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### **Acronyms**

ATC	Aberdeen Test Center
COR	Contracting Officer Representative
CPAF	Cost-Plus-Award-Fee
CPFF	Cost-Plus-Fixed-Fee
CPIF	Cost-Plus-Incentive-Fee
DTRMC	Defense Test Resource Management Center
FAR	Federal Acquisition Regulation
GAO	Government Accountability Office
FFP	Firm-Fixed-Price
IG	Inspector General
IGCE	Independent Government Cost Estimate
MRTFB	Major Range and Test Facilities Base
T&M	Time and Materials



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

December 27, 2006

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
DIRECTOR, DEFENSE TEST RESOURCE MANAGEMENT  
CENTER  
NAVAL INSPECTOR GENERAL  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Contracting Practices at the Major Range and Test Facilities Base  
(Report No. D-2007-036)

We are providing this report for review. We considered management comments on the draft of this report in preparing the final report.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Benjamin A. Mehlman at (703) 604-9291 (DSN-664 9291) or Mr. Michael E. Simpson at (703) 604-8972 (DSN 664-8972). See Appendix E for the report distribution. The team members are listed on the inside of the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, reading "Richard B. Jolliffe".

Richard B. Jolliffe  
Assistant Inspector General  
Acquisition and Contract Management

# Department of Defense Office of Inspector General

**Report No. D-2007-036**

**December 27, 2006**

(Project No. D2005-D000AB-0223.000)

## **Contracting Practices at the Major Range and Test Facilities Base**

### **Executive Summary**

**Who Should Read This Report and Why?** DoD procurement and contracting personnel involved with contracting at the Major Range and Test Facilities Base should read this report. The report discusses the need for contracting personnel to improve the award and administration of Major Range and Test Facilities Base contracts.

**Background.** The Major Range and Test Facilities Base is a national asset that is sized, operated, and maintained primarily for DoD test and evaluation support missions, but may also be available to all users having a valid requirement for its capabilities. The audit objective was to determine whether contracting officials at the Major Range and Test Facilities Base complied with the requirements of the Federal Acquisition Regulation in awarding and administering service and technical support contracts. We selected service contracts at three Army, three Navy, and three Air Force locations to review the award and administration procedures. Our audit included 10 contracts with a total dollar value of more than \$7.6 billion for performance periods from FY 1997 through FY 2015. In March 2004, DoD established the Defense Test Resource Management Center to plan and assess the adequacy of the Major Range and Test Facilities Base. The Defense Test Resource Management Center is a DoD field activity under the authority, direction, and control of the Under Secretary of Defense for Acquisition, Technology, and Logistics.

**Results.** Contracting officials did not adequately manage contracts at nine facilities within the Major Range and Test Facilities Base. Further, the contracting and procurement personnel needed to implement effective management controls.

We reviewed 10 contracts and determined that all 10 were awarded as cost reimbursement contracts and had award and administration problems. Specifically,

- 9 of 10 did not use prior history to define cost estimates or contract type,
- 9 of 10 had inadequate or missing independent Government cost estimates, and
- 6 of 10 had inadequate or missing surveillance plans.

As a result, the Government accepted increased risk by continuing to use cost reimbursement contracts without using historical data or developing detailed cost estimates to shift risks to fixed-price arrangements or improve cost estimating. In addition, contracting officials did not ensure that adequate surveillance was in place to mitigate the increased risk. Complying with the Federal Acquisition Regulation and improving contract surveillance will improve the management and administration of

service and technical contracts. (See the Finding section of the report for the detailed recommendations.) We also reviewed the managers' internal controls as they related to contract administration and oversight for the 10 contracts audited.

**Management Comments and Audit Response.** The Director, Defense Procurement and Acquisition Policy, provided comments on behalf of the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. The Director concurred with the recommendations and stated that his office would issue guidance to reinforce the need to comply with the Federal Acquisition Regulation.

Although not required to comment, the Army, the Navy, and the Air Force provided comments on the draft report that generally disagreed with the findings of no documentation of the use of prior history to define contract type or costs, inadequate independent Government cost estimates, and inadequate surveillance plans. Summaries of the Army, Navy, and Air Force comments and audit responses are in Appendixes B, C, and D.

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## Background

**Defense Test Resource Management Center.** The Defense Test Resource Management Center (DTRMC) was established by DoD Directive 5105.71, “Department of Defense Test Resource Management Center (TRMC)” and sections 191, 196, and 113, title 10, United States Code, March 8, 2004. The DTRMC Director plans for and assesses the ability of the Major Range and Test Facilities Base (MRTFB) to provide testing in support of development, acquisition, fielding, and sustainment of Defense systems. The DTRMC Director maintains awareness of other test and evaluation facilities and resources within and outside of the Department, and their impact on DoD requirements.

**The Major Range and Test Facilities Base.** The MRTFB is a national asset that is sized, operated, and maintained primarily for DoD test and evaluation support missions under the oversight of DTRMC, but may also be available to all users having a valid requirement for its capabilities. The MRTFB consists of a broad base of test and evaluation ranges, which are managed and operated to provide test and evaluation support to the DoD Components that are responsible for developing or operating material and weapon systems. The mission and tests conducted at each of the 19 ranges are very different and, in some cases, unique. The missions vary from testing missiles and aircraft to ensuring that electrical components can survive in various environments. The test assets include aircraft and ships. Some ranges also conduct training exercises. The MRTFB awards contracts to obtain various technical and operational services.

**Contract Types.** A wide selection of contract types is available to the Government and contractors to provide needed flexibility in acquiring the variety and volume of supplies and services required by agencies. There are two broad categories of contract types: cost reimbursement and fixed price.

The MRTFB sites that we visited used cost-plus-award-fee (CPAF), cost-plus-fixed-fee (CPFF), cost-plus-incentive-fee (CPIF), and time and materials (T&M) contracts, which are all cost reimbursement contracts.

The CPAF contract pays the contractor’s incurred costs and an award fee amount based on the Government’s judgmental evaluation of the contractors’ performance.

The CPFF contract pays the contractor a negotiated fee that is fixed at the inception of the contract. The fixed fee does not vary with actual cost, but may be adjusted because of changes in the work performed under the contract.

The CPIF contract pays the contractor a negotiated fee that is adjusted by a formula derived from relationship of the total allowable cost to the total target cost. This contract type specifies a target cost, a target fee, minimum fees, maximum fees, and a fee adjustment formula.

The T&M contract acquires supplies or services based on direct labor hours at specified fixed hourly rates that include wages, materials, overhead, general and administrative expenses, and profit. T&M contracts provide no incentive to the

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contractor for cost control or labor efficiency. Therefore, appropriate Government surveillance of contractor performance is required.

Cost reimbursement contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. Cost reimbursement contracts are used in situations where requirements are not well-defined. These contracts place more risk on the Government because the contractor is reimbursed for all cost and has no incentive to control costs. CPAF and CPFF contracts are usually negotiated based on the cost estimate. Therefore, detailed Government cost estimates and well-defined records of historical data are important for establishing cost control and reducing risk. Cost reimbursement contracts are also suitable when appropriate Government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are in place. Use of historical data and cost estimates allows the Government to better determine and control the cost of services. This information may also allow contracting officials to shift the risk to the contractor by using a different type of contract with fixed prices for all or part of the services in the contract.

Firm-fixed-price (FFP) contracts provide a price that is not subject to any adjustment on the basis of the contractors' cost incurred in performing the contract. The FFP contract places the maximum risk and full responsibility for controlling all cost that may result in a profit or loss on the contractor. Consequently, FFP contracts give the contractor the greatest incentive to control cost and perform effectively.

## **Objectives**

The audit objective was to determine whether contracting officials at the Major Range and Test Facilities Base complied with the requirements of the Federal Acquisition Regulation in awarding and administering service and technical contracts. Also, we reviewed the managers' internal control programs, as they related to the audit objective. See Appendix A for discussion of the scope and methodology and for prior coverage related to the objectives.

## **Review of Internal Controls**

We identified material internal control weaknesses for the 10 contracts audited at 9 MRTFB sites defined by DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006. The 10 contracts at the Major Range and Test Facilities Base did not have one or both of the following internal controls for contract administration and management: contract files that contained independent Government cost estimates with accompanying documentation to show analyses used, or contract files that contained written surveillance plans that included the procedures to follow with measurable objectives. Implementing Recommendations 1., 2., and 3. will improve contract administration procedures. A copy of the final report will be provided to the senior official responsible for internal controls at the nine MRTFB sites and the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics.



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## Contract Management and Oversight at the Major Range and Test Facilities Base

Contracting officials did not adequately manage contracts for three Army, three Navy, and three Air Force locations within the MRTFB. We reviewed 10 cost reimbursement contracts with a combined value of more than \$7.6 billion. We found contract award and administration errors in all 10 service and technical contracts. Specifically, the contracting officers did not:

- use prior history to determine contract type or define costs on 9 of 10 contracts,
- have adequate independent Government cost estimates (IGCEs) on 9 of 10 contracts, or
- have evidence of adequate surveillance plans and surveillance on 6 of 10 contracts.

These problems occurred because contracting officials did not follow the Federal Acquisition Regulation and other best practices for the service contracts. As a result, the Government continued to use high-risk cost reimbursement contracts without following regulations in place to control costs or monitor performance.

### Criteria

**Documentation Requirements and Surveillance.** FAR 15.406-1(a), “Prenegotiation Objectives,” states that the contracting offices are responsible for establishing the Government’s initial negotiation position. FAR 15.406-1(a) states:

The prenegotiation objectives establish the Government’s initial negotiation position. They assist in the contracting officer’s determination of fair and reasonable price. They should be based on the results of the contracting officer’s analysis of the offeror’s proposal, taking into consideration all pertinent information including field pricing assistance, audit reports and technical analysis, fact-finding results, independent Government cost estimates and price histories.

FAR Part 16 discusses the types of contracts that may be used in acquisitions. FAR 16.301-3(a)(2), “Limitations,” states that cost reimbursement contracts may be used only when:

Appropriate Government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used.

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FAR 46.401(a), “Government Contract Quality Assurance,” states:

Quality assurance surveillance plans should be prepared in conjunction with the preparation of the statement of work. The plans should specify--(1) All work requiring surveillance; and (2) The method of surveillance.

## Mission Support Contracts Reviewed

We judgmentally selected 10 cost reimbursement contracts with combined values of more than \$7.6 billion for mission support at three Army, three Navy, and three Air Force test facilities. We reviewed the award and administration information including the use of prior history, IGCEs, and surveillance plans on the selected contracts. The following table shows a summary of the problems we found in the 10 contracts.

**Summary of Problems in Contracts at MRTFBs**

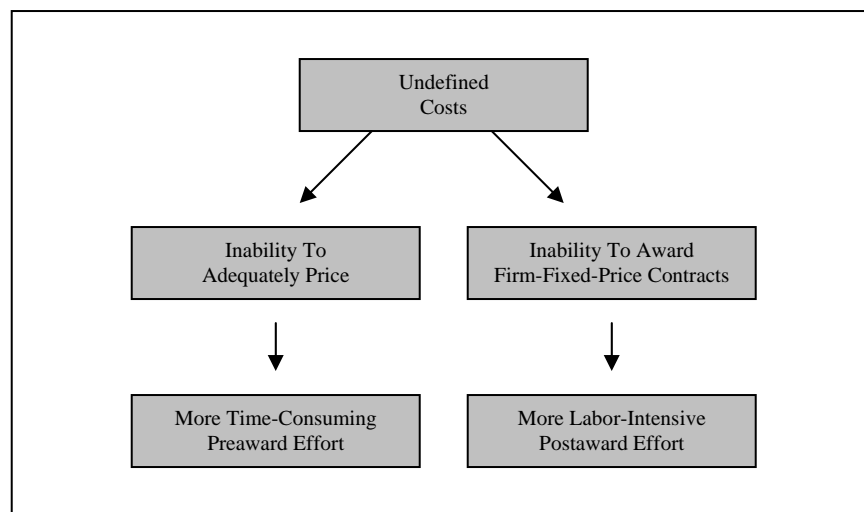
Contract Number	Contract Type	Dollar Value (Millions)	No Documentation of the Use of Prior History	Inadequate or Missing IGCEs	Inadequate or Missing Surveillance Plans
DAAD05-01-D-0019 (Aberdeen Test Center)	T&M	\$118.2	x	x	x
DAAD01-99-C-0003 (Yuma Proving Ground)	CPAF	281.6	x	x	
DAAD07-97-C-0108 (White Sands Missile Range)	CPAF	333.5	x	x	
N68936-01-D-0036 (China Lake)	CPAF	66.4	x	x	x
N66604-05-C-1277 (Atlantic Undersea Test and Evaluation Center)	CPIF/CPAF	778.7	x	x	
N00421-02-C-3052 (Patuxent River)	CPFF	281.2	x		x
N00421-01-C-0422 (Patuxent River)	CPFF	147.8	x	x	x
F40600-03-C-0001 (Arnold Engineering Development Center)	CPAF	2,690.5		x	
NAS10-99001 (45th Space Wing)	CPAF	2,188.9	x	x	x
FA9200-05-C-0001 (46th Test Wing)	CPAF	752.7	x	x	x

**Use of Prior History.** In 9 of the 10 contracts reviewed, there was little or no indication that contracting officials examined the information from prior contracts to determine contract type or to help define costs for future contracts. Even when contractors for these contracts had been performing the same work for many years, contracting officers continually awarded these mission support contracts as cost reimbursement contracts. Contracting officers could not provide analysis of prior history to determine whether all or parts of contracts could be converted to fixed price for these services.

