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Subcommittee on Contracting and Workforce
Committee on Small Business

on

Small Business Contracting Challenges Identified During Audits of
Two Marine Corps Contracting Offices

Good morning Chairman Hanna, Ranking Member Takai, and distinguished members of the Subcommittee. Thank you for the opportunity to appear before you today to discuss our two audits of Marine Corps small business contracting.¹

We initiated the two audits based on a Defense hotline complaint alleging that the Marine Corps Regional Contracting Office-National Capital Region (RCO-NCR) and the Marine Corps Systems Command (MCSC) did not ensure small businesses were awarded a sufficient number of contracts and did not hold large prime contractors accountable for meeting small business subcontracting goals.

Background

RCO-NCR is responsible for providing procurement and contracting support for the acquisition of supplies and services for the Marine Corps in 13 states, primarily in support of commands located near Washington, D.C. MCSC is responsible for providing research, development, and acquisition of equipment, information systems, training systems, and weapon systems to satisfy all approved material requirements of the Marine Corps.

Our objectives for the two audits were to determine whether RCO-NCR and MCSC provided small businesses the opportunity to be awarded prime contracts, and held prime contractors accountable for meeting small business subcontracting goals. During the audits, we reviewed a total of 86 contracts (valued at approximately \$1.6 billion) of 766 contracts (valued at approximately \$3.3 billion) that RCO-NCR and MCSC awarded to other than small businesses in Fiscal Years 2011, 2012, and 2013.

¹ Report No. DODIG-2016-019, "Small Business Contracting at Marine Corps Systems Command Needs Improvement," November 10, 2015, and DODIG-015-095, "Small Business Contracting Practices at Marine Corps at Regional Contracting Office – National Capital Region Needs Improvement," March 20, 2015.

Overall, we found that RCO-NCR and MCSC generally provided small businesses with the opportunity to compete for prime contracts; however, contracting officials did not ensure that prime contractors provided small businesses adequate subcontracting opportunities. We made a total of 13 recommendations to RCO-NCR and MCSC to address the deficiencies identified during the two audits.

Opportunity Provided to Small Business to Compete for Contracts

For both audits, we reviewed contracts that were not awarded to small businesses to determine whether small businesses were provided the opportunity to compete for those contracts. RCO-NCR and MCSC generally provided small businesses with the opportunity to compete for prime contracts. At RCO-NCR, contracting officials conducted market research and advertised solicitations for 19 contracts (valued at \$239.2 million) while MCSC did the same for 21 contracts (valued at \$1.2 billion). After sending requests for information to identify companies capable of providing services and receiving responses from both large and small business, contracting officials and small business representatives from RCO-NCR and MCSC determined whether small businesses demonstrated that they possessed the knowledge and capabilities to perform the requirement.

When only one responsible source exists, and no other supplies or services will meet agency requirements, the Federal Acquisition Regulation (FAR)² permits contracting without providing full and open competition. RCO-NCR awarded 20 contracts (valued at \$14.3 million) and MCSC awarded 16 contracts (valued at \$79.4 million) as sole-source contracts to other than

² FAR Part 6, “Competition Requirements,” Subpart 6.3, “Other Than Full and Open Competition,” 6.302, “Circumstances Permitting Other Than Full and Open Competition.”

small businesses. For the contracts awarded as sole source, RCO-NCR and MCSC prepared justifications using exceptions to other than full and open competition allowed by the FAR.

Ensuring Small Business Receive Subcontracting Opportunities

RCO-NCR and MCSC contracting officials did not ensure that prime contractors provided small businesses adequate subcontracting opportunities. Specifically, RCO-NCR contracting officials did not ensure that prime contractors provided small businesses with adequate subcontracting opportunities for 6 (valued at \$848.2 million) of 7 contracts (valued at \$871 million) reviewed. Specifically, RCO-NCR contracting officials awarded:

- four contracts, valued at \$58.2 million, either without requiring a subcontracting plan or with a subcontracting plan that did not include small business subcontracting goals; and
- two contracts, valued at \$790 million, which had subcontracting plans with small business subcontracting goals, but contracting officials did not monitor whether the contractor met the goals.

Those problems occurred because RCO-NCR did not have policies and procedures for evaluating and approving subcontracting plans or for monitoring contractor compliance with subcontracting plans. In addition, the RCO-NCR Director stated that contracting officials did not evaluate and approve subcontracting plans or hold prime contractors accountable for meeting small business subcontracting goals because the contracting office and the Small Business Office at RCO-NCR were understaffed and overworked.

MCSC contracting officials did not ensure prime contractors provided small businesses with adequate subcontracting opportunities for 12 (valued at \$222.1 million) of 19 prime contracts (valued at \$1.3 billion) reviewed. Specifically, MCSC contracting officials:

- did not track compliance with small business subcontracting goals for four contracts with individual subcontracting plans,
- did not determine why large businesses were not meeting their small business subcontracting goals on two ongoing contracts with individual subcontracting plans, and
- awarded six contracts without subcontracting plans or the required determination and approval.

In addition, MCSC contracting officials awarded two prime contracts, valued at \$421.9 million, with commercial subcontracting plans without verifying whether the plans had been approved by a contracting officer.

Those problems occurred because MCSC did not have adequate internal guidance for awarding contracts with subcontracting plans and for administering subcontracting plans. Additionally, MCSC did not implement effective internal review procedures for approving and administering subcontracting plans.

Status of Recommendations

In our two reports, we made 13 recommendations to RCO-NCR and MCSC to improve small business contracting procedures. Specifically, we recommended that RCO-NCR provide training to contracting officers on their responsibilities for evaluating and administering subcontracting plans, establish policy requiring contracting officials to obtain adequate subcontracting plans from prime contractors and verify that prime contractors submit subcontracting reports to the Electronic Subcontracting Reporting System, and determine whether liquidated damages may be recovered on two contracts. RCO-NCR has fully implemented all recommendations.

We recommended that MCSC determine whether the contractors for the six specified contracts made a good-faith effort to meet their subcontracting goals, and if not, whether liquidated damages may be imposed against the contractor; establish guidance for contracting officers for reviewing, approving, and administering subcontracting plans; and train contracting officials on their responsibilities for evaluating and administering subcontracting plans. MCSC agreed with each recommendation, and is in the process of completing corrective actions.

Conclusion

RCO-NCR and MCSC generally provided small businesses adequate opportunities to be awarded prime contracts. However, RCO-NCR and MCSC contracting officials did not ensure that prime contractors provided small businesses adequate subcontracting opportunities. We made recommendations to RCO-NCR and MCSC to improve procedures for administering subcontracting plans submitted by prime contractors. This concludes my statement and I would be happy to answer any questions you may have regarding our two audits.