
May 18, 2006



Acquisition

Adjusting the Price and
Restructuring the KC-135 Depot
Maintenance Contract
(Contract No. F42620-98-D-0054)
(D-2006-088)

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Acronyms

AFNT	Air Force Negotiating Team
ASAF (AQ&M)	Assistant Secretary of the Air Force (Acquisitions and Management)
BASC	Boeing Aerospace Support Center
BRAC	Base Realignment and Closure
DCAA	Defense Contract Audit Agency
FAR	Federal Acquisition Regulation
GAO	Government Accountability Office
MOA	Memorandum of Agreement
OC-ALC	Oklahoma City Air Logistics Center
OO-ALC	Ogden Air Logistics Center
PDM	Programmed Depot Maintenance
REA	Request for Equitable Adjustment
SM-ALC	Sacramento Air Logistics Center



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
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May 18, 2006

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (ACQUISITION,
TECHNOLOGY, AND LOGISTICS)
ASSISTANT SECRETARY OF THE AIR FORCE
(ACQUISITION)
DEFENSE CONTRACT MANAGEMENT AGENCY

SUBJECT: Report on Adjusting the Price and Restructuring the KC-135 Depot
Maintenance Contract (Contract No. F42620-98-D-0054)
(Report No. D-2006-088)

We are providing this report for your information and use. We performed the audit in response to a request from the Assistant Secretary of Defense (Acquisition, Technology, and Logistics). We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. James L. Kornides at (614) 751-1400 extension 211 or Mr. John K. Issel at (614) 751-1400 extension 212. See Appendix B for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in cursive script, reading "Paul J. Granetto", is positioned above the printed name.

Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing
Service

Department of Defense Office of Inspector General

Report No. D-2006-088

May 18, 2006

(Project No. D2005-D000FJ-0172.000)

Adjusting the Price and Restructuring the KC-135 Depot Maintenance Contract (Contract No. F42620-98-D-0054)

Executive Summary

Who Should Read This Report and Why? Air Force program managers and contracting officials responsible for the KC-135 Aircraft Programmed Depot Maintenance program should read this report. The report discusses a Request for Equitable Adjustment and a restructuring of the KC-135 depot maintenance contract. Both events occurred in CY 2001.

Background. On February 11, 2005, the Acting Under Secretary of Defense (Acquisition, Technology, and Logistics) requested that the DoD Office of Inspector General review the Air Force effort to modify the KC-135 depot maintenance contract. The Acting Under Secretary wanted to determine whether Darleen Druyun, the then Principle Deputy Assistant Secretary of the Air Force for Acquisitions and Management, influenced the resolution of the Request for Equitable Adjustment and restructure of the contract without proper justification and approval.

Results. Air Force and Defense Contract Management Agency records showed that Ms. Druyun's influence hurried the outcome of the settlement of the contract price adjustment and the restructuring of the contract. This caused the Air Force to ignore information provided by Defense Contract Audit Agency that could have potentially reduced the program cost by \$4.5 million. Air Force officials indicated the quick settlement reduced the chances of litigation. Additionally, Air Force and Defense Contract Management Agency records showed that the Boeing Aerospace Support Center split contract tasking into work units smaller than the 75 hours agreed to in the restructured contract to avoid justifying the reasonableness of its work. However, during the audit, the Air Force took steps to stop this practice. As part of the corrective actions, the Oklahoma City Air Logistics Center canceled the award of the last 2 option years on the contract on November 30, 2004, and in its place, a 2-year bridge contract was awarded to the Boeing Aerospace Support Center. The bridge contract required increased use of firm-fixed pricing of work performed. The Air Force also implemented increased inspections. Although the Air Force had taken steps to correct problems associated with the restructure, the Assistant Secretary of the Air Force (Acquisition) needed to establish a policy to prevent final offers from being proposed during the Request for Equitable Adjustment negotiations until the Defense Contract Audit Agency has issued its final report.

Management Comments and Audit Response. Comments from the Military Deputy, Assistant Secretary of the Air Force (Acquisition) were responsive. The Military Deputy concurred in part with all recommendations. Although the Military Deputy stated that each recommendation was covered by provisions of the Federal Acquisition Regulation,

Defense Federal Acquisition Regulation Supplement, Air Force Federal Acquisition Regulation Supplement, and Air Force Policy Directive; he stated that he will direct his contract policy team to issue new guidance that reinforces existing regulations. The issuance of new guidance to reinforce the provisions of existing regulations will help prevent the types of issues identified during the negotiations for the price adjustment and contract restructure of the KC-135 Depot Maintenance program.

