

September 29, 2006



Acquisition

Program Management of the Objective Individual Combat Weapon Increment I (D-2006-123)

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Acronym

OICW Objective Individual Combat Weapon



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

September 29, 2006

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Program Management of the Objective Individual Combat
Weapon Increment I (Report No. D-2006-123) (U)

(U) We are providing this report for review and comment. This report is the third in a series of reports on the overall management of the Objective Individual Combat Weapon. This report addresses requirements and systems engineering processes, contracting procedures, and milestone decision authority for Increment I of the program. We considered management comments on a draft of this report when preparing the final report.

(U) DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of management comments, we request that the Executive for Contracting, Picatinny Center for Contracting and Commerce, U.S. Army TACOM Life Cycle Management Command provide additional comments on Recommendation B.2. by October 30, 2006.

(U) If possible, please send management comments in electronic format (Adobe Acrobat file only) to AudACM@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

(U) We appreciate the courtesies extended to the staff. Questions should be directed to Mr. John E. Meling at (703) 604-9091 (DSN 664-9091) or Mr. Jack D. Snider at (703) 604-9087 (DSN 664-9087). See Appendix I 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 "Richard B. Jolliffe".

Richard B. Jolliffe
Assistant Inspector General
Acquisition and Contract Management

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Department of Defense Office of Inspector General

Report No. D-2006-123

(Project No. D2006-D000AE-0154.000)

September 29, 2006

Program Management of the Objective Individual Combat Weapon Increment I (U)

Executive Summary (U)

(U) Why You Should Read This Report. This report discusses fundamental internal control issues that a program should address as it progresses through the acquisition process.

(U) Background. The Objective Individual Combat Weapon (OICW) is a dual engagement weapon: its primary subsystem fires a 25-millimeter air bursting munition, and its secondary subsystem fires the standard 5.56-milimeter munition. This report is the third in a series of reports on the overall management of the OICW Program. This report addresses requirements and systems engineering processes, contracting procedures, and milestone decision authority for the XM8 Program, which later became OICW Increment I. The first report addressed an internal control weakness associated with preparing OICW Increment I for entry into the system development and demonstration phase of the acquisition process. The second report addressed the Army's completion of the requirements process for OICW Increments II and III.

(U) Results. The XM8 Program, which later became OICW Increment I, had fundamental internal control weaknesses. The OICW Program Office awarded contracts for the XM8 before having an approved warfighter requirement, and it did not obtain appropriate milestone decision approval before initiating the acquisition. The following three findings discuss those internal control issues.

- The OICW Program Office continued to develop the OICW Increment I even though the Joint Requirements Oversight Council had not approved warfighter requirements for Increment I. As a result, the OICW Program Office had no assurance that Increment I would satisfy warfighter requirements. Further, development of Increment I through the systems engineering process was adversely affected because the OICW Program Office did not have approved warfighter requirements to evolve into XM8 specifications and contract specifications to create an operationally effective and suitable system. During the audit, the Army withdrew \$10 million in FY 2006 research, development, test, and evaluation funds and Congress removed \$32.3 million in FY 2007 procurement funds from OICW Increment I. In addition, the Army plans to transfer the remaining \$547 million in FY 2008 through FY 2011 procurement funds to other small arms programs. Before committing or obligating any future resources to OICW Increment I, the Army Acquisition Executive needs to have a capability development document approved by the Joint Requirements Oversight Council (finding A).
- The Picatinny Center for Contracting and Commerce, U.S. Army TACOM Life Cycle Management Command* did not comply with Federal and DoD contracting requirements before awarding contract modifications to the overall OICW contract and a separate contract to accelerate the acquisition of the XM8. By not complying with contracting requirements, the Picatinny Center for Contracting and Commerce did not ensure that the contract modifications were competed, as

*Referred to in previous DoD Inspector General reports as the Tank-automotive and Armaments Command.

required. Further, the Picatinny Center for Contracting and Commerce awarded those contracting actions before obtaining the required justification in the form of an approved operational need statement for the XM8. The Picatinny Center for Contracting and Commerce needs to require its contracting officers to verify that contract modifications are within the scope of the contract statement of work before issuing contract modifications and within applicable requirements documents before awarding contracts. Further, the Picatinny Center for Contracting and Commerce needs to obtain a properly approved user-justification to support an urgent contracting requirement (finding B).

- The then-Program Executive Officer Soldier, without evident authority, issued an acquisition decision memorandum on June 11, 2003, that started an acquisition program for the XM8 carbine and authorized entry of the program into the system development and demonstration phase of the acquisition process. Further, the Program Executive Officer Soldier started the XM8 Program 9 months after the OICW Program Office authorized the contractor to start work on the XM8. Consequently, the OICW Program Office inappropriately spent \$33.3 million in research, development, test, and evaluation funds for the development of the XM8 Program, which later became OICW Increment I. To preclude this condition from reoccurring, the Army Acquisition Executive needs to modify the format of the Army Acquisition Information Management Database. The database should clearly show that milestone decision authority information is supported by designation letters from the Army Acquisition Executive and that program executive officers have been delegated milestone decision authority before issuing program acquisition decision memorandums (finding C).