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For example, in 2002 Navy contracting officials awarded a CPFF contract N00421-02-C-3052 valued at \$281.2 million to DynCorp Corporation for support services for range activities despite the 23-year history with the same contractor. The contracting officer's rationale for this decision was that the services could only be described in general terms due to the variables inherent in the nature of the effort. However, the contracting official could not show that he reviewed whether all or part of the work was suitable for an FFP contract. It is imperative that contracting officials evaluate prior history data to mitigate the risk to the Government.

The following figure shows how a lack of defined costs affects preaward and postaward actions.



**Effects of Not Initially Defining Costs**

Another example of a contract issued without adequately using historical information to define requirements was Army contract DAAD05-01-D-0019 valued at \$118.2 million. Contracting officials awarded this T&M contract without documenting the process used when considering prior history to determine contract type. According to FAR Part 16.601, the T&M contract provides no positive profit incentive to the contractor for cost control or labor efficiency. Because T&M contracts may be used only after the contracting officer determines that no other contract type is suitable, the Army contracting officials at the very least should have justified why other cost reimbursement contracts would not have been suitable.

**IGCEs.** Nine of the 10 contracts had missing or inadequate IGCEs. According to FAR 15.406-1(a), contracting officials should establish the Government's initial negotiation position with the use of various analyses and techniques including the IGCE. The information gathered should assist contracting officials in deciding the fairness and reasonableness of proposals received from contractors. This information is especially important with cost reimbursement contracts because the contractor has no incentive to control cost and could initially understate cost to receive the award and eventually be reimbursed for larger amounts. The "Defense Procurement and Acquisition Policy-Contracting Pricing Reference

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Guide” (the Guide) provides professional instruction on contract price analysis. Section 6.1.5, “Independent Government Estimates,” lists the following five steps for preparing IGCEs:

1. Determine acquisition costs based on current proposal or other estimates.
2. Assure Government requirement documents reflect the minimum needs of the Government.
3. Identify alternative products or methods of meeting the minimum needs of the Government. (the key step in the analysis)
4. Estimate the costs associated with alternative products or methods that would meet the minimum needs of the Government.
5. Document the reasonableness of the current prices or recommend appropriate change and ensure that the process and results of the value analysis are clearly documented and included a copy of the documentation in the contract file. When you are sure that the value received support the offered price, use that information to support price reasonableness. When you are not satisfied, use the information to document efforts to bring price in line with perceived value.

The Guide cautions against the reliance on IGCEs that originate with an offeror, that are a sheer guess, or that are derived simply by using past contract prices. According to the Guide, past contract prices should be analyzed in the same way as other historical prices.

Although FAR 15.404-1(7) lists reference material such as the Guide, contracting officials for 9 of the 10 contract files had incomplete or missing IGCEs. The estimates lacked detail, did not have documentation of the value analysis, and in some cases were prepared by using an actual prior year contract price and inflating the amount by a set percentage for as many as 15 years into the future. Because all of the contracts were cost reimbursement contracts, the contracting officer should have devoted the time necessary to establish reliable and well-supported cost estimates to achieve the best price for the Government.

CPAF Air Force contract F40600-03-C-0001 for \$2.7 billion for base operations is an example of a contract for which the contracting officer did not include adequate cost analysis. The contracting officer used actual FY 2002 costs from two former contracts and adjusted it for management overhead, workload, and maintenance backlog. The contracting officer then inflated the costs by 3 percent each year for the 12-year term of the contract if all options are exercised. On the 2005 CPAF Air Force contract FA9200-05-C-0001 for \$752.7 million, contracting officials followed a similar process in preparing the IGCE.

An Army official used a similar process in awarding contract DAAD01-99-C-0003 for \$281.6 million that has an incomplete IGCE. To prepare the IGCE, the

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contracting official used FY 1998 contract price as the starting point and inflated other amounts 2.5 percent per year over 7 years.

We did identify an instance when the Navy devoted time and effort to develop a good cost estimate. For CPFF Navy contract N00421-02-C-3052 for \$281.2 million, contracting officials prepared a detailed IGCE and provided documentation of the analysis performed. The contracting official for this contract compiled numerous spreadsheets to calculate the cost for the various categories in this contract. The spreadsheets documented the process and analysis used to create the IGCE. Although the contracting official for that Navy contract showed diligence in preparing the IGCE, contracting officials for CPFF Navy contract N00421-01-C-0422 could not provide an IGCE and other pertinent cost analysis documents.

**Surveillance Plans.** Cost reimbursement contracts need more surveillance than FFP contracts because cost reimbursement contracts do not provide incentives to control cost. FAR 16.301(3)(a)2 indicates that cost reimbursement contracts can be used for acquisitions, but appropriate Government surveillance is required. FAR 46.401(a) states that quality assurance surveillance plans should be prepared in conjunction with the statement of work and should indicate which work requires surveillance and which type of surveillance will be performed. Contracting officials should also document the type and amount of surveillance conducted. Although surveillance was required, contracting officials either could not provide plans or had not updated plans for the specific circumstances of the contract services for 6 of the 10 contracts reviewed.

In T&M Army contract DAAD05-01-D-0019 valued at \$118.2 million, contracting officials used a generic surveillance plan that was used for other contracts without tailoring it to the specific needs of the T&M contract. A current plan should have been developed for the circumstances and the risk associated with that contract. The surveillance plan used for contract DAAD05-01-D-0019 was inadequate because it did not indicate the work requiring surveillance or the type of surveillance that should be performed.

## Conclusion

Contracting officials did not perform adequate contract award and administration procedures on 10 contracts valued at more than \$7.6 billion. Without adequate contract administration and surveillance, contractors had no incentive to control costs. All 10 contracts audited did not meet the requirements of the FAR. Contracting officials did not have evidence that they used prior history to determine contract type or to help define costs. Also, contracting officials used little or no analysis in preparing IGCEs. The IGCEs are the base on which contracting officials should evaluate proposals received from contractors. Without proper analysis, the Government is at risk of spending more than necessary to conduct business and must rely more on time-consuming surveillance.

The MRTFB should use historical data to determine if portions of the cost reimbursement contracts can be converted to FFP work. For work that cannot be

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converted to FFP, contracting officials must perform better analyses to develop adequate IGCEs and should devote sufficient resources to surveillance.

## **Management Comments on the Finding and Audit Response**

**Defense Procurement and Acquisition Policy Comments on the Finding.** The Director, Defense Procurement and Acquisition Policy, provided comments for the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. The Director stated that he found no systemic contract award or administration problems at DoD major range and test facilities, but that it would be constructive to reinforce guidance to DoD and Military Department MRTFB field commands.

**Unsolicited Management Comments and Audit Response.** Although not required to comment the Army, the Navy, and Air Force provided comments to the draft report. We received comments from the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology); the United States Army Research, Development, and Engineering Command Acquisition Center; the Inspector General, Naval Air Systems Command; the Naval Undersea Warfare Center Division Newport; and the Department of the Air Force, Headquarters. The Military Services commented on the use of history to define contract type and cost, characterization of the independent Government cost estimates, and the existence and adequacy of the surveillance plans. The complete text of the management comments is in the Management Comments section of this report. Summaries of Army, Navy, and Air Force comments on the finding and our responses are in Appendixes B, C, and D.

## **Recommendations, Management Comments, and Audit Response**

**We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:**

**1. Issue guidance to the commanders of the Major Range and Test Facilities Base to comply with Federal Acquisition Regulation 15.406-1(a) by reviewing prior history to determine contract type and to define costs with well supported independent Government cost estimates to ensure that the Government receives the best value on cost reimbursement contracts.**

**2. Issue guidance to commanders of the Major Range and Test Facilities Base to comply with Federal Acquisition Regulation 46.401(a) by preparing adequate surveillance plans prior to awarding a cost type contract in order to facilitate Government surveillance during the contract term.**

**Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics Comments.** The Director, Defense Procurement and Acquisition Policy, provided comments on behalf of the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. The Director concurred with

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the recommendations and stated that his office would issue guidance to reinforce the need to comply with the Federal Acquisition Regulation.

**Army Comments.** Although not required to comment, the Acting Director of the Army Contracting Agency provided comments for the Assistant Secretary of the Army (Acquisition, Logistics, and Technology). The Acting Director agreed with the recommendations.

**Air Force Comments on the Recommendations.** Although not required to comment, the Air Force stated that Recommendations 1. and 2. should be redirected to the Service Secretaries to direct the Program Offices regarding specific acquisition strategies. The Air Force stated that selecting and approving contract type is a complex process that goes up the entire acquisition chain to the Secretary of the Air Force prior to contract award.

**Audit Response.** We agree that Recommendations 1. and 2. should be made at a higher level and hence directed our recommendations to the Under Secretary of Defense for Acquisition, Technology, and Logistics. We agree that the Service Secretaries, as appropriate, should continue to advise Program Offices about the specific acquisition strategies. We continue to believe that at the Command-level, contracting officials should comply with the Federal Acquisition Regulation by reviewing prior history and preparing well supported independent Government cost estimates to aid the Service Secretaries in the process of determining contract type.

**3. Issue guidance to commanders of the Major Range and Test Facilities Base to comply with Federal Acquisition Regulation 16.301-3(a)(2) by reviewing the surveillance plans for contracts already awarded to determine whether the surveillance is providing reasonable assurance that contractors are using efficient and effective cost controls.**

**Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics Comments.** The Director, Defense Procurement and Acquisition Policy, provided comments on the behalf of the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. The Director concurred.

**Air Force Comments.** Although not required to comment, the Director, Test and Evaluation agreed with the recommendation and stated that once any contract is awarded, it is crucial that cost performance be monitored.

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## Appendix A. Scope and Methodology

This audit was conducted at the Office of the Director, Operational and Test Evaluation and the Major Range and Test Facilities Base (MRTFB). We visited 9 of the 19 MRTFBs. The 10 major contracts we selected for review were located at three Army, three Navy, and three Air Force MRTFBs, which are as follows: Aberdeen Proving Ground; White Sands Missile Range; Yuma Proving Ground; Naval Warfare Center, China Lake; Naval Warfare Center, Patuxent River; Atlantic Undersea Test and Evaluation Center; Arnold Engineering Development Center; 45th Space Wing; and the Air Armament Center/46th Test Wing. We examined surveillance plans, statements of work, technical evaluations, price negotiation memorandums, source selection decisions, Government cost estimates, award fees evaluation plans, and other miscellaneous correspondence dated from 1997 through 2005. The 10 service and technical contracts reviewed have a combined estimated value of more than \$7.6 billion and were awarded from 1997 through 2005. Due to time constraints, we judgmentally selected the contracts from lists and information provided by contracting officials.

We performed this audit from June 2005 through June 2006 in accordance with generally accepted government auditing standards.

We reviewed internal controls pertaining only to the contract administration and management of the 10 contracted audited at the 9 MRTFB sites. We found contract administration and award errors at those sites.

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

**Government Accountability Office High-Risk Area.** The Government Accountability Office (GAO) has identified several high-risk areas in DoD. This report provides coverage of the high-risk area “DoD Contract Management.”

### Prior Coverage

During the last 5 years, GAO and the Department of Defense Inspector General (DoD IG) have issued four reports discussing contracting administration and award practices on cost reimbursement contracts. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

### GAO

GAO Report No. GAO-04-854, “Military Operations: DOD’s Extensive Use of Logistics Support Contracts Requires Strengthened Oversight,” July 19, 2004



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**DoD IG**

DoD IG Report No. D-2004-110, "The Military Departments' Implementation of Performance-Based Logistics in Support of Weapons Systems," August 23, 2004

DoD IG Report No. D2004-015, "Contracts for Professional, Administrative, and Management Support Services," October 31, 2003

DoD IG Report No. D2003-099, "Service Contracts at the National Imagery and Mapping Agency," June 6, 2003

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## **Appendix B. Department of the Army Comments and Audit Response**

Although not required to comment, the Acting Director, Army Contracting Agency (Acting Director) provided comments on behalf of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) and the Chief, Combat Operations Branch (the Chief) provided comments for the United States Army Research, Development, and Engineering Command Acquisition Center. Summaries of the draft report comments and our response follow. The complete text of these comments is in the Management Comments section of this report.

### **Assistant Secretary of the Army (Acquisition, Logistics, and Technology) Comments on Overall Report and Audit Response**

**Army Comments on the OIG Audit Process.** The Acting Director stated that Directorates of Contracting at the White Sands Missile Range, New Mexico, and the Yuma Proving Ground, Arizona, were not afforded an opportunity to address interim findings made in the draft report relating to contracts DAAD01-99-C-0003 and DAAD07-97-C-0108.

**Audit Response.** The OIG auditors provided the appropriate White Sands Missile Range and Yuma Proving Ground management personnel exit conferences prior to the conclusion of the respective audit site visits. The audit teams noted at both exit conferences that they had not fully analyzed the contracting data obtained during the visits and would complete the analyses at the auditors home office. Thus, the auditors were not able to address any interim findings during the exit conferences. The audit finding and recommendations were briefed to the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. The Military Services were not briefed on the report as no recommendations were directed to them.

