and recommended for funding were not funded. The four recommended projects without funding are shown in the following table.

<table>
<thead>
<tr>
<th>ADCS Project</th>
<th>Service</th>
<th>Value ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aviation and Missile Command UH-60 Stable Base Conversion</td>
<td>Army</td>
<td>$2.0</td>
</tr>
<tr>
<td>Aperture Card Digitization</td>
<td>Navy</td>
<td>1.2</td>
</tr>
<tr>
<td>Oklahoma City Air Logistics Center Stable Based Media Conversion</td>
<td>Air Force</td>
<td>4.2</td>
</tr>
<tr>
<td>Pacific Air Forces Base Facility/Infrastructure Drawing</td>
<td>Air Force</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$9.8</strong></td>
</tr>
</tbody>
</table>

The impact of not funding the four ADCS projects on procurement lead time and project completion was significant. The Army Aviation and Missile Command, UH-60 Stable Base Conversion Project sponsor stated that the time required to copy Mylar\[^1\] drawings for a procurement varies from 4 days to 180 days, depending on where the drawings are stored. The average processing time is 14 days. When drawings are stored digitally, the time needed to provide the requested data is reduced from days to minutes, virtually eliminating the lead time to provide technical drawings for a procurement. Because the UH-60 project was not funded, 3,000 Mylar drawings were not converted to digital drawings. In addition to the lost opportunity to reduce UH-60 procurement lead time, the following benefits were also lost: time saved by no longer redrawing an entire Mylar drawing each time a minor modification is made, elimination of Mylar reproduction costs, the ability to provide electronic backup of digital drawings, and elimination of the filing cabinets and storage facilities required to store Mylar drawings. The two Air Force project sponsors stated that project schedules were set back significantly. The cancellation of FY 1999 ADCS funding for the Oklahoma City Air Logistics Center Stable Based Media Conversion project resulted in the loss of more efficient spare part reprocurements and weapons system maintenance support through lower processing costs, reduced process flow time, and error reduction. Cancellation of the funding for the Pacific Air Forces Base Facility/Infrastructure Drawing project affected the utility of the Geospatial Information System and the base planning and command and control capabilities. The Geospatial Information System directly supports the Pacific Air Forces base planning and command and control capabilities and requires a

\[^1\]Drawing in ink on polyester film, referred to by the trade name Mylar
digital representation of base facilities and infrastructure drawings to function properly. Additionally, the Services' confidence in the fairness of the selection process was diminished.

Corrective Action Taken

On February 7, 2000, we made suggestions to improve the integrity of the FY 2000 ADCS Program project selection process (see Appendix B). This report has no recommendations concerning the project selection process because the Assistant Deputy Under Secretary of Defense (Logistics Architecture), in response to our suggestions, stated that the Army was asked to assume more coordination and fiduciary responsibility for the FY 2000 ADCS Program project selection process (see Appendix C). The action taken by the Assistant Deputy Under Secretary should correct the conditions noted in the finding.
B. Contracting for Projects

The Services' contracting officers used existing Federal Supply Schedules, small business set-asides, and centralized contracts with specific desired prime contractors for 13 FY 1999 ADCS projects, valued at about $43.8 million, contrary to ADCS Program Office guidance that required use of full and open competition. The contracting officers used these methods because the ADCS project sponsors wanted to use existing contracts from the inception of the FY 1999 program because it was easier, faster, and permitted by the Federal Acquisition Regulation (FAR). As a result, the ADCS Program has not realized the benefits of competition, best innovative ideas, technical solutions, and prices. Also, the majority of the 44 contractors that participated in the "Industry Day" sponsored by the ADCS Program Office were excluded from competition.

ADCS Program Office Contracting Guidance

The ADCS Program Office guidance required use of full and open competition for FY 1999 ADCS contracts. The Assistant Deputy Under Secretary of Defense (Logistics Architecture) and the ADCS Program Manager emphasized this guidance at meetings of the Integrated Team, through memorandums to the Services' ADCS project sponsors, and in briefing charts. Additionally, on March 5, 1999, the ADCS Program Office held an "industry day" to inform interested contractors of the program and the opportunity to compete for ADCS contracts.