(U) The Army internal controls for the OICW Program need to be strengthened. DoD Inspector General Report No. D-2006-004, "Acquisition of the Objective Individual Combat Weapon," October 7, 2005, addressed the material internal control weakness.

(U) Management Comments and Audit Response. We received comments from the Deputy for Acquisition and Systems Management, responding for the Assistant Secretary of the Army (Acquisition, Logistics, and Technology); the Program Executive Officer Soldier; and the Deputy Chief of Staff, U.S. Army TACOM Life Cycle Management Command. The Deputy for Acquisition and Systems Management concurred with the recommendation to have a capability development document approved by the Joint Requirements Oversight Council before committing or obligating any future resources to OICW Increment I and with the recommendation to modify the format of the Army Acquisition Information Management Database. The Deputy Chief of Staff nonconcurred with the recommendation to establish procedures that require contracting officers to verify, before award, that contract modifications are within the scope of the contract statement of work. However, he suggested corrective action that met the intent of the recommendation. The Deputy Chief of Staff also nonconcurred with the recommendation to obtain approved justification from the user to support an urgent requirement before issuing a contract action to accelerate a contract award and the acquisition process. See the Finding section of the report for a discussion of the management comments and the Management Comments section of the report for the complete text of the comments.

(U) Army contracting officers need to obtain operational need statements from users, as required, to verify that users have a validated urgent need to expedite a procurement action. This action is essential for contracting officers to fulfill their responsibility to safeguard the interest of the Army and to preclude the waste of taxpayer dollars. Therefore, we request that the Deputy Chief of Staff, U.S. Army TACOM Life Cycle Management Command reconsider his position on obtaining approved justification from the user to support an urgent need before issuing a contract action. We request that the Deputy Chief of Staff provide additional comments on the recommendation by October 30, 2006.

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Background (U)

(U) This report is the third in a series of reports on the overall management of the Objective Individual Combat Weapon (OICW) Increments I, II, and III. This report addresses requirements and systems engineering processes, contracting procedures, and milestone decision authority for the XM8 Program, which later became OICW Increment I. The OICW is a dual engagement weapon: its primary subsystem fires a 25-millimeter air bursting munition, and its secondary subsystem fires the standard 5.56-millimeter munition. The Army designed the OICW as a one-for-one replacement for selected M16 and M4 modular weapon systems in all rifle and anti-armor warfighter units. OICW Increment I is a kinetic energy family of small arms that include a carbine, special compact, designated marksman and a light machine gun. The Army designed the OICW Increment I as a one-for-one replacement for M16s, M4s, M249s, and select M9s throughout the U.S. Army. Appendix B is a glossary of technical terms used in this report.

(U) **Program Executive Office Soldier.** The Program Executive Office Soldier is the materiel developer of the OICW Program. The Program Executive Office Soldier's mission is to develop the best equipment and field it as quickly as possible so that soldiers remain second to none in missions that span the full spectrum of military operations. Reporting to the Program Executive Officer Soldier is the Project Manager Soldier Weapons who ensures that soldiers have needed weapons capabilities on present and future battlefields and maintains weapons' readiness for the Army through intensive management of the full acquisition life cycle. Reporting to the Project Manager Soldier Weapons is the Product Manager Individual Weapons who maintains and improves existing individual weapons, such as rifles, carbines, pistols, and grenade launchers for the Army and other Military Departments.

(U) **OICW Mission Need Statement.** In December 1993, the Assistant Deputy Chief of Staff of the Army for Operations and Plans, Force Development approved the OICW mission need statement. The mission need statement identified the requirement to engage primary targets, such as personnel protected with body armor or in improvised fortifications and tactical vehicles, and secondary targets, such as light armor and slow-moving aircraft. In a subsequent operational requirements document, the U.S. Army Infantry Center, which is the user representative,

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(U) **OICW Operational Requirements Document.** In February 2000, the U.S. Army Training and Doctrine Command approved the OICW operational requirements document for the dual engagement weapon. In March 2000, the Army Acquisition Executive approved the OICW as a new acquisition program.

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*Predecisional and source selection sensitive data omitted.

* * * * . In August 2000, the Picatinny Center for Contracting and Commerce, U.S. Army TACOM Life Cycle Management Command¹ awarded a contract for the development of the OICW.

(U) **Change in Acquisition Strategy.** In September 2001, when the OICW did not meet the threshold for the weight key performance parameter,

* * * * *

On September 9, 2002, the Project Manager Soldier Weapons, as the materiel developer, issued a memorandum of urgent requirement for the development of the XM8 lightweight carbine. The memorandum of urgent requirement was based on the ongoing requirement of the Program Executive Office Soldier to lighten the weight of equipment carried by warfighters. On September 13, 2002, the Project Manager Soldier Weapons, citing the urgent requirement, had the OICW contract modified to develop the XM8.