**Army Comments on Adequacy of Management Controls.** The Acting Director believed that the materiality of the draft report finding was less than a reportable material weakness because the stated effects of the finding were speculative rather than concrete in that the Government was at risk of spending more than necessary to conduct business. The Acting Director also stated that report recommendations did not seem to support material weaknesses as the recommendations did not request the recovery of excessive costs or the change of contract types.

**Audit Response.** Based on the Army comments, we revised the discussion of the adequacy of management controls in the final report. The report now states that the material weakness existed for the 10 contracts discussed in the finding but did not extend to the 9 MRTFBs reviewed because we reviewed only one contract at each of 8 MRTFB sites and 2 contracts at one MRTFB site. Although the review was limited to these 10 contracts, the dollar amount associated with these

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contracts was material. We believe that a lack of controls over \$7.6 billion constituted a severe control weakness.

**Army Comments on Contract DAAD01-99-C-0003.** The Acting Director disagreed with the draft report finding that contract DAAD01-99-C-0003 had an inadequate IGCE and that contracting officials did not use prior history to determine contract type or define costs. The Acting Director stated that the contracting officer for that contract did use and analyze prior history to ascertain contract type, define costs, and decide whether all or parts of the contract could be converted to fixed price. The Acting Director stated the contracting officer prior history analyses were documented in an October 31, 1998, cost realism analysis used to ascertain contract type. The cost realism analyses were based on costs incurred under 10 then-current separate contracts. The Acting Director stated that a cost contract was not chosen because the previous contract was a cost contract, but was chosen to meet Yuma Proving Ground requirements. The Acting Director believed that Yuma Proving Ground built flexibility into the contract to allow for quick reactive changes such as those that later occurred in the Global War on Terrorism.

The Acting Director stated that the IGCE met FAR requirements and detailed 18 cost categories for 82 work functions. The Army stated that the contracting officer used the IGCE to decide the fairness and reasonableness of proposals. The Army disagreed with a draft report statement that the IGCE was merely the FY 1998 contract amount inflated by 2.5 percent per year. The Acting Director stated the IGCE was prepared on the same basis as the cost realism analysis and although not specifically noted in the IGCE, Yuma Proving Ground officials stated they derived hourly labor costs for projected workload levels based on Department of Labor Annual Wage Determinations for Government service contracts. Future year hourly labor costs were forecasted using a projected 2.5-percent increase in future Annual Wage Determinations. The Acting Director stated the strategy was designed specifically to prevent potential contractors from understating costs to receive the award and eventually being reimbursed for larger amounts. The Acting Director also stated that the Army Contracting Agency evaluated Yuma Proving Ground controls for contract administration through a May 18, 2005, memorandum, "Management Control Evaluation Certification Statement," and through a management control checklist. The Army Contracting Agency found no weaknesses and noted that IGCEs appeared reasonably accurate and complete.

**Audit Response.** The cost realism analysis, the acquisition plan, and the award determinations did not account for the impact on labor overheads, other direct cost, general and administrative costs, and fees from the consolidation of the 10 then-current contracts. Specifically, it is not prudent to use information from prior contracts with multiple contractors without considering the effect of consolidation on the overall cost. Estimated costs were based on cost being incurred under the current contracts, with labor costs escalated by 2.5 percent per year and other costs escalated by 1.5 percent per year. The cost realism also did not account for factors such as market conditions and technology. Even though Yuma Proving Ground support contracts trace back 30 years, prior contract historical information was not used to better define requirements, determine fluctuation in workload, or allow certain parts of the contract to be FFP. With 30 years of history, a detailed

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analysis of all the contract tasks should have revealed areas where the contract could be FFP to reduce the risks associated with cost contracts. This is important especially in light of the lack of resources available to conduct the surveillance. Although the contracting officials consider the IGCE for contract DAAD01-99-C-0003 to be complete, there was no indication that contracting officials evaluated how the estimate was made, what assumptions were made, what information and tools were used, and where the information was obtained. There was no indication in the contract files supporting the performance of key analysis factors such as comparability of the 10 existing contracts or evaluation of the 10 existing contractor estimating systems or methods. Although we found internal control weaknesses on contract DAAD01-99-C-0003, we made no conclusion about contracting internal controls at Yuma Proving Ground based on the review of a single contract.

**Army Comments on Contract DAAD07-97-C-0108.** The Acting Director disagreed with the draft report finding that contract DAAD07-97-C-0108 had an inadequate IGCE and did not have a quality assurance surveillance plan. He also disagreed that contracting officials did not use prior history to determine contract type or define costs. The Acting Director stated contract DAAD07-97-C-0108 was a consolidation of nine separate contracts, and prior to consolidation, contracting personnel prepared a detailed cost benefit analysis of the potential contract types and the costs involved. The Acting Director stated that the contract file documented why the selected type of contract was appropriate. The Acting Director stated that a fixed-price contract was inappropriate because of the Army's inability to forecast a workload in the testing arena. The Acting Director stated the contract file contained a 32-page IGCE detailing labor costs, overhead, other direct costs, and fees. The Acting Director stated the then-current contract was a good place to begin the IGCE because it had the latest cost data using current wage determinations, overhead rates, and staffing levels. The Acting Director stated that contract DAAD07-97-C-0108 was awarded in March 1997, prior to the October 1997 effective date for FAR 46.401(a). (FAR 46.401(a) requires that quality assurance plans be prepared with the statement of work and that they specify the tasks requiring surveillance and the methods of surveillance used.) The Acting Director stated the contract did contain inspection clauses for cost contracts and that Government personnel prepared a semi-annual rating to evaluate the award fee. The Acting Director stated that as part of the White Sands annual internal control assessment, contracting personnel completed functional area checklists required by the FY 2005 Army FAR Supplement.

**Audit Response.** We agree that contract DAAD07-97-C-0108 is a combination of nine separate test and evaluation support service contracts. As such, the analysis should have included a detailed review of the effects of consolidating various contract costs, rates, and functions into a single contract. The Army's rationale for restructuring to a single flexible contract was to maintain and cross-utilize a more stable testing workforce and eliminate duplicate facilities. That rationale contradicts the Army's reasoning for using a cost-plus-award-fee contract. The Acting Director stated that the workloads are too unpredictable; thus a fixed-price contract was inappropriate. As a general rule, we found similar justifications that used blanket statements that work was too unpredictable. A workforce of cross-trained personnel allows the contractor to make adjustments for workload. The experience gained from the previous contracts along with

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clearly defined requirements facilitates using fixed-price contracting, which results in significant efficiencies including reduced oversight.

Although the Army considered the IGCE for contract DAAD07-97-C-0108 to be complete, there was no evidence demonstrating how the IGCE was prepared or that contracting officials validated IGCE assumptions for using the current cost-type contract as the basis for the estimate. Based on the Army comments about the effective date of FAR 46.401(a), we revised the report to note that contract DAAD07-97-C-0108 was not required to have a quality assurance surveillance plan. We reviewed White Sands' internal controls relating to DAAD07-97-C-0108. Although we found internal control weaknesses on contract DAAD07-97-C-0108, which was a material contract, we made no conclusion regarding overall contracting internal controls at White Sands Missile Range based on the review of a single contract.

## **The United States Army Research, Development, and Engineering Command Acquisition Center Comments and Audit Response**

**Army Comments on Contract DAAD05-01-D-0019.** The Chief, Combat Operations Branch, disagreed with the draft report finding that contract DAAD05-01-D-0019 had an inadequate IGCE and did not have a quality assurance surveillance plan. She also disagreed that contracting officials did not use prior history to determine contract type or define costs. The Chief stated that the Aberdeen Test Center (ATC) used historical data and projected requirements to develop an IGCE dated August 25, 2000. Historical data included prior, current, and projected end strength, and labor rates computed based on Department of Labor Wage Determinations. The Chief stated that an ATC analysis was performed prior to award of contract DAAD05-01-D-0019 for Test Support Services, but that ATC could not accurately predict test extent, duration, or costs due to changing testing environment. Therefore, a T&M contract was the only suitable contract type. The Chief stated that a June 23, 2000, surveillance plan provided a detailed process for monitoring and ensuring efficient contract performance, and was a key factor in controlling contract costs. The Chief also noted that the surveillance plan delineated contract tasks requiring surveillance through a surveillance activity checklist. Any shortfalls were forwarded to the contracting officer within 5 working days for action. The Chief further stated that ATC appointed a contracting officer's representative for each cost center supported by the surveillance plan.

**Audit Response.** Contract DAA05-01-D-0019 was for follow-on requirements to previous T&M contracts originating at least 5 years earlier. We found little indication that contracting officials had examined information from the prior contracts to better define requirements. An ATC cost realism review of the final contractor cost proposal stated that the cost and price risk associated with the contract was judged very low due to the solicitation being a follow-on effort. The realism review noted that the contract requirements were known with a high degree of certainty. We concluded that the experience gained on the prior contracts could have served as a basis for ATC to reasonably price similar follow-

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on efforts on a fixed-price basis through the use of performance-based specifications.

We found no indication in files for contract DAAD05-01-D-0019 that ATC used historical data and projected requirements to develop the August 25, 2000, IGCE or to define the requirements and costs for follow-on contracts. The IGCE was unsigned and consisted only of labor categories, labor rates, and labor hours, with no explanation of how the program office determined those amounts. The amounts for the IGCE labor hours, materials, travel, training, and facility charges were mandated in the solicitation and therefore were not subject to estimation by the bidders. Because T&M contracts are the least preferred type of contract and the contracting officer had years of historical data, it seems unlikely that even a normal cost contract could not be used. Although some testing may not be entirely predictable, an in-depth analysis of the controls might have yielded opportunities for FFP work that would mitigate the need for time-consuming surveillance.

Although the surveillance plan dated June 23, 2000, included some of the tasks from the statement of work, the plan did not include measurable inspection and acceptance criteria corresponding to the statement of work. The surveillance plan provided no indication of the types or frequency of reviews of contractor cost. An adequate surveillance plan should provide the foundation for comprehensive and systematic monitoring of contractor performance and a standard against which actual surveillance efforts could be measured. The lack of an adequate surveillance plan subjected the Government to greater risk that the contractor may not perform all contractual requirements in accordance with the contract terms.

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## Appendix C. Department of the Navy Comments and Audit Response

Although not required to comment, the Inspector General, Naval Air Systems Command (Inspector General), and the Program Manager, Naval Undersea Warfare Center Division (Program Manager) provided comments. Summaries of their comments and our response follow. The complete text of these comments is in the Management Comments section of this report.

### Inspector General, Naval Air Systems Command Comments on the Finding and Audit Response

**Navy Comments on Contract N00421-02-C-3052.** The Inspector General did not agree with draft report finding that the contracting officer did not use prior history to determine contract type. The Inspector General stated that although there is a long history with the same contractor, this and previous contracts were competed. The Inspector General did not believe that the type of contractual effort allowed for firm-fixed pricing because the type and amount of work was not static. The number and types of tests, platforms to be tested, and the equipment to be tested changed too frequently.

Although the Inspector General agreed that contract N00421-02-C-3052 did not contain a surveillance plan, he believed the lack of a surveillance plan should not be construed as a lack of surveillance. The contract was reviewed for quality and contract compliance. The Inspector General stated that the contracting officer's representative analyzed contractor-provided contract data and requirements list reports covering performance and cost, accidents and incidents, recommended maintenance, equipment inventory, and contractor payroll. The Inspector General noted that the contracting officer's representative reviewed weekly contractor invoices for discrepancies and documented weekly meetings between Government oversight personnel and contractor management.

**Audit Response.** We are not convinced that a CPFF contract was the most appropriate contract type. Because the Navy had 23 years of historical cost and performance data with the same contractor, contracting officials could have performed analysis to identify at least portions of the current requirement for base operation support that could have been fixed-price. Instead, the Navy used the same CPFF type contract as the original effort. The fact that the cost contract continued to be competed when the contract remained with the contractor for 23 years raises questions about the competition. The Navy's assertion that the work could not be defined was based on the same premise as the argument of other contracting officers that did not perform detailed reviews.

Adequate contract oversight consists of the requiring activity creating a surveillance plan of a contractor's performance and costs and is based on the complexity of each contract. Then the requiring activity must perform surveillance in accordance with the surveillance plan. Without a surveillance plan

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prepared by the requiring activity, neither contracting personnel nor oversight officials can determine whether contract monitoring efforts are sufficient or whether the steps involved are adequate and justified. In addition, if Government oversight personnel turnover occurs, no uniform historical document of the surveillance efforts will be available for review. Also, the Navy response discusses the review of various documentation as surveillance, though they offered no evidence to support any detailed surveillance of actual work the contractor performed. On a cost contract, it is imperative to perform detailed surveillance of contract staff at work to ensure that tasks are performed by the appropriate level and quality of staff because the contractor has no incentive to control costs.

**Navy Comments on Contract N00421-01-C-0422.** The Naval Air Systems Command Inspector General did not agree with the draft report finding that prior history was not used during the acquisition planning for contract N00421-01-C-0422. He also did not agree that prior history should be used to determine whether all or parts of the contract could be converted to an FFP contract. The Inspector General stated that the contract acquisition plan provided a historical summary including a statement on forward trends based on the current environment, the estimated procurement costs, contract type considerations, and a summary of IGCE information. The Inspector General agreed with a draft report conclusion that contract N00421-01-C-0422 did not have a quality assurance surveillance plan, but believed the lack of a surveillance plan should not be construed as a lack of surveillance. The contract was reviewed for quality and contract compliance.