Contracting for FY 1999 ADCS Projects

Use of Existing Contracts. Contracting officers used delivery orders against existing Federal Supply Schedules, small business set-asides, and centralized contracts to contract for 13 ADCS projects valued at about $43.8 million. The contracting officers were not aware of the ADCS Program Office guidance that required use of full and open competition for FY 1999 ADCS contract awards, and awarded the orders without considering other qualified sources. The contracting officers primarily based their decisions to use existing contracts on the recommendations of the Services' ADCS project sponsors that cited either "continuity of work," or "time constraints," as the reason for recommending a particular prime contractor. From the inception of the FY 1999 ADCS Program, the project sponsors indicated that they wanted to use existing contracts because it was easier, faster, and permitted by the FAR. The initial guidance requires full and open competition. The guidance was later relaxed to emphasize use of existing contracts to obligate funding before the approaching end of the fiscal year, and later changed back to full and open competition. This inconsistent guidance from the ADCS Program Office also contributed to the use of existing contracts. The Services' ADCS project sponsors believed there was no need to compete the FY 1999 ADCS orders because the existing
contracts were awarded competitively. However, only 1 of the 18 orders was under a contract that was competitively awarded in 1999. Of the other 17 orders, 8 were under contracts competed in 1991, and 9 were under contracts competed during the period 1994 through 1998 (see Appendix D). Consequently, in an era of rapid advances in technology, other interested contractors were not given the opportunity to compete as prime contractors, and the ADCS Program has not realized the benefits of competition, best innovative ideas, technical solutions, and prices.

Prime Contractor Competed Subcontracts. The ADCS Program Manager stated that although the FY 1999 ADCS Program did not receive the full benefits of competition, there was competition on the subcontract level, which improved the program from the previous year. Because of the emphasis the ADCS Program Office placed on full and open competition, a prime contractor (Intergraph, Incorporated) competed the subcontracts for three FY 1999 ADCS projects. Intergraph advised the ADCS Program Manager that, as a result of competing its subcontracts for the M113 Family of Vehicles, the Army would receive about 1,700 more drawing conversions than the 4,000 conversions planned. The Army project sponsor confirmed that as of March 8, 2000, 5,251 drawing conversions had been received and 450 additional conversions were anticipated without any increase in the price of the order for 4,000 drawing conversions.

Release of ADCS Program Funds. The Under Secretary of Defense (Comptroller) released funds to the Defense Logistics Agency for the FY 1999 ADCS Program in December 1998, April 1999, and June 1999. During the period January 13 through September 28, 1999, the Defense Logistics Agency issued 22 Military Interdepartmental Purchase Requests (MIPRs), providing funds to the Services' contracting officers for the FY 1999 ADCS projects. The late release of funds resulted in the contracting officers' awarding orders for FY 1999 ADCS projects as late as September 30, 1999, which gave the Services the additional rationale for using existing contracts, precluding competitive awards. To facilitate competitive contracting, ADCS project funds should be released to contracting officers as early as possible in the fiscal year.

Planned Corrective Actions

In meetings with the ADCS Program Manager, and in a memorandum to the Assistant Deputy Under Secretary of Defense (Logistics Architecture) (see Appendix B), we made suggestions to increase competitive contracting for the FY 2000 ADCS Program. The Assistant Deputy Under Secretary of Defense (Logistics Architecture) stated, in response to our suggestions, that he strongly supports use of competitive contracting for ADCS projects. He further stated that the ADCS Program Office will use approved competitive acquisition strategies, consistent with the FAR, for the FY 2000 ADCS Program (see Appendix C). Accordingly, we are not making any recommendations since the actions planned by the Assistant Deputy Under Secretary of Defense for the FY 2000 ADCS Program should correct the conditions noted in the finding.
Appendix A. Audit Process

Scope

Work Performed. We reviewed the procedures the ADCS Program Office used to prioritize the 86 projects valued at $206.9 million proposed by the Services and select projects for FY 1999 ADCS funding. We also reviewed the contracting procedures used by the Services contracting officers to award the 18 orders issued for the 13 ADCS projects, valued at about $43.8 million, funded in FY 1999.

Limitations to Scope. We did not review the management control program because the scope of the audit was limited to evaluating the FY 1999 ADCS Program project selection and contract award processes in response to a request from Assistant Deputy Under Secretary of Defense (Logistics Architecture).