* * * * *

(U) **Incremental Evolutionary Development.** In January 2003, the Program Executive Officer Soldier briefed the Army Acquisition Executive on a new approach for incrementally developing the OICW subsystems. The Program Executive Officer proposed maturing two separate but parallel capabilities: the kinetic energy system (XM8 [Increment I]) and the stand-alone, high explosive, air bursting system (XM25 [Increment II]).

* * * * *

. In April 2003, the Picatinny Center for Contracting and Commerce issued a contract modification to the OICW contract that expanded the XM8 carbine to include four weapon variants, or a family of weapons.

(U)

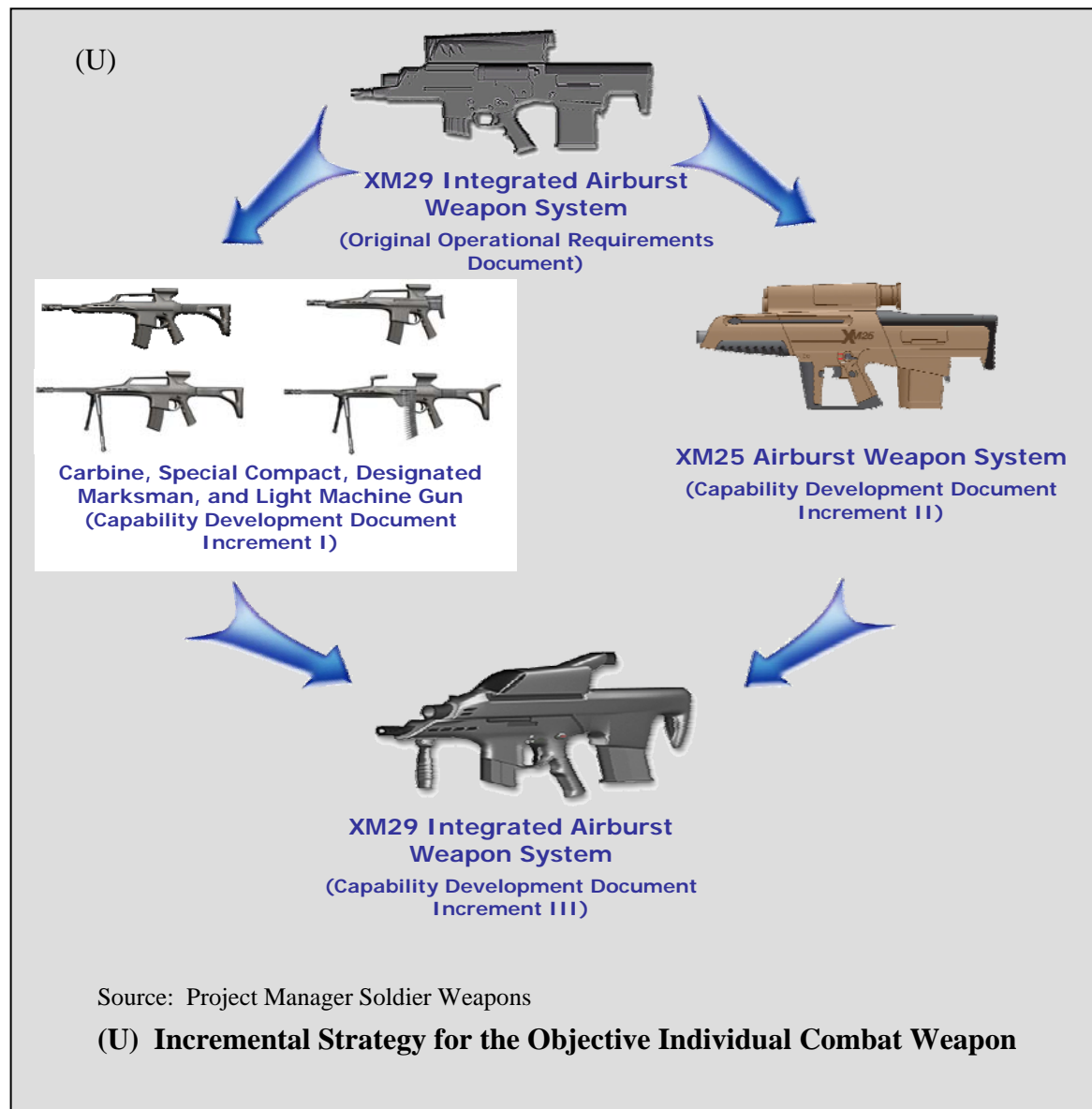
* Attorney-client privilege, predecisional and source selection sensitive data omitted.

¹Referred to in previous DoD Inspector General reports as the Tank-automotive and Armaments Command.

²(U)

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³(U) On April 1, 2005, the Army reorganized the Army Deputy Chief of Staff (G-3) into the Army Deputy Chief of Staff (G-3/5/7) responsible for operations, strategic plans and policy, force management, training, battle command, and capabilities integration. The reorganization was retroactively effective on November 16, 2004.