**Audit Response.** We agree that the contract acquisition plan contained a historical summary of the forward trends, procurement costs, and contract type considerations. However, the acquisition plan did not provide supporting data regarding the historical analysis or the contract type considerations. The acquisition plan stated that the division had nearly 20 years of experience, but did not indicate how the experience was used to determine the contract type or costs. For example, the acquisition plan described estimated costs at \$100,000, which consisted of labor costs of \$50,000, travel costs of \$2,000, and material costs of \$48,000. The cost estimate was based on a performance from a previous contract with 4-percent per year “scaling” to account for inflation. The approach did not analyze costs associated with alternative methods of meeting the Government’s minimum requirements, market conditions, or potential technological advancement. As noted previously in the audit response regarding contract N00421-02-C-3052, without a surveillance plan prepared by the requiring activity, neither contracting personnel nor oversight officials can determine whether contract monitoring efforts are sufficient or whether the steps involved are adequate and justified.

**Navy Comments on Contract N68936-01-D-0036.** The Inspector General partially agreed with the finding that the contracting officer did not use prior history to determine contract type or define costs. However, he disagreed with the finding that the contract had an inadequate IGCE, and did not have a quality assurance surveillance plan. The Inspector General stated that the business clearance memorandum identified the contract type basis and noted the work involved a degree of uncertainty. Thus, it was not practical to use an FFP



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contract. The Inspector General also stated the Naval Air Warfare Center Weapons Division developed an IGCE with well-defined labor categories and material estimates, but, did not include explanatory narrative or an analysis of how applicable information from prior contracts was used to develop the estimate.

Although the Inspector General agreed that contract N68936-01-D-0036 did not contain a quality assurance surveillance plan, he believed that the lack of a surveillance plan should not be construed as a lack of surveillance. The contract was reviewed for quality and contract compliance. The Inspector General stated the contracting officer's representative provided oversight by reviewing contractor bi-monthly invoices, material and equipment purchases, labor use, and new hiring. The Inspector General noted the quarterly Award Fee Evaluation Board used quantitative terms to measure performance and metrics. The Inspector General stated in accordance with FAR Part 45, the contracting officer annually reviewed the contractor's purchasing system, and the Government conducted audits of the contractor's property system.

**Audit Response.** We agree that the contract N68936-01-D-0036 business clearance memorandum stated that the contract involved a degree of uncertainty, but the memorandum provided no analysis. It stated only that an FFP contract was impractical. The business clearance memorandum also stated that the contract was a follow-on for the same types of effort. Because the services were previously provided by contract, the agency should have relied on experience gained, facilitating the use of FFP contracts. We agree with the Navy that the IGCE for contract N68936-01-D-0036 did not include an explanatory narrative or analysis of how applicable information from prior contracts was used to develop the estimate. The IGCE was also undated and unsigned and provided no description for the genesis of the hour mix, rates, nor any analysis of costs of alternative methods of meeting Government minimum requirements. Without such analyses and accountability, the Navy should not rely on the IGCE. As noted previously in the audit response regarding contract N00421-02-C-3052, without a surveillance plan prepared by the requiring activity, neither contracting personnel nor oversight officials can determine whether contract monitoring efforts are sufficient or whether the adequacy of the steps involved are justified. Although the Navy believed that adequate surveillance existed on their contracts without surveillance plans, we believe that the Navy should be concerned that none of the three contracts valued at \$500 million had any sufficient written surveillance instructions in place.

## **Program Manager, Naval Undersea Warfare Center Division Comments on the Background and Finding and the Audit Response**

**Navy Comments on the Background.** The Program Manager stated that the report background section of the draft report made no mention of cost-plus-incentive-fee (CPIF) contracts.

**Audit Response.** We added a description of CPIF contracts in the Background section of the final report.

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**Navy Comments on Contract N66604-05-C-1277.** The Program Manager disagreed with the draft report finding that contract N66604-05-C-1277 had an inadequate IGCE and that contracting officials did not use prior history. The Program Manager stated that prior price history from the Atlantic Undersea Test and Evaluation Center, Naval Undersea Warfare Center Division Newport was taken into consideration to determine contract type and to define costs. The Program Manager stated that contract type and costs were discussed at length at an October 31, 2002, Atlantic Undersea Test and Evaluation Center Contract Advisory Panel contract kickoff presentation. The discussion included a comparative analysis of the prior contract structure with other contract options along with risk factors associated with control, adaptability, management, and cost.

The Program Manager stated that the Atlantic Undersea Test and Evaluation Center used market research and appropriate quantitative techniques to develop a reliable estimate of the new contract cost in conformance with the Defense Procurement and Acquisition Policy-Contract Pricing Reference Guide. The Program Manager stated that on February 3, 2003, the contracting officer presented a review of the history of five other MRTFB contracts to help determine the most appropriate contract type. The Program Manager also stated that qualitative cost analysis was conducted early in the contract process and an IGCE was developed to project the new contract costs and accompanied the procurement request.

**Audit Response.** Although the Navy stated that they used discussion from the Atlantic Undersea Test and Evaluation Center Advisory Panel contract kickoff to determine contract types and costs, contract N66604-05-C-1277 contained the same performance work statement, costs, and fee structure as its predecessor. Agencies should rely on the experience gained from prior contracts to incorporate performance-based service contracting methods that facilitate the use of fixed-priced contracts. The contracting officer's primary objective in pricing a contract is to balance the contract type, cost, and profit or fee negotiated to achieve a total result—a price that is fair and reasonable to both the Government and the contractor. The Navy stated that their comparative analysis included an analysis of the prior contract structure against the risk factors associated with control, adaptability, management, and cost. However, the Navy comparative analysis did not provide detailed information to determine what was fair and reasonable based on market conditions, alternatives for meeting the requirement, price-related evaluation factors, and non-price evaluation factors related to each service.

The IGCEs received on July 20, 2005, and July 19, 2006, projected 15-year total contract costs at \$808,979,888 and \$795,726,926, respectively. However, the IGCEs were inadequate because they did not include any analysis of costs associated with alternative methods of meeting Government's minimum requirements market conditions, or potential technology advancements. Both IGCEs were unsigned, undated, and vague. Although the IGCEs included labor categories, labor hours, direct and indirect costs, and amounts for material, they did not provide a basis for the estimates or include judgmental factors applied or contingencies used to develop the cost estimates. Neither of the IGCEs nor any other document in the contract file mentioned or included any data from the

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October 31, 2002, or February 3, 2003, contracting officer presentations. None of the documentation mentioned prior market research applicable to the contract type or selection.

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## Appendix D. Department of the Air Force Comments and Audit Response

Although not required to comment, the Director, Test and Evaluation (the Director) provided comments for the Air Force. Summaries of the comments and our audit response follow. The complete text of these comments is in the Management Comments section of the report.

**Air Force Comments on Contract F40600-03-C-0001.** The Director disagreed with the draft report finding that contract F40600-03-C-0001 had an inadequate IGCE, stating that the draft report contained an incorrect statement pertaining to IGCE preparation. The Director stated it used actual FY 2002 cost data from two previous contracts and made several adjustments to those contract amounts to derive estimated FY 2004 totals and totals for the remaining IGCE years.

**Audit Response.** Based on Air Force comments, we revised the discussion in the final report regarding the IGCE for contract F40600-03-C-0001. However, the IGCE was still inadequate because it did not include any analysis of the costs associated with alternative methods of meeting the Government's minimum requirements, market conditions, or potential technological advancements discussed in the "Defense Procurement and Acquisition Policy-Pricing Reference Guide" (the Guide) mentioned on pages 5 and 6 of the report.

**Air Force Comments on Contract NAS10-99001.** The Director disagreed with the draft report finding that contract NAS10-99001 had an inadequate or missing IGCE and had an inadequate or missing surveillance plan. He also disagreed that contracting officials did not use prior history. The Director stated that an Air Force and National Aeronautics and Space Administration Joint Procurement Development Team prepared the IGCE. The IGCE was for \$2.7 billion over a 10-year period and was based on 18 past similar National Aeronautics and Space Administration and Air Force contracts. The Director further stated that the surveillance plan dated April 1, 1999, thoroughly documented the surveillance process including the specific areas that required surveillance and the surveillance methods to be used.

**Audit Response.** Contract NAS10-99001 provided mostly base operations for Kennedy Space Center and the 45th Space Wing, along with limited direct testing support. Contract NAS10-99001 consisted of several services such as health care, security, and custodial that could be estimated based on prior history and potentially contracted for on an FFP basis. We agree that the 10-year IGCE for NAS10-99001 totaled \$2.7 billion and included a summary cost estimate by basic performance and option periods; however, the IGCE lacked detailed analysis or any supporting documentation of the factors used to determine estimated costs.

The surveillance plan for contract NAS10-99001 described four potential evaluation methods including customer surveys, contractor management information systems, checklist-based surveillance, and direct observations. However, the surveillance plan did not specify how the above tasks were to be performed. For example, the surveillance plan did not provide a methodology to

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sample customer satisfaction surveys, process potential customer responses, or determine the level of reliance that should be placed on the customer surveys received. The surveillance plan did not indicate how the data in the contractor management information systems would be assessed by the contracting officer's technical representative or the level of reliance that should be placed on the data retrieved. Furthermore, the surveillance plan instructions listed documents that could be gathered to perform the surveillance review, but made no mention the processes used to validate data or support conforming or non-conforming observations.

**Air Force Comments on Contract FA9200-05-C-0001.** The Director disagreed with the draft report finding that contract FA9200-05-C-0001 had an inadequate IGCE and had an inadequate surveillance plan. He also disagreed that contracting officials did not use prior history. The Director stated that FA9200-05-C-0001 was a newly awarded contract that included costs dependent on a test and training schedule that could not be administered in a fixed-price environment. The Director further stated that the IGCE was prepared by the program office using many years of past contract prices and that the award fee plan thoroughly documented the surveillance for the contract on a semi-annual basis with interim reports issued every 2 months.

**Audit Response.** The IGCE for contract FA9200-05-C-0001 was derived by using engineering pricing and averaging of prior years' actual costs. Nonexempt labor rates were derived by drawing analogies to civil service wages. An average work year of 2000 hours was used to calculate exempt employee wages for FY 2007. An FY 2007 estimate was escalated by 3 percent per year for the 10 years of the contract term. The IGCE lacked any analysis of costs associated with alternative methods of meeting the Government's minimum requirements, market conditions, or potential technology advancements mentioned in the Guide.

The Air Force could not provide us any documentation on how prior history was used to determine contract type for contract FA9200-05-C-0001. The contract surveillance plan lacked measurable objectives and instructions on how to perform the necessary processes to ensure the contractor was performing according to the terms of the contract. The surveillance plan stated that quality assurance personnel and program managers should continuously monitor contractor performance, but did not provide a standard to define what the continuous monitoring would entail. Instead, the surveillance plan focused on the process to calculate the contract award fee rather than describing how potential contract surveillance should be conducted.

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## **Appendix E. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Director, Acquisition Resources and Analysis  
Director, Program Analysis and Evaluation  
Director, Defense Procurement and Acquisition Policy  
Director, Defense Test Resource Management Center  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Commander, U.S. Army Aberdeen Test Center  
Commander, U.S. Army Yuma Proving Ground  
Commanding General, U.S. Army White Sands Missile Range  
Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Manpower and Reserve Affairs)  
Commander, Naval Air Warfare Center Aircraft Division  
Commander, Naval Air Warfare Center Weapons Division  
Commander, Atlantic Undersea Test and Evaluation Center  
Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Commander, Arnold Engineering Development Center  
Commander, 45th Space Wing  
Commander, 46th Test Wing, Eglin Air Force Base  
Auditor General, Department of the Air Force

### **Non-Defense Federal Organization**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Homeland Security and Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Management, Finance, and Accountability,  
Committee on Government Reform  
House Subcommittee on National Security, Emerging Threats, and International  
Relations, Committee on Government Reform





# Under Secretary of Defense for Acquisition, Technology and Logistics Comments



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

AUG 30 2006

MEMORANDUM FOR PROGRAM DIRECTOR, ACQUISITION AND CONTRACT  
MANAGEMENT, DOD INSPECTOR GENERAL

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *Wg 2/30/06*

SUBJECT: Response to DoDIG Draft Report D2005-D000AB-0223.000, "Contracting  
Practices at the Major Range and Test Facilities Base"

As requested, I am providing responses to the findings and recommendations  
contained in the subject report.

## Findings:

Your office reviewed 10 cost reimbursement contracts awarded by nine different DoD major range and test facilities – 3 Army, 3 Navy, and 3 Air Force locations. The draft report asserted that all 10 mission support contracts had award and administration problems, specifically: failure to use prior history to define cost estimates or contract type, inadequate or missing Government cost estimates, and inadequate or missing surveillance plans.

Attachments 1-5 contain detailed responses from the Military Departments regarding your draft report findings. In all cases, they non-concurred in those findings and each provided explanations of how the applicable Federal Acquisition Regulation requirements had been met.

While I find no systemic contract award or administration problems at the DoD major range and test facilities which require corrective guidance from higher management, I do agree that it will be constructive to reinforce guidance to our field commands.

## Recommendations:

**DoDIG Recommendations 1-3:** We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:

1. Issue guidance to the commanders of the Major Range and Test Facilities Base to comply with the Federal Acquisition Regulation Subpart 15.406-1(a) by reviewing

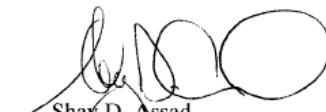


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prior history to determine contract type and define costs with well supported independent Government cost estimates to ensure that the Government receives the best value on cost reimbursement contracts.

