



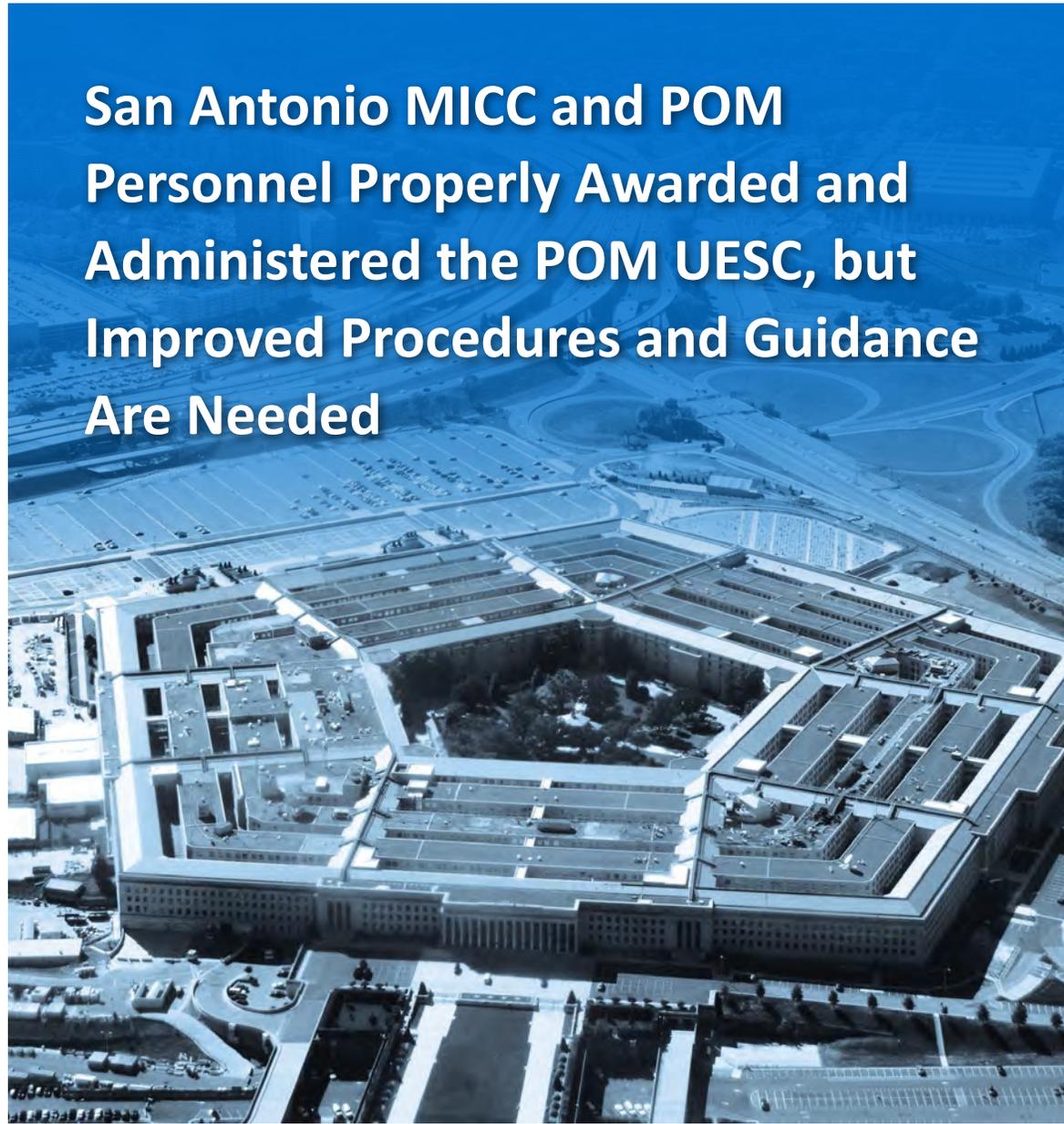
# INSPECTOR GENERAL

*U.S. Department of Defense*

APRIL 8, 2016



## **San Antonio MICC and POM Personnel Properly Awarded and Administered the POM UESC, but Improved Procedures and Guidance Are Needed**



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# Results in Brief

## *San Antonio MICC and POM Personnel Properly Awarded and Administered the POM UESC, but Improved Procedures and Guidance Are Needed*

April 8, 2016

### Objective

We determined whether the contracts and tasks orders related to the Army Utility Energy Services Contracts (UESCs) were properly awarded and administered. Specifically, we reviewed the contract and task orders related to the UESC awarded for the U.S. Army Garrison Presidio of Monterey (POM), Monterey, California, with a maximum expected value of \$10 million. This is the second in a series of audits on Army UESCs.

### Finding

Contracting personnel at the San Antonio Mission and Installation Contracting Command and POM program personnel properly awarded and administered the POM UESC. However, personnel at the Army Office of the Assistant Chief of Staff for Installation Management, U.S. Army Installation Management Command, San Antonio Mission and Installation Contracting Command, and POM did not have standard operating procedures or sufficient guidance in place over the UESC program. This occurred because this contract was the first UESC for San Antonio Mission and Installation Contracting Command and POM personnel; therefore, they had not yet created UESC-specific standard processes. In addition, the Office of the Assistant Chief of Staff for Installation Management personnel stated they were waiting to issue guidance until after a Defense Federal Acquisition Regulation Supplement case is resolved. Although

### Finding (cont'd)

current personnel have awarded and administered the UESC appropriately, without documenting adequate and appropriate procedures and guidance, Army officials may not be able to effectively award UESC contracts and administer the UESC program in the future.

### Recommendations

We recommend the Assistant Chief of Staff for Installation Management establish guidance with specific thresholds for reviewing and approving projects and guidance for awarding and administering UESCs. We recommend the Commander, 412th Contracting Support Brigade, and the Director, Presidio of Monterey Directorate of Public Works, establish standard operating procedures for awarding and administering UESCs.