(U) * * * * * . In September 2004, the Army Deputy Chief of Staff G-3 issued a memorandum, “Analysis Supporting Objective Individual Combat Weapon (OICW) Increment I Milestone (MS) B Decision,” to the U.S. Army Training and Doctrine Command, initiating the analysis of alternatives.

(U) The OICW mission need statement and the February 2000 operational requirements document did not identify a need for a family of weapons. *
* * * *

* Attorney-client privilege, predecisional, and source selection sensitive data omitted.

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. Subsequently, the Army withdrew the Increment I capability development document from the Joint Requirements Oversight Council approval process after it conducted a review of its small arms strategy, according to the Assistant Secretary of the Army (Acquisition, Logistics, and Technology).

(U) OICW Increment I. Increment I, designated by the Under Secretary of Defense for Acquisition, Technology, and Logistics as a pre-Major Defense Acquisition Program, is a family of small arms. Variants of the Increment I include a carbine, a special compact, a designated marksman, and a light machine gun (see figure on previous page).

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(U) OICW Increment II. Draft documentation for Increment II states that it will fire 25-mm high explosive, air bursting munitions that will allow the soldier to acquire a target, day or night, using optical and thermal systems with a laser range finder.

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(U) OICW Increment III.

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(U) Overall Audit Project. This audit project is a continuation of work reported in DoD Inspector General Report No. D-2006-004, "Acquisition of the Objective Individual Combat Weapon," October 7, 2005. That report addressed internal control weaknesses associated with the program documentation, acquisition category classification, and approval of the OICW Increment I capability development document before entry into the systems development and demonstration phase of the acquisition process. In response to that report, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) stated that the Army had cancelled a request for proposal for OICW Increment I and that the Army was reassessing its total small arms capability gaps and materiel requirements. A subsequent audit report, DoD Inspector General Report No. D-2006-087, "Acquisition of the Objective Individual Combat Weapon Increments II and III," May 15, 2006, addressed the Army's completion of the requirements process for OICW Increments II and III. Appendix C contains a detailed timeline of events for the OICW Program.

*Attorney-client privilege, predecisional, and source selection sensitive data omitted.

Objectives (U)

(U) The primary audit objectives were to determine whether management was effectively implementing the requirements and systems engineering processes, adequately applying contracting and funding procedures, and adhering to procedures for assigning milestone decision authority to an individual for the XM8 Program, which later became Increment I of the OICW Program. We also evaluated the internal control program as it related to the audit objective. See Appendix A for a discussion of the scope and methodology and prior coverage related to the audit objectives.

Review of Internal Controls (U)

(U) **OICW Increment I Internal Control Weakness.** We identified a material weakness in the application of internal controls associated with the XM8 Program, which later became Increment I of the OICW Program, as defined by DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006. Although the internal controls outlined in the DoD 5000 series of guidance and Army Regulation 70-1, “Army Acquisition Policy,” December 31, 2003, were adequate for controlling the OICW acquisition, the Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) did not follow them for the XM8 Program. Specifically, the OICW Program Office awarded contracts for the XM8 before having an approved warfighter requirement, and it did not obtain appropriate milestone decision approval before initiating the acquisition.

(U) **OICW Prior Coverage Internal Control Weaknesses.** DoD Inspector General Report No. D-2006-004 and DoD Inspector General Report No. D-2006-087 also addressed internal control weaknesses associated with following the DoD 5000 series of guidance and Army Regulation 70-1. The first report addressed an internal control weakness associated with preparing OICW Increment I for entry into the system development and demonstration phase of the acquisition process. The second report addressed the Army’s completion of the requirements process for OICW Increments II and III.

(U) **Assessment of Program Executive Office Soldier’s Internal Controls.** DoD Inspector General Report No. D-2006-004 stated that, because of the internal control weakness, we would assess Program Executive Office Soldier’s internal controls for identifying the acquisition category of acquisition programs under Project No. D2005-D000AE-0224.000, “Audit of Army Acquisition Executive’s Management Oversight and Procurement Authority for Acquisition Category I and II Programs.” On that project, the auditors reviewed 21 Acquisition Category I and II programs, one of which was under the management oversight of the Program Executive Officer Soldier, to determine whether those programs were adequately managed by the milestone decision authority and the procurement authority. The auditors on that project did not review the OICW Program because of the prior and ongoing audit coverage.

A. Approval of Warfighter Requirements for OICW Increment I (U)

(U) The OICW Program Office continued to develop the OICW Increment I even though the Joint Requirements Oversight Council had not approved warfighter requirements for Increment I. This condition occurred because the OICW Program Office authorized the contractor to develop the XM8 using the requirement for a separable kinetic energy subsystem identified in the February 2000 operational requirements document for the original OICW. The OICW Program Office should have obtained an approved capability development document for the XM8 from the Joint Requirements Oversight Council as required before awarding contracts and contract modifications. By not completing the requirements process for the XM8 Program, which later became OICW Increment I, the OICW Program Office had no assurance that the XM8 would satisfy warfighter requirements. Further, the XM8 systems engineering process was adversely affected because the OICW Program Office did not have approved warfighter requirements to evolve into XM8 specifications and contract specifications to create an operationally effective and suitable system.