See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

In the early 1950s, the Boeing Military Airplane Company's Model 367-80 Aircraft was used as the basic design for the commercial Boeing 707 as well as the Military KC-135 Stratotanker. The Air Force continues to use the KC-135 Stratotanker. It is used primarily for refueling Air Force long-range bombers. Other DoD Components also use the aircraft in aerial refueling support, including Navy and Marine Corps aviation units.

The Air Force made its first purchase of 29 KC-135s in 1954. The last delivery of the aircraft was in 1965. The Air Force purchased 732 KC-135 aircraft during production. As the aircraft aged, a program of repair and maintenance was used, including regularly scheduled programmed depot maintenance (PDM) at several large industrial depots.

The principal contract the Air Force used to procure inorganic (contractor) depot maintenance was contract number F42620-98-D-0054. The Air Force awarded it on October 9, 1998. The contract was restructured in CY 2001 and a Request for Equitable Adjustment (REA) was submitted by Boeing Aerospace Support Center (BASC), on May 7, 2001. Contract restructuring entails adding, removing, or rewriting contract clauses or provisions in existing contracts to alleviate problems incurred in the performance of the contract. Restructuring could include addition of work, deletion of work, or substitution of one item of work for another. REAs are requests for additional compensation over and above normal contract payment provisions for breached contract terms that the contractor believes the Government is liable.

On February 11, 2005, the Acting Under Secretary of Defense (Acquisition, Technology, and Logistics) requested that the DoD Office of Inspector General review certain actions taken on the KC-135 PDM contract. The Acting Under Secretary wanted to determine whether the former Principal Deputy Assistant Secretary of the Air Force for Acquisitions and Management (ASAF/A&M) influenced the resolution of the REA and the restructuring of the contract.

Objectives

Our audit objective was to evaluate whether the KC-135 PDM contract restructuring actions and the actions related to the REA were in accordance with the Federal Acquisition Regulation (FAR). Specifically, we evaluated the affect Ms. Druyun's influence had on the outcome of these actions. We did not review the management control program as it related to the overall objective due the limited scope of the audit. See Appendix A for a discussion of the scope and methodology.

Procedures Used for the Price Adjustment and Restructure on Contract F42620-98-D-0054

The then Principle Deputy Assistant Secretary of the Air Force for Acquisitions and Management, Ms. Darlene Druyun, hurried Air Force procurement officials' decisions on the price adjustment of the KC-135 Programmed Depot Maintenance contract and the restructuring of the contract. Her influence resulted in the Air Force not waiting for a final contract audit that identified an opportunity to potentially reduce the program costs by \$4.5 million. In addition, the contractor subsequently used certain provisions of the restructured contract to avoid full justification of its costs. Official records showed that the Boeing Aerospace Support Center split contract tasking into work units smaller than 75 hours which did not require justifying the reasonableness of the work to Defense Contract Management Agency personnel. This condition was corrected. The Oklahoma City Air Logistics Center took positive steps to reduce the occurrence of split tasking on the contract. These steps included canceling the award of the last 2 option years on the contract on November 30, 2004. In its place, a 2-year bridge contract was given to Boeing Aerospace Support Center that significantly increased the use of firm-fixed price line items for work performed as well as other provisions to protect the interest of the Government.

KC-135 Programmed Depot Maintenance History

The Sacramento Air Logistics Center (SM-ALC) was one of the two organic (Government) sources of depot repair, with Oklahoma City Air Logistics Center (OC-ALC) being the other. The Air Force also used Pemco Aeroplex Incorporated in Birmingham, Alabama, as the inorganic (contractor) source of overhaul on the KC-135.

The 1995 Base Realignment and Closure (BRAC) Commission recommended the closure of the SM-ALC. The closure was completed in July 2001. The impending closure of SM-ALC created a need for an alternate source of organic KC-135 depot repair.

In its effort to satisfy the need for another organic source of KC-135 repair, the Air Force decided to bundle the solicitation of the SM-ALC workload to include the KC-135, the A-10, and some commodities. The Air Force stated that unless it bundled the procurement of the maintenance of the two systems and the commodities, it would incur delays that would jeopardize its BRAC schedule and would harm Air Force readiness posture. Furthermore, the Air Force would not receive bids for the work on the commodities.