### Management Comments and Our Response

The Acting Deputy to the Commanding General, Mission and Installation Contracting Command, responding for the Commander, 412th Contracting Support Brigade; the Garrison Commander, responding for the Director, Presidio of Monterey Directorate of Public Works; and the Director, Operations, Office of the Assistant Chief of Staff for Installation Management, addressed the specifics of the recommendations. Please see the Recommendations Table on the back of this page.

## ***Recommendations Table***

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Assistant Chief of Staff for Installation Management, Office of the Assistant Chief of Staff for Installation Management	None	3
Commander, 412th Contracting Support Brigade	None	1
Director, Presidio of Monterey Directorate of Public Works	None	2



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

April 8, 2016

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: San Antonio MICC and POM Personnel Properly Awarded and Administered  
the POM UESC, but Improved Procedures and Guidance Are Needed  
(Report No. DODIG-2016-077)

We are providing this report for information and use. This is the second in a series of audits on Army Utility Energy Services Contracts. Contracting personnel at the San Antonio Mission and Installation Contracting Command and Presidio of Monterey program personnel properly awarded and administered the Presidio of Monterey Utility Energy Services Contract. However, personnel at the San Antonio Mission and Installation Contracting Command, the Presidio of Monterey, and U.S. Army Installation Management Command did not have standard operating procedures or sufficient guidance in place over the Utility Energy Services Contract program. We conducted this audit in accordance with generally accepted government auditing standards.

We considered comments on a draft of this report when preparing the final report. Comments from the Mission and Installation Contracting Command, the Presidio of Monterey Directorate of Public Works, and the Office of the Assistant Chief of Staff for Installation Management, addressed the specifics of the recommendations and conformed to the requirements of the DoD Instruction 7650.03; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9187 (DSN 664-9187).

A handwritten signature in black ink, appearing to read "M. J. Roark", is positioned above the typed name.

Michael J. Roark  
Assistant Inspector General  
Contract Management and Payments

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# Introduction

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## Objective

We determined whether the contracts and task orders related to Army Utility Energy Services Contracts (UESCs) were properly awarded and administered. Specifically, we reviewed the contract and task orders related to the UESC awarded for the U.S. Army Garrison Presidio of Monterey (POM), Monterey, California, with a maximum expected value of \$10 million. This is the second in a series of audits on Army UESCs. See Appendix A for scope and methodology and prior coverage.

## Background

According to the Department of Energy, the Federal Government is the largest energy consumer in the United States. Legislation and presidential executive orders require and enable Federal agencies to implement energy efficiency, water conservation, and renewable energy projects. Federal agencies are eligible<sup>1</sup> to use utility incentive programs to procure financing for comprehensive energy projects. DoD components are authorized<sup>2</sup> to manage energy demand or conserve energy by participating in programs conducted by any gas or electric utility. Therefore, the heads of executive departments and agencies have the contracting flexibility to use UESCs to complete energy savings projects when direct funding is not available.

UESCs allow Federal agencies to contract with utility companies to reduce energy consumption. To fund project capital costs, agencies may arrange all financing through the utility company, use congressional appropriations, or both. If the project is financed through the utility provider, the Federal agency repays the cost of the UESC over the contract term from the savings generated by the project, plus interest.

UESCs can be created through a General Services Administration area-wide contract, a basic ordering agreement, or other agreements. An area-wide contract is a blanket contract for public utility services providing general terms and conditions, and authorizes any agency in the utility's service territory to place delivery orders for services offered under the contract. A basic ordering agreement establishes general terms and conditions. Delivery orders placed under the basic ordering agreement detail the services to be delivered and constitute the contract.

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<sup>1</sup> Section 8256, title 42, United States Code (42 U.S.C. § 8256).

<sup>2</sup> 10 U.S.C. § 2913.

Contractor personnel may conduct preliminary audits, usually at no cost to the Government, consisting of an on-site building investigation and evaluation to identify energy conservation opportunities and determine whether further energy analysis is warranted. The contractor, the Government, or both can identify projects that will reduce energy consumption. The contractor may conduct an investment grade audit (IGA), also known as a feasibility study, to determine whether potential energy conservation measures are both financially and technically reasonable. The Government pays the contractor the agreed-upon price for the IGA. If the parties agree to implement one or more energy conservation measures, the cost of the IGA may be included in the implementation of the selected energy conservation projects.

### ***Defense and Army Policies on UESCs***

DoD Instruction 4170.11, "Installation Energy Management," December 11, 2009, recognizes that partnerships with the private sector through alternative financing mechanisms, such as UESCs, are a crucial tool for financing energy projects and improving installation infrastructure. Projects can help the installation reduce energy and water consumption through infrastructure and equipment upgrades. Financed energy projects should be repaid through the project's recurring or nonrecurring energy- or water-related cost savings, and the basis for the savings must be fully documented in the contract file.

A 2014 U.S. Army Installation Management Command (IMCOM) memorandum<sup>3</sup> provided guidance for developing and executing Energy Savings Performance Contracts (ESPC) and UESC projects at IMCOM garrisons. The memorandum requires that all proposed UESCs be submitted to IMCOM headquarters for review and approval. In addition, the memorandum states that projects will be implemented when life-cycle costs are deemed cost-effective, meaning the estimated savings exceed the estimated costs over the lifespan of the project.

A current Defense Federal Acquisition Regulation Supplement (DFARS) case<sup>4</sup> proposes to amend DFARS to clarify the contract terms for shared energy savings contract services. The rule proposes revising DFARS 241.103 by inserting a second paragraph stating that contracting officers may enter into a shared energy savings contract<sup>5</sup> for a period not to exceed 25 years. The public comment period for the proposed DFARS rule ended on January 19, 2016.

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<sup>3</sup> "IMCOM Implementing Guidance for Energy Savings Performance Contracts (ESPC) and Utility Energy Service Contracts (UESC)," March 13, 2014.

<sup>4</sup> DFARS Case 2015-D018, "Contract Term Limit for Shared Energy Savings Contract Services."