Evolutionary Acquisition and Capability Documentation Guidance (U)

(U) DoD Directive 5000.1, “The Defense Acquisition System,” May 12, 2003; DoD Instruction 5000.2, “Operation of the Defense Acquisition System,” May 12, 2003; and Chairman of the Joint Chiefs of Staff Instruction 3170.01E, “Joint Capabilities Integration and Development System,” May 11, 2005, provide guidance on evolutionary acquisition and capability documentation.

(U) **DoD Directive.** DoD Directive 5000.1 requires the Chairman of the Joint Chiefs of Staff to provide advice and assessment on military capability needs through validated and approved capabilities documents. Further, the directive requires acquisition programs to be managed through a systems engineering approach that optimizes total system performance and minimizes total ownership costs.

(U) **DoD Instruction.** DoD Instruction 5000.2 requires each increment in an evolutionary acquisition program to begin with a system development and demonstration decision followed by a production and deployment decision. The instruction identifies documents that support the system development and demonstration decision review, such as the capability development document. The chart in Appendix D depicts the acquisition documentation necessary to support a system development and demonstration decision review. In addition, the appendix identifies the acquisition documentation that the OICW Program Office has completed for XM8 Program as of July 2006.

(U) **Joint Chiefs of Staff Instruction.** Chairman of the Joint Chiefs of Staff Instruction 3170.01E states that the Under Secretary of Defense for Acquisition, Technology, and Logistics will advise on whether the applicable capability roadmaps are in place to achieve the desired objective. Further, the instruction states that the Joint Requirements Oversight Council is the final validation and approval authority for capability development documents for programs that have the potential for joint interest.

Approving Warfighter Requirements for Increment I (U)

(U) DoD Inspector General Report No. D-2006-004, “Acquisition of the Objective Individual Combat Weapon,” October 7, 2005, discussed the Army’s development of OICW Increment I without a capability development document approved by the Joint Requirements Oversight Council. In response, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) stated that OICW Increment I had a capability development document that the Army Requirements Oversight Council approved in * * *. However, the Army Requirements Oversight Council approved the capability development document about 2 years after the Picatinny Center for Contracting and Commerce placed the XM8 on contract. Consequently, when developing the XM8 through the systems engineering process, which transitions a stated warfighter need to an operationally effective and suitable system, the OICW Program Office was unable to provide XM8 system requirements to the prime and subcontractor. Instead, the prime and subcontractor negotiated with the OICW Program Office to establish the system specifications for the XM8. Even after we issued Report No. D-2006-004, the OICW Program Office continued to work on OICW Increment I without having a capability development document approved by the Joint Requirements Oversight Council.

(U) **Contract Modification.** On March 16, 2005, the Picatinny Center for Contracting and Commerce awarded contract modification P00068 to contract DAAE30-00-C-1065. The modification required the prime contractor, Alliant Techsystems Integrated Defense Company, to design, build, and deliver two target-acquisition and fire-control system interfaces and a separate battery mount for the OICW Increment I and to further develop Increment II.⁴ The expiration date for the modification was March 31, 2006.

(U) The Picatinny Center for Contracting and Commerce should not have included work on the XM8 in contract modification P00068 because the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) directed the Program Executive Officer Soldier and the Project Manager Soldier Weapons to conduct a nondevelopmental item competition for OICW Increment I in January 2005. On November 14, 2005, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) stated in response to DoD Inspector General Report No. D-2006-004 that a request for proposals for the nondevelopmental item competition for OICW Increment I was cancelled. A representative from the

*Source selection sensitive data omitted.

⁴(U) Contract modification P00068 to contract DAAE30-00-C-1065 referred to the XM8 and XM25 instead of OICW Increment I and II, respectively.

OICW Program Office stated that the work for OICW Increment I in contract modification P00068 was for Future Force Warrior Program experiments. The representative also stated that the Future Force Warrior Program changed its requirement from using the OICW Increment I to using the M4 carbine before the Army spent any funds on the work. However, the OICW Program Office did not have contract documentation to support those statements.

(U) February 2000 Operational Requirements Document for the OICW. The Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) believed that the OICW Program Office had an approved requirement for the XM8 because the February 2000 operational requirements document for the original OICW identified a requirement for a separable kinetic energy subsystem. Although the February 2000 operational requirements document states that the OICW will be reconfigurable into a stand-alone kinetic energy subsystem, the subsystem was to be employed when the use of bursting munitions was impractical and was to function with the target-acquisition and fire-control system. However, the XM8 under contract was not required to be capable of recombining with the airbursting XM25 (Increment II) to form the XM29 (OICW Increment III). Also, the prime and subcontractor did not design the XM8 to function with the target-acquisition and fire-control system. Further,

* * * * *

(U) Capability Development Document for OICW Increment I. The “Capability Development Document (CDD) for Objective Individual Combat Weapon (OICW), Increment I, ACAT [Acquisition Category] II,” August 16, 2004,

* * * * * . Specifically, the kinetic energy subsystem will provide performance not less than that of the M4 carbine firing the 5.56-mm ball cartridge. Further, * * *

* * *, as submitted to the Joint Capabilities Board for review, * *

* * * . Consequently,

* * * * * . After the Army conducted a review of its small arms strategy in September and October 2005, it withdrew the OICW Increment I capability development document from the Joint Requirements Oversight Council approval process, according to the Assistant Secretary of the Army (Acquisition, Logistics, and Technology).