2. Issue guidance to commanders of the Major Range and Test Facilities Base to comply with the Federal Acquisition Regulation Subpart 46.401(a) by preparing adequate surveillance plans prior to awarding a cost type contract in order to facilitate Government surveillance during the contract term.
3. Issue guidance to commanders of the Major Range and Test Facilities Base to comply with the Federal Acquisition Regulation Subpart 16.301-3(a)(2) by reviewing the surveillance plans for contracts already awarded to determine whether the surveillance is providing reasonable assurance that contractors are using efficient and effective cost controls.

***OUSD(AT&L) Response:*** Concur. As discussed above, while I find no systemic contract award or administration problems at the DoD major range and test facilities which require corrective guidance from higher management, in the spirit of continuous improvement, we will issue guidance to reinforce the need to comply with the Federal Acquisition Regulations as recommended by your office.



Shay D. Assad  
Director, Defense Procurement  
and Acquisition Policy

Attachments:  
As stated

# Assistant Secretary of Army (Acquisition, Logistics and Technology) Comments

Final Report  
Reference



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY  
ACQUISITION LOGISTICS AND TECHNOLOGY  
U.S. ARMY CONTRACTING AGENCY  
5109 LEESBURG PIKE SUITE 302  
FALLS CHURCH VA 22041-3201

SFCA-CO

AUG 22 2006

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE ARMY  
(POLICY AND PROCUREMENT) ATTN: SAAL-ZP,  
103 ARMY PENTAGON, WASHINGTON, D.C. 20310

SUBJECT: Response to the Inspector General Department of Defense (DODIG)  
"Draft of a Proposed Report" on Contracting Practices at the Major Range  
and Test Facilities (MRTFB), Project No. D2005-D000A-0223.00,  
Specifically Concerning Yuma Proving Grounds (YPG) and White Sands  
Missile Range (WSMR)

This correspondence provides the U.S. Army Contracting Agency's (ACA) position on  
the subject, "Draft of a Proposed Report," on Contracting Practices at the MRTFB (Project No.  
D2005-D000AB-0223.000), specifically addressing YPG and WSMR.

The ACA concurs in part and nonconcurs in part with the DODIG's draft report  
recommendations. Comments are enclosed.

The ACA's concurrence, based upon the genesis of the overall draft report, agrees with  
the DODIG recommendations to have the Office of the Secretary of Defense issue guidance to  
commanders of MRTFB to ensure compliance with particular sections of the FAR. The ACA  
nonconcur's with the manner of how the audits were conducted at the two Directorates of  
Contracting (DOCs). The DOCs at the two locations were not afforded an opportunity to address  
any interim findings that made their way into the draft report. Also, the final report should  
include and address the ACA contracting community in the same manner it does with the  
"commands of the MRTFB," as recommended in the draft report.

For further information concerning this subject audit please contact my action officer Mr.  
Steve White, phone: DSN 761-7573 or (703) 681-7573, e-mail: [steve.white@hqda.army.mil](mailto:steve.white@hqda.army.mil).

  
Bryon A. Young  
Acting Director  
Army Contracting Agency

Enclosure

KE6-1287

ATTACHMENT 2

Pages 8 &  
9

WSMR Response to DoDIG

17 July 2006

PURPOSE:

The purpose of this paper is to provide the Under Secretary of Defense for Acquisition, Technology, and Logistics with comments to reply to DoDIG Draft Report titled Contracting Practices at the Major Range and Test Facilities Base, Project No. D2005-D000AB-0223.000.

SUMMARY:

White Sands Missile Range nonconcurs with all findings against WSMR. Consequently, WSMR nonconcurs with all of the recommendations. The White Sands Directorate of Contracting complies with the FAR. A Contract Management Review (CMR) by the cognizant PARC office in December 2005 rated the DOC above average in their pre and post award tasks.

BACKGROUND:

Two DoDIG auditors visited WSMR in February 2005 to conduct field survey work for this office. The White Sands DOC provided them with a working space and with all of the files relating to contract DAAD07-97-C-0108, the primary WSMR mission support services contract. The auditors did not really provide an out briefing and gave no indication of the findings cited in this draft audit.

DoDIG's overall finding was that "Contracting officials did not adequately manage contracts", and "...did not perform adequate contract award and administration procedures." ... "Contracts did not meet the requirements of the FAR."

Specific findings against WSMR were:

- In adequate management controls.
- Contract history not used in analysis of contract type
- Inadequate IGCE
- Inadequate or missing surveillance plans

Contract DAAD07-97-C-0108 is a cost plus award fee contract. The contract began in April 1997 and will expire 30 Nov 2006. The current estimated value of the contract is \$333.5 million. This is a labor intensive contract that provides operation and maintenance of various testing equipment and engineering design and development of equipment modifications and upgrades.

The contract is funded mostly with RDT&E funds, customer and institutional. The award fee is paid semi-annually through ratings provided by government personnel supported by the contractor. The costs associated with this contract are driven by test workload and that can not be predicted too far in advance.

WSMR Response to DoDIG

17 July 2006

SPECIFIC FINDINGS:

Management Controls

**DoDIG Finding:** *"The management controls for contract administration were not adequate to ensure that contract files contained proper documentation..." MRTFB contracting officials did not identify or report the material management control weaknesses identified by this audit."*

**Nonconcur:** The auditors never asked any questions or requested any documentation on internal controls from the contracting personnel. As part of their annual assessment, the contracting personnel are required to complete various checklists regarding contracting functional areas. One of these checklists, AFARS appendix BB-201, titled "Presolicitation" was completed in FY05. It includes questions regarding IGE's and types of contracts. This year the completion of AFARS appendix BB-202, titled "Solicitation, Evaluation & Award" was completed. The WSMR DOC has taken several actions to ensure that proper documentation and reviews are completed to include issuing of written guidance and monthly training classes. This was also recognized in their most recent CMR.

Use of Contract History

**DoDIG Finding:** *"Contracting Officers did not use prior history to determine contract type or define costs." ... "There was little or no indication that contracting officials examined the information from prior contracts to determine contract type or to help define costs for future contracts." ... "Contracting officers could not provide analysis of prior history to determine whether all or parts of contracts could be converted to fixed price for these services." ...*

**Nonconcur:** Contract DAAD07-97-C-0108 was a consolidation of services that were previously performed under nine separate contracts. Prior to this consolidation, the contracting personnel had to prepare a cost benefit analysis. This analysis included a detailed analysis of the types and costs involved in these contracts. FAR 16 requires that the contract file be documented as to why the selected type of contract is appropriate. The file for this contract is so documented. In addition the contracting office is required to address contract type in the acquisition plan and in most recent years in the acquisition strategy. The proper type of contract is thoroughly analyzed and reviewed prior to issuing the solicitation.

While a fixed price contract is preferable, the inability to forecast workload in the testing arena makes a fixed price contract inappropriate.

IGCE

**DoDIG Finding:** *"Contracting Officers did not have adequate Independent Government Cost Estimates (IGCEs)" ... "Contract files had incomplete or missing IGCEs. The*

Revised  
page 2 (Title  
changed to  
"Review of  
Internal  
Controls")

Page 4

Page 5

WSMR Response to DoDIG

17 July 2006

*estimates lacked detail, did not have documentation of the value analysis, and in some cases were prepared by using an action prior year contract price and inflating the amount by a set percentage..."*

**Nonconcur:** The file for contract DAAD07-97-C-0108 contains a 32 page IGCE that is detailed in labor costs, overheads, other direct costs, and fees. The auditors neglected to take a copy with them and we Fedexed a copy at their request in Feb 2006. The auditors provide 5 steps for preparing IGCEs in the draft report and put most emphasis on step 3, identifying alternative products or methods. These contracts are labor intensive, they are not for supplies. It is difficult to understand how step 3 even relates to these type of contracts. The current contract is always a good place to begin the IGCE since it is your latest data. Using current wage determinations, overhead rates and manning levels provides the most current costs. Under the latest guidance only limited cost data is requested from the contractors when competition is expected.

Contract Surveillance

**DoDIG Finding:** "FAR Part 46.401(a) states that quality assurance surveillance plans should be prepared in conjunction with the statement of work..." "Although surveillance was required, contracting officials either could not provide plans or had not updated plans for the specific circumstances of the contract services..."

DoDIG used WSMR's contract as an example of this failure.

**Nonconcur:** FAR Part 46.401(a) was added to the FAR effective Oct 1997. The WSMR contract was awarded in Mar 1997. We do concur that surveillance has become a very important issue in performance based contracting in the past five or six years. That is why the director of the White Sands DOC explained to the auditors the steps that were being taken to ensure the new competition has standards and a detailed surveillance plan. In addition, the auditors are incorrect about the only surveillance being a self-evaluation performed by the contractor. Contract DAAD07-97-C-0108 contains all of the required inspection clauses for cost-type contracts. Government personnel prepare ratings semi-annually that are used to evaluate award-fee.

CONCLUSION:

White Sands DOC personnel provided the auditors with all requested documents. This draft report is citing documents that were never requested.

We respectfully request that, in light of the information provided in this document, that the DoDIG dismiss all findings and recommendations for WSMR and the White Sands contracting office.

YPG Response to DoDIG

11 July 2006

PURPOSE

The purpose of this paper is to provide the Under Secretary of Defense for Acquisition, Technology, and Logistics with comments to reply to DoDIG Draft Report titled Contracting Practices at the Major Range and Test Facilities Base, Project No. D2005-D000AB-0223.000.

SUMMARY

Yuma Proving Ground (YPG) nonconcurs with all findings against YPG. Consequently, YPG nonconcurs with all the recommendations – YPG's contracting practices already comply with the FAR, thus DoDIG's recommendation to issue guidance to YPG to comply with the FAR seems unnecessary.

BACKGROUND

DoDIG auditors visited YPG in July 2005 to conduct field survey work for this audit. At their exit conference on 14 July 2005, the auditors stated that they had no actual or potential findings or recommendations for YPG. However, the subject draft report does contain findings against YPG. DoDIG didn't discuss these findings with YPG or the Army Contracting Agency (ACA), who provides contracting services to Army installations, including YPG. As a result, neither YPG nor the ACA activity at YPG had the opportunity to address the findings before issuance of the draft report.

DoDIG's overall finding was that *"Contracting officials did not adequately manage contracts"*, and *"...did not perform adequate contract award and administration procedures."* ...  
*"Contracts did not meet the requirements of the FAR."*

Specific findings against YPG were:

- Inadequate management controls.
- Contract history not used in analysis of contract type.
- Inadequate IGCE.

The cause given for all these findings was that contracting officials didn't follow the FAR and other best business practices for service contracts.

DoDIG's report evaluated only YPG contract DAAD01-99-C-0003. Therefore, this reply covers only that same contract, which is YPG's Range Support Services Contract (RSSC).

The RSSC is a cost-plus-award fee service contract. YPG awarded this contract in 1999 for a period of 5 years (with a 3 year option period which has been exercised) at an estimated cost of \$281.6M starting in October 1999. The RSSC is a labor-intensive contract to provide personnel, management, and small amounts of materiel in support of YPG's testing mission, to include Yuma Test Center in Arizona, Cold Regions Test Center in Alaska, and Tropic Test Center at various worldwide tropic sites. The contract provides YPG with program management and range operations, systems engineering and technical assistance, test execution, and maintenance

YPG Response to DoDIG

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services in a variety of highly technical functional areas such as optical instrumentation, metrology and simulation, computation and automation, operations and maintenance, munitions, gunnery, aircraft armament, airdrop, range management, range communications, and information management.

Contract funding comes mostly from reimbursable money collected from test customers, RDT&E and small amounts of OMA. Award fee pool and base fee are based on a graduated scale for various levels of effort. Efficiency and cost controls are significant factors in determining award fee amounts. Costs are driven primarily by the amount of test work received from customers (more tests = more labor = higher total contract costs).

SPECIFIC REASONS FOR NONCONCURRENCE:

Contract Surveillance

DoDIG didn't identify contract surveillance findings at YPG, as evidenced by the chart on page 5 of their report. The chart properly excluded YPG from the finding of inadequate or missing surveillance plans. In fact, at the exit conference on 14 July 2005, DoDIG auditors commended the thoroughness of the surveillance and award fee plans and YPG's execution of those plans. Therefore, this reply does not address contract surveillance at YPG.

Management Controls

**DoDIG Finding:** *"The management controls for contract administration were not adequate to ensure that contract files contained proper documentation ..." "MRTFB officials did not identify or report the material management control weaknesses identified by this audit."*

**Nonconcurrency:** The management controls program at YPG didn't identify the weaknesses described in the DoDIG report because those weaknesses didn't exist at YPG, as we will demonstrate further in this reply. In fact, ACA's management control plan for YPG evaluated controls in the very areas addressed in the DoDIG report and found no weaknesses.

For example, the FY05 management control checklist BB201 (step 1 question e) asks if the IGCE appears reasonably accurate and complete. Step 2, question c asks "Is the type of contract selected the result of analyzing the requiring activity's requirements (i.e. Performance Based, not merely repeating the last selection for a similar requirement) and determining what would promote the Government's interests?" The results of ACA's evaluation found no deficiencies or material weaknesses. This was documented in ACA's Management Control Evaluation Certification Statement (for YPG), dated 18 May 2005 (2 months prior to the DoDIG visit to YPG).