<sup>5</sup> Under 10 U.S.C. § 2913.

## ***The Presidio of Monterey UESC***

POM Directorate of Public Works program personnel worked with San Antonio contracting personnel from the Energy and Environmental Acquisitions program office of the 412th Contracting Support Brigade, Mission and Installation Contracting Command (MICC) to award and administer the UESC. POM and San Antonio MICC personnel entered into a UESC on August 21, 2013, by awarding contract W9124J-13-G-0001, a basic ordering agreement. San Antonio MICC personnel incorporated the terms of the applicable General Services Administration area-wide contract, GS-00P-07-BSD-0505, into the basic ordering agreement.

POM program and San Antonio MICC personnel expected the maximum value of the basic ordering agreement to not exceed \$10 million during acquisition planning. Contracting personnel issued six task orders, valued at \$7.8 million, as of September 14, 2015. The Defense Manpower Data Center obligated and financed a combined total of \$6.9 million for task order 0001. The Army paid \$0.9 million through appropriations for task orders 0002 and 0006 as of September 14, 2015. The Defense Manpower Data Center is a tenant on POM and is paying for task order 0001, the only task order using financing as of September 14, 2015. Figure 1 is an example of energy savings measures implemented through task order 0001. Motion sensors and LED<sup>6</sup> lights were installed on light poles in a parking lot and contributed to an energy savings of 93 percent to operate the parking lot.

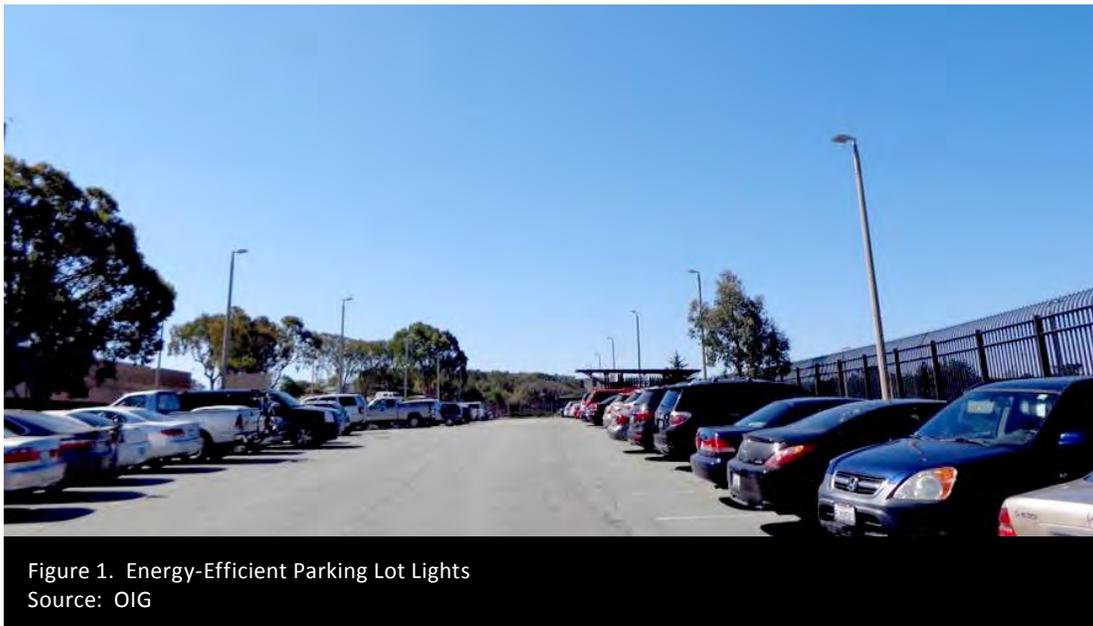


Figure 1. Energy-Efficient Parking Lot Lights  
Source: OIG

<sup>6</sup> Light emitting diodes.

POM personnel procured various energy conservation measures through the six task orders. They used the first task order to implement energy conservation measures for the Defense Manpower Data Center, which included retrofitting the power and cooling infrastructure, updating lighting in and outside of the building, and additional measures. The remaining task orders included requirements to:

- conduct retro-commissioning<sup>7</sup> training;
- balance heating ventilation and cooling in two buildings;
- retrofit dual duct systems in one building;
- conduct an energy security review and plan; and
- conduct an IGA to identify additional energy conservation opportunities.

See Appendix B for a detailed list of the work procured on the task orders.

## Review of Internal Controls

DoD Instruction 5010.40, “Manager’s Internal Control Program Procedures,” May 30, 2013, requires organizations to implement a comprehensive system of internal controls to provide reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses in the award and administration of the POM UESC. Personnel at San Antonio MICC, POM program personnel, and Army Office of the Assistant Chief for Installation Management personnel did not have standard operating procedures or sufficient guidance in place over the UESC program. We will provide a copy of the report to the senior official responsible for internal controls in the Department of the Army.

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<sup>7</sup> Retro-commissioning is a process to identify possible energy savings by determining whether existing facility systems perform in accordance with the design and intent, meet the needs of the owners and users, and can be operated and maintained during their life cycle.

## Finding

### **Army Personnel Properly Awarded and Administered the POM UESC, but Improved Procedures and Guidance Are Needed Over the UESC Program**

San Antonio MICC personnel and POM program personnel properly awarded and administered the UESC. However, personnel at San Antonio MICC, the POM, IMCOM, and the Office of the Assistant Chief of Staff for Installation Management did not have standard operating procedures or sufficient guidance in place over the UESC program.

This occurred because this contract is the first UESC for San Antonio MICC and POM personnel; therefore, they had not yet created UESC-specific standard processes. In addition, personnel from the Office of the Assistant Chief of Staff for Installation Management stated that they were waiting to issue guidance after a DFARS case<sup>8</sup> is resolved.

Although current personnel have awarded and administered the UESC appropriately, without documenting adequate and appropriate procedures and guidance, Army officials may not be able to effectively award UESC contracts and administer the UESC program in the future.