(U) Systems Engineering Process.

* * * * * . In addition, the XM8 Program did not have a Joint Requirements Oversight Council approved capability development document. Consequently, the OICW Program Office agreed to modify the specifications to accommodate the prime and the subcontractor’s changes to the specifications to produce the XM8. A representative from the OICW Program Office stated

*Attorney-client privilege, predecisional, and source selection sensitive data omitted.

that the systems engineering work for the XM8 was documented through three technical reviews held between November 2002 and July 2003.

(U) November 2002 System Requirements Review. During the November 13, 2002, system requirements review held for the XM8, the OICW Program Office informed the prime and the subcontractor that no specific weapon requirements existed for the system. Consequently, the OICW Program Office negotiated the specifications with the prime and the subcontractor.

(U) December 2002 Preliminary Design Review. During the XM8 preliminary design review held on December 4 and 5, 2002, the prime and the subcontractor requested clarification on 15 of the requirements negotiated for the XM8 system. In addition, the prime and subcontractor proposed system specifications for meeting some of those requirements.

* * * * *

accepted the prime and the subcontractor's specifications for use in developing the weapon.

(U) July 2003 Critical Design Review. During the critical design review held on July 28 and 29, 2003, the prime contractor listed the compliance concerns it had with the XM8 family of four weapon variants. Instead of complying with the previously negotiated specifications for the system, the subcontractor recommended that the OICW Program Office change the specifications to meet what the subcontractor planned to produce. In response, the OICW Program Office agreed to modify the specifications to accommodate the prime and the subcontractor's changes to the specifications.

Effects of Approving Warfighter Requirements for Increment I (U)

(U) By not having an OICW Increment I capability development document that the Joint Requirements Oversight Council had approved, the OICW Program Office had no assurance that the XM8, which later became Increment I, would satisfy warfighter requirements. When, and if, the Joint Requirements Oversight Council approves a capability development document for the OICW Increment I, the OICW Program Office will likely incur additional costs to redesign the weapon to satisfy the warfighter requirements.

(U) Army Comptroller Reduction of Funds. During the audit, the OICW Program Office informed us that it did not intend to use the remaining \$10 million in FY 2006 research, development, test, and evaluation funds that were still committed to OICW Increment I. Subsequently, we met with a representative from the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) about those funds. The Office of the Assistant Secretary of the Army (Financial Management and Comptroller) then withdrew the \$10 million in FY 2006 research, development, test, and evaluation funds from OICW Increment I to put those funds to better use.

(U) Congressional Reduction of Funds. Based on DoD Inspector General Report No. D2006-004, Congress removed \$32.3 million in FY 2007 procurement

*Predecisional and source selection sensitive data omitted.

funds from OICW Increment I. Specifically, in the House of Representatives Committee on Armed Services Report 109-452, "National Defense Authorization Act for FY 2007," May 5, 2006, the committee stated that they believed the budget request for the OICW Increment I was not justified and recommended a decrease of \$32.3 million in FY 2007 procurement funds. The committee also recommended redistribution of those funds to other small arms programs as specified in the report based on urgent need and in support of the Army's restructured small arms acquisition strategy.

(U) Transfer of Remaining Procurement Funds. The House of Representatives Conference Report 109-359, December 18, 2005, requested that the Army provide a report detailing updated requirements, acquisition strategy, and schedule for OICW Increment I by January 29, 2006. On May 1, 2006, in response to the Conference Report, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) stated that the Army plans to transfer the remaining \$547 million in FY 2008 through FY 2011 procurement funds from OICW Increment I to other small arms programs.

Management Comments on the Finding and Audit Response (U)

(U) Summaries of management comments on the finding and audit responses are in Appendix H.

Recommendation and Management Comments (U)

(U) A. We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) not commit or obligate any future resources to fund or support OICW Increment I as an acquisition program until it has a capability development document approved by the Joint Requirements Oversight Council.

(U) Management Comments. The Deputy for Acquisition and Systems Management, responding for the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), concurred with the recommendation. He stated that the Army withdrew the OICW Increment I requirement and shifted funds to other critical small arms needs as the result of a review and update of the Army Small Arms Strategy by the U.S. Army Training and Doctrine Command. Further, the Deputy stated that the Army will program the necessary funds to address requirements for a family of small arms after the U.S. Army Training and Doctrine Command completes an analysis of the family of small arms and provides supportable requirements documents to the Joint Requirements Oversight Council for approval. For the complete text of the Deputy's comments, see the Management Comments section of this report.