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

FY 2000 DoD Corporate Level Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. (00-DoD-2)

FY 2000 Subordinate Performance Goal 2.3: Streamline the DoD Infrastructure by redesigning the Department’s support architecture and pursuing business practice reforms. (00-DoD-2.3)

FY 2000 Performance Measure 2.3.4: Logistics Response Time. (00-DoD 2.3.4)

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 acquisition process. (00-DoD 2.4)

FY 2000 Performance Measure 2.4.5: Percentage of DoD Paperless Transactions. (00-DoD-2.4.5)

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

Information Technology Management Functional Area. Objective: Provide services that satisfy customer information needs. Goal: Upgrade technology base. (ITM-2.3)
Logistics Functional Area. Objective: Streamline logistics infrastructure. Goal: Reduce weapon system cost of ownership. (LOG-3.3)

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 and Information Management and Technology high-risk areas.

Methodology

To determine the adequacy of the FY 1999 ADCS Program project prioritization and selection process, we reviewed the prioritization criteria established by the Deputy Under Secretary of Defense (Logistics and Materiel Readiness) and the proposed projects submitted by the Services. Additionally, we observed the meetings of the ADCS Project Prioritization Integrated Team established by the Deputy Under Secretary of Defense (Logistics and Materiel Readiness) to prioritize and recommend projects for FY 1999 ADCS funding. To determine the effectiveness of the ADCS Program Office guidance that required use of full and open competition for FY 1999 ADCS contract awards, we reviewed FAR guidance on awarding contracts and task orders, and we reviewed the contract files for the 18 orders issued. We also interviewed the contracting officers responsible for the 18 orders. Additionally, we interviewed the Services' Project Sponsors responsible for the 13 ADCS projects funded in FY 1999 to determine their rationale for recommending awarding the orders under existing contracts rather than competitively.

Use of Computer-Processed Data. We did not use computer-processed data to perform the audit.

Audit Type, Dates, and Standards. We performed this program audit from January 1999 through February 1999, and from July 1999 through February 2000 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. The audit was suspended during the period March 1999 through June 1999 to allow contracting officers time to contract for the ADCS services.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD, the State Department, and the General Services Administration. Further details are available upon request.

Prior Coverage

There have been no prior audits of the Automated Document Conversion System during the past 5 years.
MEMORANDUM FOR ASSISTANT DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS ARCHITECTURE)

SUBJECT: Audit of the Fiscal Year 1999 Automated Document Conversion System Program (Project No. 9CH-5038)

The purpose of this memorandum is to bring to your attention two conditions that warrant corrective actions to improve the FY 2000 Automated Document Conversion System (ADCS) Program. We plan to discuss the conditions in the formal audit report along with any corrective actions that you commit to take.

Selection of Projects for ADCS Program Funding. The FY 1999 ADCS project selection process was conducted in a fair and objective manner. Project selection commenced in November 1998 following the guidance issued by the Deputy Under Secretary of Defense (Logistics) and concluded in January 1999 when the Deputy Under Secretary approved the projects for ADCS funding. However, the ADCS Program Manager subsequently funded three projects, collectively valued at $18.44 million, that were not identified for funding by the ADCS Project Prioritization Integrated Team. The ADCS Program Manager funded the Facilities Infrastructure Engineering System and the Abrams Tank Drawing Conversion projects based on your guidance, after inquiries from two members of Congress and the Principal Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics. The third action continued the Distributed Knowledge Environment project that was started in a previous year for the Defense Advanced Research Projects Agency. The ADCS Program Manager did not coordinate the addition of the three projects with the ADCS Project Prioritization Integrated Team or the sponsors of the approved projects that were affected by the added projects.

As a result of the three added projects, four projects (the Army UH-60 Helicopter Stable Based Media Conversion Project, the Navy Aperture Card Digitization Project, and the Air Force Oklahoma City Air Logistics Center Stable Based Media Conversion and Pacific Air Forces Base Facility/Infrastructure Drawing Projects) that the integrated team prioritized and approved for funding were not funded. Additionally, the Military Services' confidence in the fairness of the selection process may be diminished.
To improve the integrity of the ADCS project selection process, we suggest that the Assistant Deputy Under Secretary of Defense (Logistics Architecture):

- Establish FY 2000 ADCS Program procedures that require written justification, coordinated with the Military Services and approved by the Deputy Under Secretary of Defense (Logistics) for any projects added, deleted, or reprioritized by the ADCS Program Manager.