### **Army Officials Properly Awarded and Administered the POM UESC**

San Antonio MICC personnel and POM program personnel properly awarded and administered the POM UESC. San Antonio MICC and POM personnel performed thorough reviews of the savings estimates and pricing proposals. In addition, they supported the award of the POM UESC and properly administered the UESC.

#### ***San Antonio MICC and POM Personnel Reviewed Savings Estimates and Pricing Proposals Thoroughly***

San Antonio MICC personnel and POM program personnel conducted thorough reviews of savings by evaluating the contractor's savings models, determining the savings-to-investment ratio, and calculating whether the savings payback was sufficient to cover the financed costs. POM program personnel spoke with the contractor and subcontractor about the savings models they used to determine

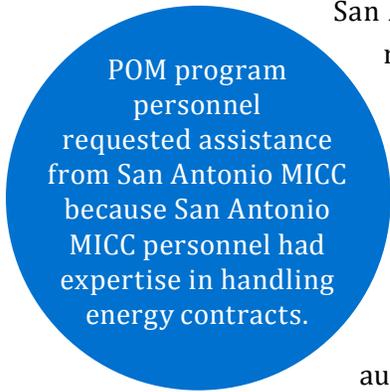
<sup>8</sup> DFARS Case 2015-D018, "Contract Term Limit for Shared Energy Savings Contract Services."

the estimated energy savings. The contracting officer calculated the savings to investment ratio to check whether the projects would repay the investment and whether there would be any savings in energy usage.

San Antonio MICC personnel conducted thorough reviews of the pricing by obtaining independent Government estimates (IGEs), comparing prices to market rates, and reviewing the proposals for completeness. In addition, personnel from San Antonio MICC and POM program personnel worked together when pricing did not appear fair and reasonable to support negotiations with the contractor. The contracting officer documented price reasonableness determinations for each task order.

Personnel created an IGE for five of the six task orders but did not prepare an IGE for task order 0001 because they determined that the price was fair and reasonable through other methods. The contractor conducted a preliminary audit and an IGA. Contracting personnel analyzed the IGA and expected energy savings for task order 0001, in addition to using the methods applied to the other task orders. Contracting personnel analyzed and compared the price proposals to IGEs and published market rates for the same or similar items, and reviewed the proposals for completeness. The contracting officer negotiated with the contractor when pricing appeared high or the proposal included unnecessary expenses. After these reviews, the contracting officer documented that the Government was receiving a fair and reasonable price in the price reasonableness determination memorandum.

### ***San Antonio MICC and POM Personnel Supported the UESC Award***



POM program personnel requested assistance from San Antonio MICC because San Antonio MICC personnel had expertise in handling energy contracts.

San Antonio MICC personnel and POM program personnel requested assistance from experts throughout the award and administration of the POM UESC. POM program personnel requested assistance from San Antonio MICC because San Antonio MICC personnel had expertise in handling energy contracts.

Personnel at San Antonio MICC and the POM requested that the contractor conduct preliminary audits and IGAs before selecting energy conservation measures to complete. For task order 0001, the largest task order as of September 14, 2015, POM personnel identified appropriate energy efficient measures to implement by commissioning a preliminary audit. Based on the potential savings in the preliminary audit, personnel at San Antonio MICC and the POM issued task order 0001 to conduct an IGA. The projects had an estimated investment cost of \$6.7 million with an estimated savings of \$8 million over



Figure 2. Defense Manpower Data Center Server Room Upgrades  
Source: POM

10 years. In addition, personnel at San Antonio MICC and the POM issued task order 0004 for a preliminary audit and IGA to evaluate lighting and energy saving possibilities.

The contractor proposed projects for implementation; however, as of September 14, 2015, San Antonio MICC personnel had not awarded a modification to the task order to implement any of the projects. Figure 2 shows multiple installed measures, such as server cooling racks and motion-activated lighting, implemented through task order 0001 to improve energy efficiency to the Defense Manpower Data Center server room, which used the most energy in the building.

Personnel at San Antonio MICC and the POM requested legal reviews during the award of the UESC for some of the task orders and price-reasonableness determinations. For example, the POM energy manager

requested and obtained verification that training was a legal use of the POM funds and that participants from outside of POM would be able to attend.

### ***Army Officials Properly Administered the UESC***

San Antonio MICC personnel and POM program personnel properly administered the UESC. San Antonio MICC personnel appointed a contracting officer's representative. The contracting officer's representative obtained the required training and provided contract oversight in Monterey with frequent feedback to the contracting officer. Contracting personnel and program personnel continued discussing the progress of the projects and tracking the savings throughout the contract.

In addition, San Antonio MICC and POM personnel maintained appropriate segregation of duties. The Government Accountability Office<sup>9</sup> discusses the importance of the “segregation of duties,” explaining:

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual should control all key aspects of a transaction or event.

Through the award and administration of the UESC, personnel at San Antonio MICC and the POM separated their responsibilities so one person was not performing and approving any task in the process. For example, POM personnel prepared the IGE, but the San Antonio MICC personnel negotiated the pricing. In addition, for some of the task orders, the San Antonio MICC contracting officer relied not only on the POM program technical reviews of proposed projects but also asked MICC engineers to review proposed projects to ensure they were reasonable and justified before award.

## Army Officials Do Not Have Standard UESC Procedures or Adequate UESC Guidance

POM program personnel stated that this was the first UESC at POM; therefore, they had not yet created UESC-specific standard processes.

Army officials did not have standard UESC operating procedures or adequate UESC guidance in place.

Personnel at San Antonio MICC and the POM did not have standard operating procedures to award and administer a UESC. POM program personnel stated that this was the first UESC at POM; therefore, they had not yet created UESC-specific standard processes.