B. Adherence to Contracting Requirements for the XM8 (U)

(U) The Picatinny Center for Contracting and Commerce did not comply with Federal and DoD contracting requirements before awarding contract modifications to the overall OICW contract and a separate contract to accelerate the acquisition of the XM8. This condition occurred because the:

- Picatinny Center for Contracting and Commerce did not establish procedures that required contracting officers to verify, before award, that contract modifications were within the scope of the contract statement of work and the approved requirements document that supports the original contract; and
- contracting officers at the Picatinny Center for Contracting and Commerce did not obtain justification from the user to support memorandums of urgent requirement that the then-Program Executive Officer Soldier and the OICW Program Office issued to accelerate the acquisition of the XM8.

(U) By not complying with contracting requirements, the Picatinny Center for Contracting and Commerce did not ensure that the contract modifications were competed, as required. Further, the Picatinny Center for Contracting and Commerce awarded those contracting actions before obtaining the required justification in the form of an approved operational need statement for the XM8.

Contracting Policy (U)

(U) The Federal Acquisition Regulation; the Defense Federal Acquisition Regulation Supplement; Army Regulation 71-9, "Materiel Requirements," April 30, 1997; and the U.S. Army TACOM Procurement Procedure, "Undefinitized Contractual Actions (UCAs)," April 19, 2001, provide policy guidance concerning the contracting process applicable to the XM8.

(U) **Federal Acquisition Regulation.** Federal Acquisition Regulation 6, "Competition Requirements," requires full and open competition for a contract action unless it qualifies as an exception to full and open competition. In addition, Federal Acquisition Regulation 43.201(a), "General," requires a change to be in the general scope of a contract for the change to be processed as a change order to that contract.

(U) **Defense Federal Acquisition Regulation Supplement.** Defense Federal Acquisition Regulation Supplement 217.7401, "Authorization," states that a contract action is an undertaking that results in a contract, which includes contract modifications for additional supplies or services. Further, it states that a contract action is neither a change order to a contract nor a contract modification if that modification is within the scope of the original contract.

(U) **Army Regulation.** Army Regulation 71-9 defines an operational need statement and explains the process for submittal and approval of the operational need statement.

(U) **U.S. Army TACOM Procurement Procedure.** U.S. Army TACOM Procurement Procedure, “Un definitized Contractual Actions (UCAs),” describes the process and contents of a statement of impact that supports the issuance of an un definitized contractual action.

Contract Modifications and New Contract for the XM8 (U)

(U) To accommodate work for the XM8, the Picatinny Center for Contracting and Commerce issued contract modifications to the overall OICW contract and awarded a separate contract for the XM8 family of weapons. Those contracting actions were not within the scope of the contract statement of work and February 2000 operational requirements document for the OICW. Further, the Picatinny Center for Contracting and Commerce did not obtain justification from the user to support the memorandums of urgent requirement that the Program Executive Officer Soldier and the OICW Program Office issued to accelerate the acquisition of the XM8. The Deputy Project Manager Soldier Weapons, a Picatinny contracting officer, and a Picatinny legal counsel representative stated that a memorandum of urgent requirement was another name for a statement of impact.

(U) **Scope of Contract Modifications.** On August 4, 2000, the Picatinny Center for Contracting and Commerce awarded contract DAAE30-00-C-1065 to Alliant Techsystems Integrated Defense Company, as the prime contractor. The contract award included Heckler and Koch as one of the subcontractors. The contract required Alliant Techsystems to provide ammunition for and systems integration of the OICW and Heckler and Koch to produce the kinetic energy and high explosive components of the OICW. The contract’s statement of work required the contractor to design the OICW to permit reconfiguration into a stand-alone, kinetic energy subsystem that uses a target-acquisition and fire-control system. The statement of work coincided with the requirements in the February 2000 operational requirements document for the OICW. The OICW contract was funded under the OICW Program Element No. 0603802A.

(U) The Picatinny Center for Contracting and Commerce issued two contract modifications, P00025 on September 13, 2002, and P00041 on April 23, 2003, as change orders to contract DAAE30-00-C-1065. Those contract modifications were also funded using the OICW Program Element No. 0603802A. The Picatinny Center for Contracting and Commerce should have issued those modifications as contract actions rather than change orders because those modifications were not within the scope of the statement of work or the February 2000 operational requirements document.

(U) **Contract Modification P00025.** The statement of work for P00025 required the XM8 to have maximum commonality with the XM29. Specifically, the statement of work stated, in part, that:

1.1 XM8 Requirements.

The XM8 will be developed from the XM29 Integrated Airburst Weapon System to meet user requirements for a lightweight carbine.

3.1.1 XM8 SD [System Demonstration] Performance Requirements.

The contractor shall develop an XM8 Carbine that meets the system performance requirements. The performance requirements for the XM8 are contained in the M4 MWS [modular weapon system] Specification. High risk/critical technical performance requirements and their associated thresholds for the SD phase are contained in Appendix B to this Statement of Work.