The prime contractor performing PDM on the KC-135 was Pemco Aeroplex Inc. (Pemco). After learning of the Air force decision to bundle the work, Pemco filed

a protest with the Government Accountability Office (GAO) on July 17, 1998. Pemco could perform the KC-135 overhaul work, but not the work on the A-10 and the commodities. Therefore, it would be ineligible for the competition. GAO upheld Pemco's protest on September 25, 1998.¹

Despite the decision by GAO, the Air Force decided to award contract F04606-98-D-0007, valued at \$1.5 billion, to the Ogden Air Logistics Center (OO-ALC), Hill Air Force Base, Utah on October 8, 1998. The Air Force cited readiness of the KC-135 fleet and the planned closure of the SM-ALC as two of the overriding factors for selecting OO-ALC.

OO-ALC did not bid as a lone participant in the work. It had partnered with the Boeing Corporation as part of a public-private competition arrangement. After being awarded the contract, OO-ALC subcontracted with the McDonnell Douglas Corporation, a subsidiary of Boeing, for work on the KC-135. The work was to be performed at BASC, located in San Antonio, Texas.

Although it could not bid on the new contract, Pemco remained a source for maintenance until the end of FY 2001, when its contract expired. At the point of contract award in 1998, PDM work was to be performed by three sources: BASC, Pemco, and OC-ALC.

During FY 1999 and FY 2000, BASC experienced performance difficulties associated with the speed and the quality of its work. Air Force records showed BASC excessive PDM flow days were exacerbating an already serious KC-135 fleet readiness situation. Approximately 45 to 50 percent of the total 400 aircraft fleet were not available for use due to long depot maintenance cycle times. As part of its management of the program, the Air Force Chief of Staff established a goal to reduce the number of aircraft in PDM at any given time to fewer than 100 aircraft.

Partnership with Pemco. To alleviate the problems, Air Force officials at the Air Logistic Centers and in the Pentagon considered the following options.

1. Extend the Pemco contract for KC-135 PDM for an additional 3 years.
2. Extend the Pemco contract for 1 year, followed by a BASC and Pemco partnership for FY 2003 through 2007.
3. Form a BASC and Pemco partnership for FY 2002 through 2004, followed by a source selection for FY 2005 and beyond.
4. Form a BASC and Pemco partnership for FY 2002 through 2007, followed by a source selection for FY 2008 and beyond.

Air Force officials selected option four and on October 27, 2000, McDonnell Douglas and Pemco executed a Memorandum of Agreement (MOA) establishing a partnership relationship through FY 2007. In February 2001, Boeing, Pemco,

¹ Comptroller General of the United States Decision, File B-280397, dated September 25, 1998.

OO-ALC, the Air Force Joint Management Office, and the DCMA signed the MOA detailing the processes for managing the KC-135 PDM effort.

As part of this effort, the Government did not exercise options for the last 2 years of its contract but instead used a bridge contract awarded to BASC (with Pemco as the subcontractor) effective October 1, 2005, pending award of a new contract scheduled to be awarded in July 2006.

Request for Equitable Adjustment. On May 7, 2001, BASC formally submitted a \$119 million REA based on late delivery of Government-furnished equipment, unexpected levels of deficiencies on the PDM aircraft, and other issues. Personnel from OO-ALC, OC-ALC, DCMA, Defense Contract Audit Agency (DCAA), and Air Force Materiel Command Headquarters made up the Air Force Negotiating Team (AFNT) to evaluate the REA. The procurement contracting officer from OO-ALC, whom headed the AFNT, negotiated a settlement of the REA over the next 6 months, and it was officially signed out on October 31, 2001. Under the settlement, BASC was paid \$35.8 million of the \$119 million originally requested.

Provisions of the Contract Restructure. The Air Force significantly restructured the contract using modification P00024 issued on November 1, 2001. The restructuring included, among other things, establishing a new, higher composite labor rate to account for Pemco's participation in the PDM effort; an agreement to add a BASC management fee for work performed by Pemco; and a revised "over and above"² process that eliminated Government review of work requests for less than 75 hours.