Army officials provided limited guidance specifically for UESCs in the March 2014 memorandum, and available guidance did not provide a strong framework for awarding and administering UESCs. This occurred because Army officials were waiting to issue guidance until DFARS case 2015-D018 is resolved. Although current personnel awarded and administered the UESC appropriately, without documenting adequate and appropriate procedures and guidance, Army officials may not be able to effectively award UESC contracts and administer the UESC program in the future.

<sup>9</sup> Government Accountability Office Report No. GAO-14-704G, “Standards for Internal Control in the Federal Government,” September 2014.

## ***San Antonio MICC and POM Personnel Did Not Have Standard UESC Procedures***

Personnel at San Antonio MICC and the POM did not have standard operating procedures to document the appropriate steps to award and administer a UESC. POM program personnel stated this was the first UESC at POM. Although they properly awarded and administered the current UESC, contracting and program personnel had not created standard operating procedures to continue administering the UESC program at the same level of success without assistance or training from the current personnel.

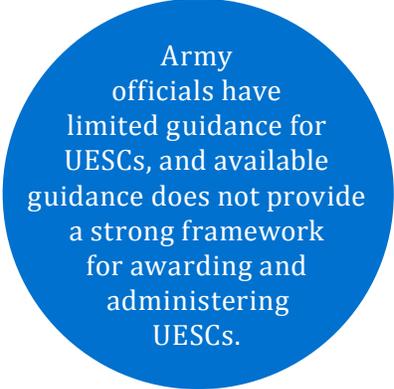
The contracting and program personnel completed the steps in awarding and administering the UESC that should be taken to adequately support the appropriate award of a UESC, even though some of the steps were not required by current UESC guidance. The POM energy manager stated he will formalize in writing the current segregation of duties between contracting and program personnel. To formalize POM current process as a best practice, the energy manager would also develop a process checklist, which includes:

- the tasks completed and purpose;
- who completes the task; and
- who approves the task if necessary.

Contracting and program personnel need to create and document standard operating procedures to ensure the continued success of their UESC program. The Commander, 412th Contracting Support Brigade, should establish standard operating procedures for the award and administration of UESCs. The Director, Presidio of Monterey Directorate of Public Works, should establish standard operating procedures for the award and administration of UESCs.

## ***Current Army UESC Guidance and Policies Are Limited***

Army officials have limited guidance for UESCs, and available guidance does not provide a strong framework for awarding and administering UESCs. According to POM program personnel, guidance related specifically to the award and administration of UESCs, including the March 2014 ICMOM memorandum, is limited and unclear. POM personnel stated that they needed additional guidance and clarification on UESC topics such as the approval process and developing IGEs so personnel know how to best use UESCs. The POM energy manager



Army officials have limited guidance for UESCs, and available guidance does not provide a strong framework for awarding and administering UESCs.

communicated with U.S. Army Assistant Chief of Staff for Installation Management and IMCOM personnel to obtain clarification and guidance throughout the award and administration of the POM UESC.

The March 2014 IMCOM memorandum states: “The purpose of this memorandum is to provide implementing guidance for the development and execution of ESPC and UESC projects at IMCOM garrisons.” IMCOM officials required garrisons to submit all proposed UESCs to IMCOM headquarters for review and approval. Through the memorandum, IMCOM officials also provided guidance on pricing and funding. IMCOM officials did not provide any additional guidance on developing and executing a UESC and did not explain the approval process or requirements in the memorandum. IMCOM officials discussed measuring and verifying savings and responsibilities related to ESPCs, but they did not address these topics as they related to UESCs.

U.S. Army Assistant Chief of Staff for Installation Management personnel stated that they were developing guidance related specifically to UESCs pending a resolution of DFARS case 2015-D018. However, Army personnel needed to issue additional guidance to address fraud and other problems that occurred in Fort Knox’s UESC program.<sup>10</sup> According to DoD Inspector General (DoD IG) findings, the Fort Knox UESC program did not have an appropriate segregation of duties. At the time, Army officials did not require approval or notification of UESC projects. Fort Knox personnel awarded the task orders without approval from or notifications to higher levels, so Army officials did not have appropriate supervision in place to prevent fraud. Without adequate guidance in place, Army officials risk fraud, waste, and abuse. The U.S. Army Assistant Chief of Staff for Installation Management should establish Army guidance with specific thresholds for review and approval levels for UESCs.

DoD officials recognized UESCs as a crucial tool for financing energy efficiency projects and provided DoD Instruction 4170.11 related to the financing of the projects; however, DoD officials did not provide specific guidance for UESCs in the Instruction. We plan to include any DoD-wide recommendations in the summary report issued at the completion of this series of reports.

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<sup>10</sup> DoD OIG Report No. DODIG-2014-107, “Fort Knox and the Army Need to Improve Internal Controls for Utility Energy Services Contracts,” September 8, 2014.

## Conclusion

POM program personnel and San Antonio MICC personnel properly awarded and administered six task orders,<sup>11</sup> valued at \$7.8 million, for energy savings as of September 14, 2015. However, Army officials both at the installation level, IMCOM, and the Office of the Assistant Chief of Staff for Installation Management did not have standard operating procedures or sufficient guidance in place to ensure the UESC program continued to be an efficient and effective use of Government resources. The current contract was the first UESC for POM; therefore, they had not created standard operating procedures. Furthermore, Office of the Assistant Chief of Staff for Installation Management personnel stated that they were waiting on the resolution of a DFARS case to issue UESC-specific guidance. As a result, without adequate procedures and guidance in place over the UESC program, Army officials may not be able to continue to effectively award UESC contracts and administer the UESC program.

## Recommendations, Management Comments, and Our Response

### ***Recommendation 1***

**We recommend the Commander, 412th Contracting Support Brigade, establish standard operating procedures for the award and administration of Utility Energy Service Contracts.**

#### *Mission and Installation Contracting Command Comments*

The Acting Deputy to the Commanding General, Mission and Installation Contracting Command, responding for the Commander, 412th Contracting Support Brigade, agreed, stating the 412th Contracting Support Brigade awards and administers contracts in accordance with the Mission and Installation Contracting Command Handbook. The Mission and Installation Contracting Command will incorporate processes and procedures addressing the award and administration of Utility Energy Service Contracts and guidance established by the Office of the Assistant Chief of Staff for Installation Management into the Mission and Installation Contracting Command Handbook.