Moreover, we disagree that the findings, even if they were true, were material enough to trigger a reportable material management control weakness. The report speculated that the effect of the findings was that the Government was at risk of "spending more than necessary to conduct



YPG Response to DoDIG

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business." But the audit didn't examine whether the Government actually did spend more than necessary to conduct business. Nowhere in the audit report did the DoDIG identify that because of the findings, the actual contract costs were too high, the contract type was incorrect, or that the Government actually paid too much money for the contract. The materiality of the purported findings seems less than a reportable material weakness because the stated effects of those purported findings are speculative rather than concrete.

DoDIG's recommendations also don't seem to support that the purported weaknesses were material – the 3 recommendations call only for guidance to be issued to tell Commanders to comply with existing regulations – not for actions such as recovering excessive costs or changing contract types, as would be expected if the weaknesses were truly material.

Use of Contract History

**DoDIG Finding:** *"Contracting Officers did not use prior history to determine contract type or define costs." ... "There was little or no indication that contracting officials examined the information from prior contracts to determine contract type or to help define costs for future contracts." ... "Contracting officers could not provide analysis of prior history to determine whether all or parts of contracts could be converted to fixed price for these services." ...*

Although YPG's RSSC was not cited in the report as an example of this problem, the chart on page 5 of the report checked the column No Use of Prior History for YPG.

**Nonconcurrency:** The contracting officer did in fact use and analyze prior history to ascertain contract type, define costs, and resolve whether all or parts of the contract could be converted to fixed price. These analyses were documented in the cost realism analysis, the acquisition plan, and the award determination documents in the contract file.

The contract files at YPG contain a Cost Realism Analysis dated 31 Oct 98 which shows that the contracting officer did indeed use price history to define costs and to analyze the price reasonableness of the offerors' proposals. It states "A cost realism analysis was prepared for each of the proposals. Each analysis included labor, materiel, and travel costs from the Government estimate. ... The estimated costs were based on costs being incurred under the current (10 separate) contracts." Attachments to the analysis contain the specific details of each of the 21 cost categories analyzed for each bidder for each FY.

The contract files at YPG also contain an Acquisition Plan which shows that the contracting officer did indeed use prior history to determine contract type. It states: "YPG has been supported by contract since the seventies. The concept basis for this contracting has been augmentation (of the Government workforce). It is time to abandon the augmentation concept and move into a functional concept where the contractor will be expected to take autonomous control of those functions. We require a contractor with the capacity to surge when special requirements or unusually heavy demands occur in technical, high skill areas. The inability to forecast workload with any degree of confidence makes a fixed price contract inappropriate. The

YPG Response to DoDIG

11 July 2006

contractor will need the ability to adjust the workforce as workload dictates. Therefore, a cost-type contract is required to accommodate these adjustments."

Further, the contract type was not chosen on the basis that the previous contract was a cost-plus contract, rather, it was chosen to meet the activity's requirements. The contract Award Determination document, written pre 9/11, stated that a cost-plus contract would "provide the necessary flexibility for fluctuations in workload and allow for quick, reactive changes and continuous service in the event of mobilization, strikes or other emergencies." How prophetic! GWOT had not yet started, yet YPG built flexibility into the contract for quick reactive changes such as those that the GWOT has brought to YPG.

For example, in the post 9/11 era, YPG has virtually overnight established the National Counter-Terrorism/Counter Insurgency Integrated Test and Evaluation Center (NACCITEC) for DoD's testing of counter-insurgency and counter-terrorism technologies. The presence of an already in place cost-type contract provided the quick, reactive changes necessary not only to build, but to fully staff, this most critical DoD capability almost instantaneously.

IGCE

**DoDIG Finding:** "Contracting Officers did not have adequate independent Government cost estimates (IGCEs)." ... "Contract files had incomplete or missing IGCEs. The estimates lacked detail, did not have documentation of the value analysis, and in some cases were prepared by using an actual prior year contract price and inflating the amount by a set percentage ..."

DoDIG used YPG's RSSC as one example of this purported problem. According to DoDIG, the contract "has an incomplete IGCE. To prepare the IGCE, the contracting official used FY 1998 contract amounts as the starting point and inflated other amounts 2.5 percent per year over 7 years."

DoDIG stated that according to FAR Subpart 15.406(1)a, contracting officials should establish the Government's initial negotiation position with the use of various analysis and techniques including the IGCE. The information gathered should assist contracting officials in deciding the fairness and reasonableness of proposals. This information is especially important with cost reimbursement contracts because the contractor has no incentive to control cost and could initially understate cost to receive the award and eventually be reimbursed for larger amounts.

**Nonconcurrency:** The IGCE was indeed complete, detailed down to 18 cost categories for 82 work functions over a period of 8 years; met all FAR requirements; and was more than adequate to meet the contracting officer's needs. In fact, the contracting officer used the IGCE as a centerpiece to help decide the fairness and reasonableness of proposals. Moreover, the contracting officer used the IGCE in a strategy specifically designed to prevent potential contractors from understating cost to receive the award and eventually be reimbursed for larger amounts. And controls were in place to provide incentives to the contractor to control costs.

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For a labor-intensive service contract whose costs are driven by a fluctuating workload and other external factors beyond the contracting activity's control, test industry experts at YPG support weighing forecasts of future workload and events heavier than past history workload and events to derive usable cost estimates. Unlike that depicted in the audit report, the IGCE was not merely the FY 1998 contract amount inflated by 2.5% per year. Rather, as stated in the Cost Realism Analysis, the IGCE was prepared based on the current manning of each of the affected 10 (then separate) contracts. The Acquisition Plan noted that this would be a labor-intensive contract, so labor was the most significant cost. In addition, the Acquisition Plan explained that the estimate was based on available workload forecasts, and the Award Determination also states that the estimate includes projected costs.

Although not specifically noted in the IGCE, YPG derived hourly labor costs for projected workload levels by identifying the various employee skill levels required and estimating wages for each of those skill levels based on U.S. Department of Labor Annual Wage Determination (AWD) requirements for Government service contracts. Future year hourly labor costs were forecasted using a projected 2.5% increase in future AWDs.

In a strategy designed specifically to prevent potential contractors from understating costs to receive the award and eventually be reimbursed for larger amounts, the solicitation required only the submission of limited cost data, as stated in the Cost Realism Analysis. The data consisted of labor overheads, other direct costs, G&A, and fees. The cost analyses for each proposal used the labor, material, and travel costs from the IGCE, not from the potential contractor, thus eliminating the possibility of understated bids. Potential contractors could only bid on overhead, G&A, and fees, which are less susceptible to understatement.

Moreover, to provide incentives for the contractor to control costs, the Acquisition Plan states: "The most risk with this contract is in cost. Including the control of costs as part of the surveillance and award fee plans will minimize cost risk." As noted earlier in this reply, DoDIG auditors commended the thoroughness of the surveillance and award fee plans and YPG's execution of those plans.

#### CONCLUSION

ACA and YPG officials provided DoDIG auditors with electronic copies of all contract documents cited in this response, prior to or shortly after DoDIG's visit to YPG.

We respectfully request that, in light of the information provided in those documents, that the DoDIG dismiss all findings and recommendations for YPG and the ACA at YPG.

# The United States Army Research, Development, and Engineering Command Acquisition Center Comments

Final Report  
Reference



DEPARTMENT OF THE ARMY  
US ARMY RESEARCH, DEVELOPMENT AND ENGINEERING COMMAND ACQUISITION CENTER  
4118 SUSQUEHANNA AVENUE  
ABERDEEN PROVING GROUND MD 21006-3013

AMSRD-ACC-CC

31 Jul 06

MEMORANDUM FOR Office of Inspector General (Michael E. Simpson), 400 Army Navy Drive, Arlington, VA 22202-4704

SUBJECT: Report on Contracting Practices at the Major Range and Test Facilities Base (Project No. D2005-D000AB-0223.000)

1. Memorandum, DoD, IG, 22 Jun 06, subject: Report on Contracting Practices at the Major Range and Test Facilities Base (Project No. D2005-D000AB-0223.000).
2. Referenced report pertains to contract DAAD05-01-D-0019 for Test Support Services performed at the Aberdeen Test Center (ATC), Aberdeen Proving Ground, MD. The contract was awarded and is administered by the US Army Research, Development and Acquisition Center (RDECOM AC) Aberdeen Proving Ground, MD.
3. The following responses are provided in response to the IG findings outlined in the report:
  - a. The report states that "prior history was not used to define contract type or cost estimates for contract DAAD05-01-D-0019. The report further states that the Army contracting officials "at the very least should have justified why other cost reimbursement contracts would not have been suitable."

An analysis was performed prior to award of the contract. As stated in Federal Acquisition Regulation (FAR) 16.601(b), a time-and-materials (T&M) contract may be used only when it is not possible at the time of placing the contract to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence. As a test center, the historical record shows that ATC cannot accurately predict the extent, duration, or costs due to the ever-changing testing environment and the need to increase/decrease the contractor's workforce with little notice; therefore, a T&M contract type for DAAD05-01-D-0019 was the only type of contract suitable for ATC.

- b. The report erroneously claimed the Independent Government Cost Estimate (IGCE) was inadequate in that the contract was "issued without adequately using historical information to define requirements with Army Contract DAAD05-01-D-0019." The report also claimed the majority of contracts discussed lacked specificity.

These findings are incorrect. For Contract DAAD05-01-D-0019, ATC used historical data and projected requirements to develop the IGCE, dated 25 Aug 00. Historical data includes prior, current and projected strength, and the Department of Labor Wage Determination and the Collective Bargaining Agreements in effect at the time of the preparation of the Request

ATTACHMENT 1

AMSRD-ACC-CC

SUBJECT: Report on Contracting Practices at the Major Range and Test Facilities Base (Project No. D2005-D000AB-0223.000)

for Proposal. There is also a spreadsheet in the file that demonstrates how the labor rates were computed based on rates in the DOL WD, CBA, or comparable civilian positions.

c. The report also claims that the contract had "Inadequate or Missing Surveillance Plans. In T&M Army contract DAAD05-01-D-0019 valued at \$118.2 million, contracting officials used a generic surveillance plan that was used for other contracts without tailoring it to the specific needs of the T&M contract. A current plan should have been developed for the circumstances and the risk associated with that contract. The surveillance plan used for contract DAAD05-01-D-0019 was inadequate because it did not indicate the work requiring surveillance or the type of surveillance that should be performed."

This finding is incorrect. The contract surveillance plan dated 23 Jun 00 provides a detailed process for monitoring performance and remedying performance problems specific to this T&M contract. This plan is a key factor in controlling cost and assuring efficient contract performance. The plan breaks down the contract tasks requiring surveillance, specifically:

- (1) Engineering support (including a variety of engineering, technical, and scientific support) for applying instrumentation to test materiel, acquiring and recording test data, photograph, analyzing data, repairing and trouble shooting instrumentation, preparing and setting up test ranges, aligning instrumentation and equipment, verifying adequacy and accuracy of work, preparing and writing reports, removing instrumentation, and providing logistical and administrative support to various test programs.
- (2) Automotive testing support, including operating test items while stationary or on test courses to obtain required data, providing maintenance of the test items and preparing technical reports on testing performed. Specific tasks include acceptance, inspection, and transportation of test items, preparation and operation of test items and instrumentation, observations, measurements and readings.
- (3) Warehousing support functions including receiving ordering storing, turn-ins, uses and delivery of equipment, materials, lubricants, radioactive materials and solvents, and maintenance of locator files and control registers.
- (4) Gunner and Ammunition Testing support functions include testing of artillery, ammunition, weapons-related equipment, armor and weapon; artillery repair, painting and sign making; heavy equipment operations; boat operations; range support; fire control support; and simulation support.

The plan provides detailed inspection procedures to be performed by the Contracting Officer's Representative of contract services, with emphasis placed on:

AMSRD-ACC-CC

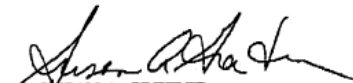
SUBJECT: Report on Contracting Practices at the Major Range and Test Facilities Base (Project No. D2005-D000AB-0223.000)

- (1) Test setup.
- (2) Observing work in progress.
- (3) Reviewing reports/records for documentation maintenance and adherence to the SOW.
- (4) Adherence to test operating procedures and test plans.
- (5) Ensuring contractor employees are utilizing proper safety equipment and practicing appropriate safety and environmental procedures.
- (6) Target set-ups, firing and maintenance of weaponry.
- (7) Talking with Test Directors and/or Technical Points of Contracts regarding contractor's job performance, compliance with task assignments and adherence to schedules.
- (8) Property Accountability.
- (9) Investigation of customer complaints via Contract Discrepancy Report (DA Form 5479R).

Each inspection is documented via a Surveillance Activity Checklist (DA Form 5476R). Any contractual shortfalls are forwarded to the Contracting Officer within 5 working days for action. All surveillance actions flow up through the test directors.

To assist in Government surveillance, ATC has appointed Contracting Officer's Technical Representatives (COTRs) for every cost center supported. This technique counters the concerns stated in FAR 16.601(b)(1) concerning a T&M contract, specifically, that such contract provide no positive profit incentive to the contractor for cost control or labor efficiency. COTRs are responsible for validating contractor effort on a weekly basis.

4. Should any further information be required concerning this issue, the RDECOM AC point of contact for this action is Mr. Jeff Pierce, 410-278-0861, fax 410-306-3745, or email [jeff.pierce@us.army.mil](mailto:jeff.pierce@us.army.mil).