Contract Influence by Former Principal Deputy ASAF/A&M

Ms. Druyun's involvement in the decisions on the equitable adjustment and restructuring began in 2001. Ms. Druyun often met with various Air Force officials, including flag-level military officers, and Boeing company officials to discuss the ongoing REA and contract restructure.

As a result of her influence, Air Force procurement officials indicated that they believed they were expected to complete the REA and contract restructure within six months (from the time of its submission in May 2001). The influence had the following effects on the REA and the restructure.

Settlement of the Request for Equitable Adjustment. The AFNT requested that the DCAA review the provisions of the REA submitted by BASC in May 2001. However, due to the requirement to complete the REA and restructure tasking of the KC-135 PDM within 6 months, AFNT went ahead and submitted an offer to BASC to pay \$35.8 million of the requested \$119 million to settle the REA, rather than wait for the final recommendations of DCAA. DCAA eventually provided its recommendations in a memorandum dated September 24, 2001 (after AFNT's offer to BASC), and proposed a further reduction of

² Over and above is work considered non-routine and outside the scope of the firm-fixed-price agreement.

\$4.5 million to the final offer made to BASC. DCAA based its final analysis on the level of growth for which the Government had accepted responsibility.

AFNT personnel stated that they had not had time to adequately consider the new rate adjustments proposed by DCAA, and had relied on the initial DCAA report submitted on August 6, 2001. In addition to the evidence we obtained on Ms. Druyun's influence on the quick resolution of the REA and contract restructure, we questioned the OO-ALC personnel that were members of the AFNT about their decision to not wait for DCAA's final review of the proposed settlement. The OO-ALC personnel stated that because of the large number of KC-135 aircraft needing depot maintenance the REA and contract restructure needed to be resolved immediately. Furthermore, we were told that they felt the risk of Boeing pursuing litigation against the Air Force out weighed the potential for any savings by waiting for DCAA's final recommendations.

Had the AFNT used the final DCAA recommended rate adjustments, the REA settlement potentially could have been reduced by another \$4.5 million. In order to prevent this situation from occurring in the future, the Air Force should establish a policy to prevent final offers from being proposed during REA negotiations until DCAA has issued its final report or analysis of proposed price adjustments.

Issues with the Restructuring of the Contract. The contract provisions for over and above work allowed the contractors to charge the Government for work that was less than 75 hours without prior approval. The elimination of Government review of bills for work done on tasks less the 75 hours caused problems. Air Force and DCMA records showed that BASC appeared to split contract tasking into work units smaller than 75 hours presumably to avoid justifying the reasonableness of the work to DCMA personnel.³

An indicator of possible abuse of the 75 hour "over and above" contract provision was the significant escalation of those types of requests by the contractors in FY 2002 and later. Documentation showed that the number of requests submitted by BASC for the first three quarters of FY 2001 was 4,211. However, in FY 2002, following the contract restructure, the number of requests submitted by BASC and Pemco increased to 88,524. DCMA personnel indicated that due to their workload, the scope of their review requirements, and the need to keep production going, they did not review this type of task splitting. Consequently, DCMA did not catch the abuses.

Corrective Actions Taken on the PDM Contract

On March 1, 2002, Air Force Materiel Command Headquarters recognized that there were problems with maintaining the management control function at OO-ALC. According to Air Force Materiel Command, having OO-ALC perform as

³ DCMA Birmingham/Pemco did not retain records of the instances of splitting of tasks to come under the 75 hour threshold. DCMA Birmingham/Pemco personnel stated that reviewing work orders for fewer than 75 hours was outside the scope of their work.

the prime contractor overseeing OC-ALC was both cumbersome and duplicative. Therefore, Air Force Materiel Command moved the contract oversight responsibility for the KC-135 PDM contract to the OC-ALC. OC-ALC took several actions to correct problems on the KC-135 PDM contract. One of the first actions OC-ALC took was to implement a plan to provide increased visibility over costs and control for the KC-135 PDM contract. Also, instead of exercising the last 2 option years of the original F42620-98-D-0054 contract, the contract was terminated on November 30, 2004. In its place, OC-ALC awarded a new contract that contained several new provisions correcting identified problems with the previous contract. Air Force contracting officials took time to include clauses that reduced the likelihood that the contractor would split tasks and reduced the risk to the Government by including specific deliverables and timelines.