#### *Our Response*

Comments from the Acting Deputy to the Commanding General addressed the specifics of the recommendation, and no further comments are required.

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<sup>11</sup> From basic ordering agreement W9124J-13-G-0001.

## **Recommendation 2**

**We recommend the Director, Presidio of Monterey Directorate of Public Works, establish standard operating procedures for the award and administration of Utility Energy Service Contracts.**

### *Presidio of Monterey Directorate of Public Works Comments*

The Garrison Commander, responding for the Director, Presidio of Monterey Directorate of Public Works, agreed, stating that the Presidio of Monterey Directorate of Public Works is preparing standard operating procedures and expects completion by May 31, 2016.

### *Our Response*

Comments from the Garrison Commander addressed the specifics of the recommendation, and no further comments are required.

## **Recommendation 3**

**We recommend the U.S. Army Assistant Chief of Staff for Installation Management establish guidance with specific thresholds for review and approval of projects and guidance for the award and administration of Utility Energy Service Contracts.**

### *Assistant Chief of Staff for Installation Management Comments*

The Director, Operations, Office of the Assistant Chief of Staff for Installation Management, agreed, stating that Utility Energy Services Contract guidance is in draft and will be completed after the pending Defense Federal Acquisition Regulation Supplement Case 2015-D018 is resolved. The Director stated the completion of the case is expected between April and August 2016. In the interim, Office of the Assistant Chief of Staff for Installation Management personnel are instructing installations and contracting officers to refer to the Department of Energy Federal Energy Management Program's Utility Energy Service Contract Guide.

### *Our Response*

Comments from the Director addressed the specifics of the recommendation, and no further comments are required.

## Appendix A

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### Scope and Methodology

We conducted this performance audit from July 2015 through February 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Review of Documentation and Interviews

We reviewed the basic ordering agreement W9124J-13-G-0001, with a maximum expected value during acquisition planning of \$10 million, and reviewed four modifications to the basic ordering agreement. We also reviewed six task orders, valued at \$7.8 million, as of September 14, 2015.

We obtained the contract documentation from the Electronic Document Access system and from our site visits to review contract files at Joint Base San Antonio, Texas and the POM, California. For each of the task orders, we reviewed the price-reasonableness determination, investment-grade audits, and any documentation related to the cost and savings estimates.

We interviewed San Antonio MICC personnel and POM energy personnel responsible for the UESC basic ordering agreement and task orders. We also met through teleconference with U.S. Army Assistant Chief of Staff for Installation Management and IMCOM personnel responsible for UESC guidance.

We also reviewed:

- 42 U.S.C. § 8256;
- 10 U.S.C. § 2913;
- DoD Instruction 4170.11, "Installation Energy Management," December 11, 2009;
- U.S. Army Installation Management Command memorandum, "IMCOM Implementing Guidance for Energy Savings Performance Contracts (ESPC) and Utility Energy Service Contracts (UESC)," March 13, 2014; and
- Defense Federal Acquisition Regulation Supplement Case 2015-D018, "Contract Term Limit for Shared Energy Savings Contract Services."

## **Use of Computer-Processed Data**

We did not use computer-processed data to perform this audit.

## **Use of Technical Assistance**

We did not use technical assistance to perform this audit.

## **Prior Coverage**

During the last 5 years, the Government Accountability Office (GAO) and the DoD IG issued two reports related to financing energy projects through UESCs. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

### **GAO**

Report No. GAO-12-401, “Renewable Energy Project Financing: Improved Guidance and Information Sharing Needed for DOD Project-Level Officials,” April 2012

### **DoD IG**

Report No. DODIG-2014-107, “Fort Knox and the Army Need to Improve Internal Controls for Utility Energy Services Contracts,” September 8, 2014

## Appendix B

### Task Orders Reviewed

Task Order Number	Description	Effective Date	Total Value
0001	Investment Grade Audit for Defense Management Power Data Center. Projects implemented include: data center power and cooling infrastructure and retrofit; updated lighting in and outside the building; chilled and hot water resets; air flow and pressure controls for single and dual duct systems; and additional measures.	August 22, 2013	\$6,930,555
0002	Existing building commissioning <sup>1</sup> training class	June 10, 2014	39,930
0003	Retrofit of dual duct system and control work in Building 4399, and air balance and bid options for Buildings 842 and 848	September 25, 2014	506,429
0004	Investment Grade Audit for 8 buildings and a lighting audit for 13 buildings.	September 25, 2014	250,000
0005	Energy security plan and review	September 25, 2014	50,000
0006	Retro-commissioning <sup>2</sup> training practicum	April 13, 2015	66,971
	<b>Total</b>		<b>\$7,843,885<sup>3</sup></b>

<sup>1</sup> A systematic process using appropriate verification and documentation ensuring all facility systems perform in accordance with the design and intent, and the needs of the owners and users, and ensuring fully functional systems that can be properly operated and maintained during their life cycle.

<sup>2</sup> The process of commissioning a facility or system that was not commissioned at the time of construction.

<sup>3</sup> Total value as of September 2015.