  
SUSAN A. GREIDER  
Chief, Combat Operations Branch

# Department of the Navy (Air Systems Command) Comments



DEPARTMENT OF THE NAVY  
NAVAL AIR SYSTEMS COMMAND  
HADM WILLIAM A. MOFFETT BUILDING  
87193 HULSE ROAD, BLDG 2272  
PATUXENT RIVER, MARYLAND 20676-1547

52003  
AIR-0XG4A-089  
JUL 14 2003

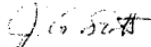
From: Commander, Naval Air Systems Command  
To: Assistant Secretary of the Navy (Research, Development and Acquisitions)

Subj: DODIG DRAFT REPORT ON CONTRACTING PRACTICES AT THE MAJOR  
RANGE AND TEST FACILITIES BASE (PROJECT NUMBER  
D20035-D000AB-0223.000); RESPONSE TO

Ref: (a) DODIG Memo of 22 Jun 06

Encl: (1) Naval Air Systems Command Comments to Subject Draft Report

1. Reference (a) submitted subject draft report for review and comments. Although no recommendations were addressed to the Naval Air Systems Command, we would like to provide our comments for your consideration in preparation of the Department of Navy response to the subject report. Accordingly, enclosure (1) contains our formal management response.
2. Please direct questions concerning the response to Ms. Udora Myers or Ms. Ginger Soroka at 301-757-2104 or 2105, respectively. For additional information or clarification on technical issues, contact Ms. Diane Balderson at 301-757-7858.

  
J. G. SCOTT  
Inspector General

Copy To:  
ASN(RDA), John Smoot  
ASN(RDA), Sandra Petty  
ASN(RDA), CDR Mark Goodrich  
NAVIG, Diana Cooper

**NAVAL AIR SYSTEMS COMMAND COMMENTS TO  
DODIG DRAFT REPORT ON  
CONTRACTING PRACTICES AT THE MAJOR  
RANGE AND TEST FACILITIES BASE  
(D2005-D000AB-0223.000)**

**Finding:** Contracting officials did not adequately manage contracts for nine Army, Navy, and Air Force locations within the major Range and Test Facilities Base (MRTFB). We reviewed 10 cost reimbursement contracts with a combined value of more than \$7.6 billion. We found contract award and administration errors in all 10 contracts. Specifically, the contracting officers did not:

- Use prior history to determine contract type or define costs on 9 of 10 contracts,
- Have adequate independent Government cost estimates (IGCEs) on 9 of 10 contracts, or
- Have evidence of adequate surveillance plans and surveillance on 7 of 10 contracts.

These problems occurred because contracting officials did not follow the Federal Acquisition Regulation (FAR) and other best practices for the service contracts. As a result, the Government continued to use high-risk cost reimbursement contracts without following procedures in place to control costs or monitor performance.

**NAVAIR RESPONSE:** NAVAIR specific comments are provided regarding the information summarized in the table on page 5 titled "Summary of Problems in Contracts at MRTFBs".

NAVAIR Contract Problems from Summary Table (Excerpt)

Contract Number	Contract Type	Dollar Value (Millions)	No Use Of Prior History	Inadequate Or Missing IGCEs	Inadequate Or Missing Surveillance Plans
N00421-01-C-0422 (Patuxent River)	CPFF	147.8	x	x	x
N00421-02-C-3052 (Patuxent River)	CPFF	281.2	x		x
N68936-01-D-0036 (China Lake)	CPAF	66.4	x	x	x

**NAVAIR SPECIFIC COMMENT #1:** NAVAIR does not concur with the conclusion that the contracting officers did not use prior history to determine contract type or define costs.

Enclosure (1)



Contract N00421-01-C-0422 (Patuxent River): Prior history was used during the acquisition planning for this effort. It was used to determine contract type and to help define costs. Since this effort was competed, the competition itself worked to determine a fair price.

Section 1.2 of Acquisition Plan (AP) for contract N00421-01-C-0422 provides a historical summary and includes a statement on the forward trend based on the current environment. Section 2 of this document covers the estimated cost of the procurement and section 8.6 discusses the considerations that went into determining the contract type.

In addition, Naval Air Warfare Center Aircraft Division Aircraft Simulation Division Memorandum, NAVAIR 5.1.5, serial 516100A, dated 18 January 2001 titled: "Increases in Scope of Proposed Manned Flight Simulator (MFS) Omnibus Statement of Work (SOW) from Previous Vehicle" explains new tasking that had been added to the SOW as compared to the previous SOW. This memorandum also includes a breakdown of the government estimate by labor categories and hours.

Page 6, first paragraph of the draft report identifies the use of, "prior history to determine whether all or parts of contracts could be converted to fixed price for these services". This is addressed in the AP, Section 8.6, which states, "... the fluid nature of the MFS facility's work prevents the Government from delineating boundaries for specific tasks." As a result, there is no firm basis for determining a fixed price for any specific task."

This contract is for the operation and maintenance of the MFS simulation lab and facility. The contract provides research, development, testing, evaluation, and prototypes of simulation systems. When this contract was awarded, it was felt that the nature of the work did not allow for firm fixed pricing. The quantity of work was not stable. There are also many variables in the type of work. A few variables in a simulation are the platform, the aircraft equipment, the flight scenario, and the number of simulators networked into the scenario. It should be noted that one of the products of this contract is full drawing packages for training simulators. These drawing packages can be used by other activities to procure training simulators on a firm fixed price (FFP) basis.

Contract N00421-02-C-3052 (Patuxent River): Page 5, second sentence, last paragraph of the draft report states, "Even when contractors for these contracts had been performing the same work for many years, contracts were continually awarded as cost reimbursement". Page 6, second sentence of the draft report discusses that a Cost Plus Fixed Fee (CPFF) contract was awarded despite a 23 year history with the same contractor and the rationale was described in general terms due to the variables inherent in the effort.

Although there is a long history with the same contractor (DynCorp Corporation), this and previous contracts were competed. When the contract was awarded, the team did not believe that the type of effort allowed for firm fixed pricing. The type and amount of work does not stay static and thus it is not the same work every year. This contract provides range operations, calibration and repair of aircraft ground support equipment, modifications of aircraft and other test articles. The nature of a repair, the equipment to be repaired, the aircraft or test article to be modified, the type of modification, or items to be installed can not be accurately predicted. Also,

the number of tests, types of tests, platforms to be tested, or equipment to be tested changes frequently. The testing to be performed is based upon individual test plans. Each test plan is developed with input from engineers, test conductors, military project officers, and the flight test community. The testing could be in a number of areas of interest including: weapon separation, engine performance, navigational system evaluation, and high angle attack. Although there may be some similarities between test plans and tests, because of the number of variables involved, each plan and the tests themselves are unique.

Contract N68936-01-D-0036 (China Lake): The business clearance memorandum for this contract addresses the contract type and the basis for its selection. The nature of the work involves a degree of uncertainty with regard to costs, which does not allow for a fixed price (FP) contract. It would be impractical to secure the type of services and the quality required using FP. At the time the strategy was developed in 1998, the climate in DoD favored downsizing, thereby affecting the degree to which performance levels and skills could accurately be predicted. A Cost Plus Award Fee (CPAF) contract that effectively motivated the contractor toward exceptional performance enhanced the likelihood of meeting the acquisition objectives.

There are inherent risks in using a CPAF contract since labor hours, labor mix and material requirements necessary to perform are highly uncertain and speculative. However, based on historical data on the current range contracts, the labor hours, mix, and material requirement have not been a problem. They are closely monitored by the Contracting Officer Representative (COR) and other contracting personnel. Government oversight skills and techniques for monitoring contractor performance have been continually refined.

Additionally, although the approach in 1998 anticipated significant DoD downsizing, what actually happened was an increase in testing, accompanied by diverse testing requirements. Where we initially expected the workload to decrease and only require managing a core staff, the contractor was required to significantly increase the workforce and add diverse skill sets to meet the new demands for test support. This illustrates how difficult it is to accurately predict the labor hours, skill mix, and materials required for range support and thereby making it difficult and risky to enter into a firm fixed price contract.

NAVAIR Future Approach: When the Procurement Contracting Officers (PCOs) initiate actions for follow-on efforts, the decisions for the type of contracts will be well-documented and will consider a combination of FFP Contract Line Item Numbers (CLINS) for standardized work not likely to change, and cost reimbursable CLINS for work tasks not easily defined. In addition, the acquisition team, including those defining the technical requirements and the contracting office, will utilize prior work history to determine the type of contract and acquisition strategy. The decisions will be documented in the applicable AP or Acquisition Strategy.

NAVAIR SPECIFIC COMMENT #2: NAVAIR does not concur with the conclusion that contracting officers did not have adequate independent Government cost estimates (IGCEs). The following information applies.

Contract N00421-01-C-0422 (Patuxent River): A summary of the IGCE information was included in the AP, and the Naval Air Warfare Center Aircraft Division Aircraft Simulation

Division Memorandum, NAVAIR 5.1.5, serial 516100A, dated 18 January 2001 titled: "Increases in Scope of Proposed Manned Flight Simulator (MFS) Omnibus Statement of Work (SOW) from Previous Vehicle" was included in the contract file.

As previously mentioned in paragraph 2 on page 2, Naval Air Warfare Center Aircraft Division Aircraft Simulation Division Memorandum, dated 18 January 2001 compared the changes from the previous SOW to the current SOW, and identified staffing needs based on requirements. Section 2 of N00421-01-C-0422 AP also covers the estimated cost. This information was used in the development of the solicitation and resulting contract. For example, the number of labor hours and labor categories were used to define the level of effort.

Contract N68936-01-D-0036 (China Lake): Naval Air Warfare Center Weapons Division developed a Government Cost Estimate that was included in the contract N68936-01-D-0036 documentation. The estimate was developed using the current contractor workforce, historical use of overtime labor hours with a small increase (7% total for all 7 years applied to labor only) as a contingency for surge work or increase in testing capability and support, plus a 3.5% adjustment for escalation each year. Although the estimate was well-defined in labor categories and mix and materials estimates, an explanatory narrative was not included nor was an analysis of how any applicable information from prior contracts was used to develop the estimate.

NAVAIR Future Approach: When the PCOs initiate actions for follow-on efforts, the estimates will be developed by the technical teams, and will include descriptions and explanatory narratives on how the estimates were determined. The "Defense Procurement and Acquisition Policy-Contracting Pricing Reference Guide" will be consulted to assure that all pertinent aspects of the estimates are included.

NAVAIR SPECIFIC COMMENT #3: NAVAIR does not concur with the conclusion that the contracting officers had inadequate or missing surveillance plans.

Contract N00421-01-C-0422 (Patuxent River): Although the contract does not contain a specific document entitled, "Quality Assurance Surveillance Plan", the contract is administered for quality and contract compliance. The lack of a surveillance plan should not be construed as a lack of contract surveillance. COR and Alternate Contracting Officer Representative (ACOR) appointment letters have a list of specific duties. One of those duties is to "... accept services and/or deliverables when completed, unless otherwise specified in the contract or order, and certify when the government has accepted all deliverables". The SOW calls out the following Contract Data Requirements Lists (CDRLs) which are to be delivered: Contractor's Progress Status, Management, Material, and Cost Breakdown Report; Project Status Report; and Funds Status Report. The COR and ACOR utilize these during surveillance of the contract. In addition, the contract contains clause 5252.246-9529, Surveillance of Services and Time Records (July 1998) (NAVAIR). This assigns the COR the responsibility of reviewing the accuracy of the contractor's time and attendance records and visiting the work site to check on the presence of workers.

Contract N00421-02-C-3052 (Patuxent River): Although the contract does not contain a specific document entitled, "Quality Assurance Surveillance Plan", the contract is administered for

quality and contract compliance. The lack of a surveillance plan should not be construed as a lack of contract surveillance. This contract has a number of CDRLs which are to be delivered under the contract. The COR and ACOR use these during surveillance of the contract. The CDRLs are Funds Expenditure Report; Performance and Cost Report; Accident Incident Report; Recommended List of Maintenance, Test, and Support Equipment; Manual, Technical Update Revision; Contractor Inventory; Program Progress Report; Conference Minutes; Contractor Personnel Clearance Request Report; Equipment Inventory; Data and/or Analysis Summary; Class II Modification Documentation; Personnel Locator; and Contractor Departmental Payroll Report. The COR and ACOR utilize these during surveillance of the contract.

Invoices and CDRLs are submitted electronically to the COR. The invoices are received weekly and are reviewed by the COR and Business Financial Manager (BFM) for discrepancies. Any questions or discrepancies are communicated to CSC Applied Technologies, LLC (CSC) via e-mail. Historically, any issues have been resolved, reported on the next invoice and the COR did not have to contact Defense Finance and Accounting Service (DFAS). CSC has made available to the CORs an electronic tracking system, which is updated weekly containing the status of tasking, cost, and CDRLs. Some items that are submitted to the COR electronically require action by the COR, these include authorizing travel requests and security visit requests. In addition, the Contractor Performance Assessment Reporting System (CPARS) requires annual input on Quality of Product of Service, Schedule Compliance, Cost Control, Business Relations, and Management of Key Personnel. Each of these factors is reviewed throughout the year and a final rating is posted to CPARS. Also, monitoring of CSC is conducted through weekly meetings with the COR, ACOR, BFM, and CSC management to discuss status and any ongoing or new issues. These meetings are documented in meeting minutes.