The provisions of the new contract:

- made the contract firm fixed-price and included inspection and correction of defects as a part of basic cost,
- redefined the acceptance clause to ensure that BASC knows when and how the Government will take possession of the aircraft,
- modified the Government-furnished property provisions by adding appropriate clauses,
- reduced the “over and above” requirements to only those defects that require 200 plus hours to repair,
- required proper waivers and approvals to ensure that the contractor-furnished material transitioned at the end of the contract,
- ensured that transition of Government-furnished material is finalized no later than FY 2006, and
- strengthened contract provisions so that BASC will not receive delivery fees if they can not meet or beat specified delivery dates.

As a result of the corrective actions taken on the KC-135 PDM contract, we are not making any additional recommendations.

Summary

Personnel at the OC-ALC have taken positive steps to eliminate problems associated with the KC-135 PDM contract. However, the controls over the negotiation process for REAs need to be strengthened. The Assistant Secretary of the Air Force (Acquisition) needs to direct procurement contracting personnel to wait until DCAA has provided its final report on all issues related to any REA being negotiated on Air Force contracts. The potential for additional cost savings should supersede a rush to complete REA negotiations.

Recommendations, Management Comments, and Audit Response

The Assistant Secretary of the Air Force (Acquisition) needs to establish a policy in the Air Force Federal Acquisition Regulation Supplement to:

1. Prevent final offers from being proposed during Request for Equitable Adjustment negotiations until the Defense Contract Audit Agency has issued its final report on proposed price adjustments.

2. Require a full evaluation and consideration of Defense Contract Audit Agency recommendations before providing final offers to the contractor.

3. Prepare a memorandum for the record to explain why recommendations from the Defense Contract Audit Agency were not used, if applicable.

Assistant Secretary of the Air Force (Acquisition) Comments. The Military Deputy, Office of the Assistant Secretary of the Air Force (Acquisition) concurred in part with each recommendation. The Military Deputy stated that full implementation of Recommendation 1 would restrict the contracting officer's ability to conclude negotiations when they believe adequate information exists to make a fair and reasonable price determination. In addition, the Military Deputy stated that for Recommendation 2, existing regulations cover consideration of Defense Contract Audit Agency recommendations before providing final offers to the contractor. He further stated that regulations already exist concerning documentation of field pricing reports, as well as disposition of the report findings and results in Recommendation 3. However, the Military Deputy stated that he would direct his contract policy team to issue new guidance to contracting officers in order to reemphasize that they should not make a final offer in negotiations until they have all available and sufficient information to make a fair and reasonable price determination. In addition, the new guidance will reemphasize the requirement to properly document field pricing support in the contract file, including any variances from the Defense Contract Audit Agency recommendations.

Audit Response. Comments from the Military Deputy were responsive. Although we agree that existing regulations provide overall guidance, refinement of those requirements through the issuance of additional guidance should be adequate. The guidance will help prevent the types of issues identified during the negotiations on the equitable adjustment and price negotiations for the KC-135 Depot Maintenance contract.

Appendix A. Scope and Methodology

We performed this audit at the request of the Acting Under Secretary of Defense for Acquisition, Technology, and Logistics to determine whether the former Principle Deputy Assistant Secretary of the Air Force for Acquisitions and Management improperly influenced the procedures used to resolve the REA and contract restructure. We conducted interviews and reviewed records maintained by DCMA Birmingham, DCMA Kelly, Oklahoma City ALC and Ogden ALC. The records included all relevant correspondence, emails, contract files, original working papers, and Air Force financial systems and costs systems used at the DCMA and contractor facilities between FY 1998 and FY 2005. We also interviewed members of the original Darlene Druyun study team involved in the review of the KC-135 contract and their subsequent referral for further investigation.

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

Scope Limitation. We did not review the original KC-135 PDM contract (Contract No. F42620-98-D-0054) that OO-ALC had subcontracted to Boeing. The scope of this review was limited to the REA and contract restructuring, which resulted in modification number P00024 to the original contract. We plan on referring questions surrounding the bundling of the SM-ALC workload and award to OO-ALC, which essentially unbundled the KC-135 workload by subcontracting with Boeing to our Acquisition and Contract Management Directorate for potential additional audit work.