Contracting for ADCS Services. Although the ADCS Program Office policy required use of full and open competition, the Military Services' contracting officers used existing GSA schedules, small business set-asides, and centralized contracts with specific desired contractors to contract for 13 FY 1999 ADCS projects, valued at about $45 million. The Military Services wanted to use existing contracts from the inception of the FY 1999 program because the use of existing contracts was easier, faster, and permitted by the Federal Acquisition Regulation. Inconsistent policy guidance from the ADCS Program Office also contributed to the use of existing contracts. The initial policy required full and open competition. The policy was later relaxed to allow use of existing contracts and later changed back to full and open competition. Additionally, the late release of funding by the Under Secretary of Defense (Comptroller) provided the Military Services additional rationale for using existing contracts instead of full and open competition. The Under Secretary released $4 million of the $45 million authorized for the FY 1999 ADCS Program in December 1998, but did not release the remaining $41 million until April 1999 ($26 million) and June 1999 ($15 million).

Because the contracting officers did not use full and open competition to obtain ADCS services, the ADCS Program Office has not realized the benefits of competition—best innovative ideas, technical solutions, and prices for the ADCS Program. Additionally, the ADCS Program Office could be subjected to criticism by the 55 contractors who participated in the "Industry Day" sponsored by the ADCS Program Office to inform the contractors of the ADCS Program and the opportunity to compete for ADCS contracts.

For the FY 2000 ADCS Program, we suggest that the Assistant Deputy Under Secretary of Defense (Logistics Architecture):

- Require that all FY 2000 ADCS contracts be awarded competitively through issuance of a broad agency announcement or a request for proposals to multiple vendors. In rare instances where competition may not be appropriate (for example, logical follow-on work of a minor nature) the contracting officer should obtain written concurrence from the Assistant Deputy Under Secretary of Defense (Logistics Architecture) before making a non-competitive award.

- Reprogram funding for ADCS projects for which the Military Services do not agree to use competitive contracting procedures for contract award.

- Request that the Under Secretary of Defense (Comptroller) release FY 2000 ADCS funding as early as possible to facilitate competitive contracting procedures.
• Require that the contracting officers responsible for ADCS contracting participate in ADCS Program meetings and briefings (held after the projects have been approved for funding) so that they are aware of the ADCS Program goals and the need for competitive procurements.

Please advise this office of actions taken or planned in response to this memorandum by February 18, 2000. We are currently completing the audit phase of the audit and will incorporate your position on these matters in the audit report. If you have any questions regarding the audit or would like to meet with the audit staff regarding the FY 1999 ADCS Program, please contact Mr. Garold E. Stephenson at (703) 604-9332 or Mr. Eugene E. Kissner at (703) 604-9323.

[Signature]
Paul J. Uranetto
Director
Contract Management Directorate
MEMORANDUM FOR DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE, DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Audit of the Fiscal Year 1999 Automated Document Conversion System Program Project (Project No. 9CH-5038)

This memorandum is in response to your memorandum of February 7, 2000 concerning the subject audit. The response of your organization in supporting the ADCS Program Manager and the Department in executing the FY 1999 ADCS Program is most appreciated.

I agree that better coordination with the Services represented by the ADCS Project Prioritization Integrated Team is needed. FY99 was the first year that we used this medium, and we learned a great deal. To enhance procedures in FY00, we have asked the Department of the Army to assume more coordination and fiduciary responsibility.

I strongly support the use of competitive contracting actions to achieve the best innovative ideas, technical solutions and prices for ADCS projects. Broad agency announcements and requests for proposals to multiple vendors are often appropriate mechanisms to achieve competition; however, they are not the only appropriate competitive approaches. We will continue to use approved competitive acquisition strategies, consistent with the Federal Acquisition Regulation, to include use of competitively awarded task ordering contracts, where appropriate.

Louis A. Kratz
Assistant Deputy Under Secretary of Defense (Logistics Architecture)
# Appendix D. FY 1999 ADCS Program

## Contracts/Orders

<table>
<thead>
<tr>
<th>Project</th>
<th>Contract Value (millions)</th>
<th>Contractor/Subcontractor Contract No./Order No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>*(Army) Abrams Tank Drawings Conversion</td>
<td>$3.94</td>
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<td>(MC) Assault Amphibious Vehicle</td>
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<td>(MC) Shelter System</td>
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<td>Advanced Engineering Research Associates GS-35F-4492G/M67004-99-F-0973</td>
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<td>Science Application International Corporation F33615-97-D-1138/0025/0026</td>
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<td>Total</td>
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