Contract N68936-01-D-0036 (China Lake): Although contract N68936-01-D-0036 does not contain a specific document entitled, "Quality Assurance Surveillance Plan", the contract is administered for quality and contract compliance. The lack of a surveillance plan should not be construed as a lack of contract surveillance. The COR provides oversight monitoring, including:

- Quarterly Award Fee Evaluation Boards
- Review of bi-monthly invoices
- Review of all material and equipment purchases
- Labor use and new hiring

The contract includes an Award Fee Plan which utilizes quantitative terms for the measurement of performance for each broad work task defined in the SOW. These performance terms and metrics are used in the quarterly award fee evaluations. In addition, the Contracting Officer annually reviews the contractor's purchasing system, and the government property administrator conducts an audit of the contractor's property system in accordance with FAR 45.

NAVAIR Future Approach: When the PCOs initiate actions for follow-on efforts, the contracts will contain a Quality Assurance Surveillance Plan in accordance with FAR 46.401(a) and basic principles of a Performance Based Acquisition.

# Department of the Navy Undersea Warfare Center Comments

Final Report  
Reference



DEPARTMENT OF THE NAVY  
NAVAL UNDERSEA WARFARE CENTER DIVISION, NEWPORT  
1176 HOWELL STREET  
NEWPORT RI 02841-1708

IN REPLY REFER TO:  
4330  
Ser 6705/2511  
19 JUL 06

From: Program Manager, Atlantic Undersea Test and Evaluation Center (AUTEC), Naval Undersea Warfare Center Division Newport, Newport, RI 02841-1708  
Inspector General, Department of Defense, 400 Army Navy Drive, Arlington, VA 22202-4704

Subj: Draft Report on Contracting Practices at the Major Range and Test Facilities Base

1. A draft of a proposed report on Contracting Practices at the Major Range and Test Facilities Base (Project No. D2005-D000AB-0223.000) was provided to this office on June 28, 2006 for our review and management comments on the findings and recommendations contained within that report.

2. A review of this draft report was conducted by AUTEC and the following comments are provided:

a. On page 1, in the "Background" section, contract types the MRTFB sites visited are described

Comment: No mention is made of the Cost Plus Incentive Fee (CPIF) type or Award Term. The CPIF contract pays the contractor's total allowable costs and an incentive fee adjusted in accordance with a formula which is based on the relationship of total allowable costs to target (negotiated) costs. Award term is a derivative of award fee, where the contractor can earn additional periods of performance based on its technical performance and cost management. The AUTEC Contract, N56604-05-C-1277, is a hybrid of these various types (i.e., CPAF/CPIF with Award Terms).

b. On page 5, in the Subsection on "Use of Prior History under Mission Support Contracts Reviewed" under "Mission Support Contracts Reviewed", the report states that "in 9 of the 10

ATTACHMENT 4

Revised  
Page 1

contracts reviewed, there was little or no indication that contracting officials examined the information from prior contracts to determine contract types or help define costs for future contracts. Contracting officers could not provide analysis of prior history to determine whether all or parts of contracts could be converted to fixed price for these services."

Comment: Prior AUTEC contract price history was, in fact, taken into consideration to determine contract type and to define costs for the new contract.

Contract type and costs were discussed at length by the AUTEC Contract Advisory Panel (CAP), an acquisition planning Board consisting of the AUTEC Program Manager, Contracting Officer, Technical Team Leaders and Legal Counsel. Such information is shown in the "AUTEC 05 Contract Kickoff" presentation which was prepared by the AUTEC Program Manager for the October 31, 2002 initial meeting of the CAP.

This "AUTEC 05 Contract Kickoff" presentation included a comparative analysis of the prior contract structure with other contract architecture options along with the risk factors (high, low, medium) associated with each one in the areas of Control, Adaptability, Management and Cost. A contract transition cost analysis of the last three fiscal years was also included in this presentation.

In conformance with Sections 1.1 and 6.1.5 of the "Defense Procurement and Acquisition Policy - Contract Pricing Reference Guide" referenced in the draft report, AUTEC utilized market research information and the application of appropriate quantitative techniques to develop a reliable estimate of the new contract cost. The AUTEC Procurement Contracting Officer (PCO) prepared a presentation in 2003 ("2-4-03 PCO Presentation" which contained a review of the history of five other MRTFS contracts to help determine the most appropriate contract type for AUTEC. The major types of contracts with their principal elements and associated risks and limitations were part of this presentation as well.

c. On Page 6, in the Subsection on "IGCHs" under Mission Support Contracts Reviewed, Reference (a) states "Nine of the 10 contracts had missing or inadequate IGCHs. According to FAR 15.406(a), contracting officers should establish the Government's initial negotiation position with the use of various analyses and techniques including

the IGCE."

Comment: An independent government cost estimate was, in fact, developed and refined to project the new contract costs for AUTEC. A qualitative cost delta analysis was conducted early in the AUTEC contract process ("Contract Overview"). More detailed reports, calculating projected differences between the existing contract and new contract, were also prepared ("6-17 new K forecast" and "Fish-Oliver FY03-06 10-17"). The resulting IGCE accompanied the AUTEC procurement request ("Requisition").

In addition to the IGCE, AUTEC utilized a comparison of proposed prices received in response to its solicitation as a price analysis technique where normally adequate price competition establishes price reasonableness (FAR 15.403-1(c)(1)).

3. For additional information, Mr. Dennis Perry, AUTEC Contracting Officer, can be contacted at tel. - (401) 832-5775 or email - [perryDJenpt.nuwc.navy.mil](mailto:perryDJenpt.nuwc.navy.mil).

  
JOHN H. VISNEUSRI  
By Direction

# Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE  
HEADQUARTERS UNITED STATES AIR  
FORCE  
WASHINGTON, DC



AUG 07 2006


MEMORANDUM FOR DOD INSPECTOR GENERAL  
ATTN: MICHAEL SIMPSON

FROM: HQ USAF/TE

SUBJECT: Comments to Draft Report on Contracting Practices at the Major Range and Test  
Facilities Base (MRTFBs) - (Project No. D2005AB-0223.000)

Attached are the HQ USAF Test and Evaluation management comments on the three Air  
Force MRTFB findings in the subject audit.

If there are any questions or comments please contact my POC for MRTFBs, Ms.  
Carolyn Zavadil at (703) 697-0283.

  
JOHN T. MANCLARK  
Director, Test and Evaluation

Attachment:  
1. Management Comments

*America's Air Force -- No One Comes Close*

ATTACHMENT 5



**HQ USAF Comments on Problems in Contracts at Air Force MRTFBs**

- 1 F40600-03-C-001, Arnold Engineering Development Center. The Air Force non-concurs with the finding that the contract had inadequate IGCE. The acquisition team prepared a comprehensive IGCE that covered each year of the proposed 12-year contract.

The draft report also contains an incorrect statement: "CPAF Air Force contract F40600-03-C-0001 for \$2.7B for base operations is an example of a contract for which the contracting officer did not include adequate cost analysis. The contracting officer used an FY 2002 contract amount and inflated the amount by 3 percent each year for the 12-year term of the contract if all options are exercised."

The IGCE was based on actual FY 02 cost data from the two preceding contracts and then adjusted for known changes. FY 04 was the first year of the proposed new contract and the key baseline year in establishing the IGCE. Because two existing separate contracts were being consolidated into a single effort, the IGCE included management/overhead reductions (calculated by the Government) likely to result over all twelve years. Future expected operational efficiencies as a result of making specific facility upgrades to AEDC's infrastructure were also calculated and included in the IGCE. Next, the IGCE was adjusted for significant increases in our planned Backlog Maintenance and Repair (BMAR) program for the FY 05 - 09 timeframe. Finally, the test workload was increased to reflect the additional work planned in the large turbine engine test cells. All these major adjustments were considered in calculating the FY 04 and out year IGCEs. Minor adjustments in the IGCE were made for pension and health insurance costs. All other estimated requirements/costs for FY 05 - 12 were held constant (when compared to FY 04) except a 3% escalation factor was applied to labor and material costs.

2. NAS10-99001, 45<sup>th</sup> Space Wing. The Air Force non-concurs with finding of inadequate or missing IGCE's/no use of prior history to determine contract type or define costs. This is a NASA contract, managed by NASA with Air Force participation, which has been in place since October 1998. The J-BOSC was a coordinated acquisition prescribed in the Defense FAR Supplement Part 208 and the Space Act. The J-BOSC is excepted from the Economy Act as contemplated under FAR 17.500(b) and AF FAR Supp. 5317.502-90(f). An independent Government cost estimate was performed by the Joint Procurement Development Team authorized on August 6, 1997. The Government cost estimate for the 10 year total contract lifetime was determined to be \$2.7 billion against an historical and budgetary baseline of \$3.3 billion. Past history of 18 similar NASA and Air Force contracts were reviewed as part of this analysis, including the NASA Base Operations Contract (BOC), a 10 year CPAF contract started on 11/1/93 4 yr basic w/ (3) 2 year option periods. The Joint Procurement Development Team determined that a CPAF contract was considered appropriate for the effort due to the inherent risks of the program, including such considerations as the consolidation of AF and NASA requirements, dynamic operational schedules, changing requirements, and labor relations concerns. Because of these concerns, it was determined that the use of award fee would provide needed flexibility and ensure

customer satisfaction at a reasonable cost. A substantial amount of the subcontracted work on the J-BOSC is firm fixed price (FFP). In addition, the J-BOSC acquisition process was reviewed by the Air Force Audit Agency, the NASA IG, and the AF IA during the acquisition process, with no issues or concerns indicated.

The Air Force non-concurs with the finding of inadequate or missing surveillance plans. JDP-P-2747, J-BOSC Performance Surveillance Plan, thoroughly documents the surveillance process for this contract, and has been in place since 1 April 1999. The plan clearly specifies areas requiring surveillance and surveillance methods to be used as specified in the FAR and in the recommended guidelines provided in the OFPP Best Practices Guide. It has been a living document and is currently at Rev C with a new revision to be released in August 2006. Systematic, continuous surveillance is being performed and documented by the CCSMO per the plan.

The Air Force non-concurs with RECOMMENDATIONS 1, 2. Selection of contract type and incentives is accomplished after careful deliberation and review of the facts and circumstances surrounding each acquisition. In large dollar acquisitions such as these the contract type/incentive decision is reviewed by acquisition and legal experts. The approval process is complex and goes up the entire acquisition chain to SAF level prior to contract award. As a result, the 45 SW Commander does not have the authority to "...determine contract type..." as recommended by the auditors. We do our best to make valid contractual recommendations to the proper approval authorities, but in the end, the 45 SW Commander is an implementer of higher-level guidance. It is our opinion that these recommendations should be addressed to the Service Secretaries to direct the Program Offices as to the specific acquisition strategies.

The Air Force concurs with RECOMMENDATION 3: Once any contract is awarded, it is crucial that cost performance be monitored. We currently monitor cost performance on this contract and are reasonably assured that the contractors are using efficient and effective cost controls where possible.

3. FA9200-02-C-001, 46<sup>th</sup> Test Wing. The Air Force non-concurs with the findings. The contract was awarded approximately 40 days prior to the only contact 46 TW Contracting Office had with the DoD IG team. At that time, requested documents were provided to the DoD IG team but no additional requests for information were made nor did the 46 TW receive subsequent questions regarding the data provided.

No Use of Prior History: Non-concur. The contracting office used past history in defining cost for award of this contract. The acquisition team considered previous technical and cost performance in defining the acquisition strategy for this program. The Acquisition Strategy Panel chairperson, AFPEO/CM, along with the team, used extensive data to determine that the proper contract type for the Operation and Maintenance of the Eglin Test & Training Complex was cost-plus-award-fee. The costs associated with this effort are dependent on a

dynamic test and training schedule that could not be administered in a fixed price environment. The award fee plan provides positive incentive for the contractor to control cost and manage labor efficiencies

Inadequate or Missing Independent Government Cost Estimates (IGCE). Non-concur. The Air Force's IGCE was prepared by the program office using many years of past contract prices. The estimate was then adjusted to reflect the change in technical requirement. Price reasonableness of the awarded proposal was determined in accordance with FAR 15.404-1(b)(2)(i) and (ii), which are the preferred techniques for price analysis (see FAR 15.404-1(b)(3)). The audit's reference to FAR 15.406(1)a is not correct. It should be FAR 15.406-1(a). However, the reference was for establishment of the Government's initial negotiation position and does not apply to source selection. This effort was determined to have adequate price competition and therefore was not "negotiated".

Inadequate or Missing Surveillance Plans. Non-concur. The Air Force's award fee plan thoroughly documents the surveillance process for this contract. Quality assurance personnel as well as technical project managers, continuously monitor performance at every level of this contract and provide reports to program managers as well as senior management officials. The plan calls for formal reporting every six months with interim reports every two months. The plan provides significant incentives for meeting technical/schedule/cost requirements.

## **Team Members**

The Department of Defense Office of the Deputy Inspector General for Auditing, Acquisition and Contract Management prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

Richard B. Jolliffe  
Bruce A. Burton  
Benjamin A. Mehlman  
Michael E. Simpson  
Carrie J. Gravely  
Shaun B. Jeffery  
Gloria Parker  
Bernard M. Vennemann  
Christopher D. Westphal  
Jillisa H. Milner



# Inspector General Department of Defense