Use of Computer-Processed Data. We did not evaluate the general and application controls of the automated systems reviewed, although we used data produced by these systems to supplement the audit. We did not evaluate the controls because the objective of this audit was to review the actions taken to by Air Force officials to settle the price adjustment and contract restructure. Not evaluating the controls did not affect the results of the audit.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report focuses on the area of DoD approach to business transformation for contract management.

Prior Coverage

During the last 5 years, no prior coverage had been conducted on Air Force contract number F42620-98-D-0054.

Appendix B. Report Distribution

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Department of the Air Force Comments



OFFICE OF THE ASSISTANT SECRETARY

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

APR 27 2006

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
ATTN: DEPUTY INSPECTOR GENERAL FOR AUDITING

FROM: SAF/AQ

SUBJECT: Draft Audit Report, Dated 28 Feb 06, Project No. D2005-D000FI-0172
Adjusting the Price and Restructuring the KC-135 Depot Maintenance Contract

Thank you for the time and effort your team invested in examining the KC-135 Depot Maintenance contract. I also appreciate their willingness to meet with my staff to discuss the draft report. Our comments are as follows:

a. Recommendation 1 - Concur in part. Full implementation of this recommendation would restrict the contracting officer's ability to conclude negotiations when they believe adequate information exists to make a fair and reasonable price determination. The Federal Acquisition Regulation (FAR) provides contracting officers flexibility and latitude in determining the necessity and level of field pricing assistance required to support a fair and reasonable Request for Equitable Adjustment (REA) price determination.

In accordance with FAR 15.404-2(a), field-pricing assistance should be requested when the information available at the buying activity is inadequate to determine a fair and reasonable price. If field-pricing assistance is required, the contracting officer and the field pricing personnel must decide on the level and form of assistance. Depending upon the extent and complexity of the field pricing review, results, including supporting rationale, may be reported directly to the contracting officer orally, in writing, or by any other method acceptable to the contracting officer. In this instance, the contracting officer included the local Defense Contract Audit Agency (DCAA) representative as part of the Air Force Negotiation Team.

Air Force Policy Directive 63-1 provides further guidance in balancing the decision to begin negotiations against waiting for a final DCAA report. Every key decision must have an operational sense of urgency. In this particular case, the aircraft availability rate for the KC-135 was at an unacceptable 48 percent when the Air Force negotiation position was developed. Additionally, support for this approach is consistent with guidance set forth at FAR 15.404-2.

I will direct my contract policy team to issue guidance to contracting officers stating that they should not make a final offer in REA negotiations until they have sufficient information to make a fair and reasonable price determination. Existing Air Force Federal Acquisition Regulation Supplement (AFARS) coverage in this area is adequate.


b. Recommendation 2 - Concur in part. The Defense Federal Acquisition Regulation Supplement (DFARS) currently covers consideration of DCAA recommendations before providing final offers to the contractor. The DCAA recommendations, along with any

other available information must be considered when making a fair and reasonable price determination. It is the contracting officer's responsibility to decide when they have enough information to determine a fair and reasonable price, and make a final REA offer to the contractor. I will direct my contract policy team to issue guidance reemphasizing the contracting officer's responsibility to consider all available information, including the DCAA recommendations, prior to concluding negotiations.

c. Recommendation 3 - Concur in part. The FAR and DFARS currently provides guidance concerning documentation of field pricing reports as well as disposition of the report findings and results. Writing new AFFARS guidance would unnecessarily duplicate existing FAR and DFARS coverage.

FAR 15.406-3(a) requires the contracting officer to document in the contract file the principal elements of the negotiated agreement. This documentation contains a discussion of any field pricing assistance recommendations including the reasons for any pertinent variances from the DCAA recommendations (FAR 15.406-3(a)(7)). DFARS 215.406-3(a)(7) reinforces this by requiring the contracting officer to address in negotiation documentation the principal factors related to the disposition of findings and recommendations contained in any advisory reports. I will direct my contract policy team to issue guidance reemphasizing the requirement to properly document field pricing support in the contract file, including any variances from the auditor recommendations.

The SAF/AQ staff stands ready to assist in any way to ensure all concerns are addressed prior to the final report publication. My point of contact is Lt Col Julian Thrash, and he may be reached at either julian.thrash@pentagon.af.mil or 703-588-7075.


DONALD J. HOFFMAN, Lt Gen, USAF
Military Deputy, Office of the Assistant Secretary
of the Air Force (Acquisition)

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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