# Management Comments

## Assistant Chief of Staff for Installation Management



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT CHIEF OF STAFF FOR INSTALLATION MANAGEMENT  
600 ARMY PENTAGON  
WASHINGTON, DC 20310-0600

06 APR 2016

DAIM-OD

MEMORANDUM FOR INSPECTOR GENERAL DEPARTMENT OF DEFENSE,  
4800 MARK CENTER DRIVE, ALEXANDRIA, VIRGINIA 22350-1500

SUBJECT: Response to DoD-IG Draft Report, San Antonio MICC and POM Personnel Properly Awarded and Administered the POM UESC, but Improved Procedures and Guidance are Needed (Project D2015-D000CG-0218.000)

1. Reference: DoD-IG Draft Report, San Antonio MICC and POM Personnel Properly Awarded and Administered the POM UESC, but Improved Procedures and Guidance are Needed (Project D2015-D000CG-0218.000).
2. This office has reviewed the subject draft audit report and provides response at enclosure 1.
3. The point of contact for this action is [REDACTED]

Encl

  
TED C. HARRISON  
MG, USA  
Director, Operations

CF:  
Deputy Assistant Secretary of The Army for Energy and Sustainability  
Deputy Commanding General, U.S. Army Installation Management Command

## Assistant Chief of Staff for Installation Management (cont'd)

**Project:** D2015-D000CG-0218.000

**Audit Location:** Presidio of Monterey – Monterey, CA

**Objective Designation:**

**Objective Title:** DOD-Inspector General: San Antonio MICC and POM Personnel Properly Awarded and Administered the POM UESC, but Improved Procedures and Guidance Are Needed. Draft Audit report: 24 February 2016

**Objective:**

“We (DoDIG) determined whether the contracts and task orders related to the Army Utility Energy Services Contracts (UESCs) were properly awarded and administered. Specifically, we reviewed the contract and task orders related to the UESC awarded for the U.S. Army Garrison Presidio of Monterey (POM), Monterey, California, with a maximum expected value of \$10 million. This is the second in a series of audits on Army UESCs.”

**Conclusion:**

POM program personnel and San Antonio MICC personnel properly awarded and administered six task orders, valued at \$7.8 million, for energy savings as of September 14, 2015. However, Army officials both at the installation level, IMCOM, and the Office of the Assistant Chief of Staff for Installation Management did not have standard operating procedures or sufficient guidance in place to ensure the UESC program continued to be an efficient and effective use of Government resources. The current contract was the first UESC for POM; therefore, they had not created standard operating procedures. Furthermore, Office of the Assistant Chief of Staff for Installation Management personnel stated that they were waiting on the resolution of a DFARS case to issue UESC-specific guidance. As a result, without adequate procedures and guidance in place over the UESC program, Army officials may not be able to continue to effectively award UESC contracts and administer the UESC program.

**Recommendations:**

**Recommendation 3.** For The U.S. Army Assistant Chief of Staff for Installation Management –“We (DoDIG) recommend the U.S. Army Assistant Chief of Staff for Installation Management establish guidance with specific thresholds for review and approval of projects and guidance for the award and administration of Utility Energy Services Contracts.”

## Assistant Chief of Staff for Installation Management (cont'd)

**Actions Taken or Planned:**

Concur with comment to Recommendation 3. The Office of the Assistant Chief of Staff for Installation Management currently has Utility Energy Services Contract (UESC) guidance in draft. Final revisions, staffing, and publication of this guidance document is being held until the pending DFARS rule change case 2015-D018 is resolved as noted in this audit report. Public comments on the case have been received and as of 14 March 2016 are in the adjudication phase. Office of Secretary of Defense is projecting completion of the case between April and August 2016. In the interim, and as was done on the Presidio of Monterey UESC, installations and contracting officers are being instructed to refer to the Department of Energy - Federal Energy Management Program's (DOE-FEMP) UESC Guide (<http://energy.gov/eere/femp/downloads/utility-energy-services-contracts-guide-0> ). The draft Army guidance draws heavily on the DOE-FEMP UESC guide but has added detail specific to Army projects, processes, and procedures.

**Potential Monetary Benefits:** The report did not address potential monetary benefits.

## Mission and Installation Contracting Command



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY  
ACQUISITION LOGISTICS AND TECHNOLOGY  
103 ARMY PENTAGON  
WASHINGTON DC 20310-0103

APR 07 2016

SAAL-ZP

MEMORANDUM FOR DEPARTMENT OF DEFENSE, INSPECTOR GENERAL  
(DoDIG), CONTRACT MANAGEMENT AND PAYMENTS, 4800 MARK CENTER  
DRIVE, ALEXANDRIA, VA 22350-1500

SUBJECT: DoDIG Draft Audit Report, San Antonio Mission and Installation Contracting  
Command and Presidio of Monterey (POM) Personnel Properly Awarded and  
Administered the POM Utility Energy Services Contracts, but Improved Procedures and  
Guidance Are Needed (Project No. D2015-D000CG-0218.000)

1. On behalf of the Assistant Secretary of the Army (Acquisition, Logistics and  
Technology), the Office of the Deputy Assistant Secretary of the Army (Procurement)  
reviewed the subject draft audit report and is providing the official Army position.
2. After reviewing the report, we concur with the response to recommendation 1.  
Enclosed is the recommendation and response.
3. The point of contact is [REDACTED]

Encl

A handwritten signature in black ink, appearing to read "Harry P. Hallock".  
Harry P. Hallock  
Deputy Assistant Secretary  
of the Army (Procurement)

## Mission and Installation Contracting Command (cont'd)



DEPARTMENT OF THE ARMY  
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND  
4400 MARTIN ROAD  
REDSTONE ARSENAL, AL 35896-5000

28 MAR 2016

AMCIR

MEMORANDUM FOR Department of Defense Inspector General (DoDIG),  
[REDACTED] Program Director, Contract Management and Payments,  
4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Command Comments on DoDIG Draft Report, San Antonio MICC and POM  
Personnel Properly Awarded and Administered the POM UESC, but Improved  
Procedures and Guidance Are Needed, Project D2015CG-0218.

1. The U.S. Army Materiel Command (AMC) has reviewed the subject draft report and the response from the U.S. Army Contracting Command (ACC). AMC endorses the enclosed ACC response.
2. The AMC point of contact is [REDACTED]

Encl

  
LISHA H. ADAMS  
Executive Deputy to the  
Commanding General

## Mission and Installation Contracting Command (cont'd)

REPLY TO  
ATTENTION OF:

DEPARTMENT OF THE ARMY  
U.S. ARMY CONTRACTING COMMAND  
4505 MARTIN ROAD  
REDSTONE ARSENAL, AL 35898-5000

11 MAR 2016

AMSCC-IR

MEMORANDUM FOR [REDACTED] Director, Internal Review and Audit  
Compliance Office, Headquarters, U.S. Army Materiel Command, 4400 Martin Road,  
Redstone, Arsenal, AL 35898

SUBJECT: DODIG Draft Report, U.S. Army Contracting Command—Mission  
Installation Contract Command (MICC) San Antonio MICC and POM Personnel  
Properly Awarded and Administered the POM UESC, but Improved Procedures and  
Guidance Are Needed (Project No. D2015-D000CG-0218.000) (D1556) (3376)

1. DODIG Draft Report, DoD Inspector General, 24 February 2016, subject: same as above.
2. The Army Contracting Command (ACC) provides the enclosed comments in response to the referenced document.
3. The ACC POC is [REDACTED]

Encl

  
BRYAN R. SAMSON  
Acting Deputy to the Commanding General

Printed on  Recycled Paper

## Mission and Installation Contracting Command (cont'd)



**DEPARTMENT OF THE ARMY**  
U.S. ARMY MISSION AND INSTALLATION CONTRACTING COMMAND  
2219 INFANTRY POST ROAD  
JBSA FORT SAM HOUSTON, TX 78234-1361

CCMI-CO

MEMORANDUM FOR [REDACTED] Internal Review and Audit Compliance Office,  
Headquarters, U.S. Army Contracting Command, 4505 Martin Road, Redstone,  
Arsenal, AL 35898

SUBJECT: MICC Response to DODIG Draft Report Project No. D2015-D000CG-  
0218.000

1. The Mission Installation Contracting Command (MICC) provides the enclosed comments in response to the referenced DODIG Draft Report.
2. My point of contact is [REDACTED]

Encl

A handwritten signature in cursive script, appearing to read "Wade Cole".

WADE C. COLE  
Acting Deputy to the Commanding General

## Mission and Installation Contracting Command (cont'd)

**MISSION AND INSTALLATION CONTRACT COMMAND RESPONSE TO DODIG  
DRAFT AUDIT REPORT: SAN ANTONIO MICC AND POM PERSONNEL  
PROPERLY AWARDED AND ADMINISTERED THE POM UESC, BUT IMPROVED  
PROCEDURES AND GUIDANCE IS NEEDED, ISSUED 24 FEBRUARY 2016**

**Recommendation 1:** We recommend the Commander, 412th Contracting Support Brigade (CSB), establish standard operating procedures for the award and administration of Utility Energy Service Contracts.

**MICC RESPONSE:** Concur with comment.

The 412th CSB awards and administers contracts IAW with the MICC Handbook. The MICC will incorporate, into the Handbook, processes and procedures addressing the award and administration of Utility Energy Service Contracts as well as any guidance established by the U.S. Army Assistant Chief of Staff, Installation Management as a result of this report.

## Presidio of Monterey Directorate of Public Works



REPLY TO  
ATTENTION OF

IMIR

3/28/2016

DEPARTMENT OF THE ARMY  
US ARMY INSTALLATION MANAGEMENT COMMAND  
2405 GUN SHED ROAD  
JOINT BASE SAN ANTONIO FORT SAM HOUSTON, TX 78234-1223

MEMORANDUM FOR Inspector General, Department of Defense, 4800 Mark Center Drive, Alexandria, Virginia 22350-1500

SUBJECT: Draft Report, San Antonio MICC and POM Personnel Properly Awarded and Administered the POM UESC, but Improved Procedures and Guidance are Needed (D2015-D000CG-0218)

1. I received the subject draft report. The report contains one recommendation to the Presidio of Monterey Public Works to update SOPs for awarding and administering utility energy services contracts. I agree with the enclosed garrison and Central Region concurrence with this recommendation.

2. The IMCOM point of contact is [REDACTED]

Encl  
as

KENNETH R. DAHL  
Lieutenant General, USA  
Commanding

## Presidio of Monterey Directorate of Public Works (cont'd)



REPLY TO  
ATTENTION OF

DEPARTMENT OF THE ARMY  
UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND  
HEADQUARTERS, US ARMY GARRISON, PRESIDIO OF MONTEREY  
1769 LEWIS ROAD, SUITE 210  
MONTEREY, CA 93944-3223

IMPM- ZA

MEMORANDUM THRU COMMANDER, U.S. Army Installation Management Command,  
Central Region, 2405 Gun Shed Road, Suite 1200, Joint Base San Antonio, Fort Sam  
Houston, TX 78234-1403

FOR Commanding General, Installation Management Command, 2405 Gun Shed Road,  
Fort Sam Houston, TX 78234

SUBJECT: Command Reply - DoDIG Utility Energy Services Contracts Audit of Presidio  
of Monterey

1. The U.S. Army Garrison, Presidio of Monterey reviewed the subject DoDIG Draft Report and concurs with the Findings and Recommendation addressed to Presidio of Monterey (POM). The Directorate of Public Works, POM, began corrective action on Recommendation 2 and is preparing standard operating procedures (SOP) for the awarding and administration of Utility Energy Service Contracts. Target date for the completed SOP is 31 May 2016.

2. The Internal Review and Audit Compliance Office point of contact for this action is

[REDACTED]

FOR *Paul W. Fellingner* DGC  
PAUL W. FELLINGER  
COL, IN  
COMMANDING

## Acronyms and Abbreviations

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<b>DFARS</b>	Defense Federal Acquisition Regulation Supplement
<b>ESPC</b>	Energy Savings Performance Contract
<b>IGA</b>	Investment Grade Audit
<b>IGE</b>	Independent Government Estimate
<b>IMCOM</b>	Installation Management Command
<b>MICC</b>	Mission and Installation Contracting Command
<b>POM</b>	Presidio of Monterey
<b>UESC</b>	Utility Energy Services Contract
<b>U.S.C.</b>	United States Code

# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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