APPENDIX B-High Risk/Critical Performance Thresholds

Preliminary

Weight:

Threshold – 6 lbs [pounds]

Objective – 5 lbs

Weapon system cost: \$.6K [thousand] – Threshold

(U) The M4 modular weapon specification referenced in the statement of work did not require the XM8 to operate using a target-acquisition and fire-control system. The statement of work for contract DAAE30-00-C-1065 required the contractor to design the OICW to permit reconfiguration into a stand-alone, kinetic energy subsystem that uses a target-acquisition and fire-control system. Further, the operational requirements document for the OICW required a target-acquisition and fire-control system that functions with the OICW kinetic energy subsystem in the stand-alone mode or when integrated with the airburst capability. The modification was not within the scope of the original contract because the stand-alone XM8 did not have the capability to function using a target-acquisition and fire-control system.

(U) **Contract Modification P00041.** The statement of work for P00041 outlined the following requirements:

2. Requirements.

2.1 Four (4) weapon variants.

2.2 These XM8 variants will be based on development efforts under the current baseline XM8 development program and built to demonstrate the characteristics of the XM8 to meet user requirements for a future combat rifle.

2.3 Each prototype shall be capable of safely man-firing M855 5.56mm [millimeter] ball ammunition in semi-auto and automatic fire modes.

2.4 There shall be two hundred (200) XM8s produced. Each XM8 shall be fitted with Multiple Attachment Points at the top of the receiver, as well as top, bottom, left, and right sides forward of the receiver. The weapon design will be such that it will allow the new Multi-Function Aiming sight to be integrated to the upper receiver.

2.5 The XM8 will allow the mounting of a 40mm grenade launcher, the XM320, or Lightweight Shotgun System (LSS) below the 5.56mm barrel without the use of special tools. There shall also be a bayonet lug on each XM8.

(U) Contract modification P00041 was not within the scope of the original contract because:

- the XM8 family of weapons (four weapon variants) did not have the capability to function using a target-acquisition and fire-control system;
- the XM8 family of weapons was not required to maintain commonality with the XM29; and
- the original statement of work and the February 2000 operational requirements document did not require a multiconfigured weapon or a family of weapons as envisioned with the XM8.

Further, a representative from Alliant Techsystems agreed that the XM8 was not within the scope of the statement of work for contract DAAE30-00-C-1065.

(U) The Picatinny Center for Contracting and Commerce should have treated modifications P00025 and P00041 to contract DAAE30-00-C-1065 as contract actions instead of change orders. By incorrectly identifying those contract actions as change orders, the Picatinny Center for Contracting and Commerce circumvented competition requirements for full and open competition of contract actions. To ensure the proper use of contract actions, change orders, and full and open competition of contract actions, the Picatinny Center for Contracting and Commerce needs to establish procedures requiring contracting officers to verify that contract modifications are within the scope of the applicable requirements document and the original contract statement of work before issuing contract modifications.

(U) Support for Memorandums of Urgent Requirement. Defense Federal Acquisition Regulation Supplement 217.7404-1, "Authorization," requires the head of the contracting activity to sign a request for approval addressing the adverse impact on agency requirements before entering into an undefinitized contract action. Further, the U.S. Army TACOM Procurement Procedure states that the request for approval must include a statement of impact, which explains the need to begin performance before definitization, including the adverse impact on agency requirements resulting from delays in beginning performance. Army Regulation 71-9 states that an operational need statement is used to document the urgent need to correct a deficiency in the field. It requires the user to prepare an operational need statement for an urgent need and requires the Army Deputy Chief of Staff G-3/5/7 to be the approval authority for operational need statements.

(U) Memorandums of Urgent Requirement for Contract Modifications P00025 and P00041. To initiate and accelerate the acquisition of the XM8, the Picatinny Center for Contracting and Commerce issued contract modifications P00025 and P00041. Although the Picatinny Center for Contracting and Commerce considered those contract modifications to be change orders instead of contract actions, it requested memorandums of urgent requirement from the OICW Program Office to justify issuing the contract modifications. In response, the Deputy Project Manager Soldier Weapons and the Program Executive Officer Soldier issued memorandums of urgent requirement

for contract modifications P00025 and P00041, respectively. Contrary to the requirement in Army Regulation 71-9, the Picatinny Center for Contracting and Commerce did not require the user to submit the required justifications to support those memorandums of urgent requirement.

(U) The memorandum of urgent requirement, signed by the Deputy Project Manager Soldier Weapons on September 9, 2002, for contract modification P00025, requested the acceleration of the XM8 Program to achieve low-rate initial production approval in one year to provide the warfighter a critical capability sooner than expected. The memorandum of urgent requirement, signed by the Program Executive Officer Soldier on March 12, 2003, for contract modification P00041, requested that the contracting office expedite the issuance of a contract modification for 200 near-final solution prototypes of the XM8 lightweight carbine. In both cases, the Army Deputy Chief of Staff G-3/5/7 had neither received nor approved an operational need statement from the user to support the acceleration of the XM8 Program.

(U) Heckler and Koch Memorandum of Urgent Requirement.

On February 10, 2004, the Program Executive Officer Soldier signed a memorandum of urgent requirement to justify the letter contract for the tooling, design improvement, and fielding of the XM8 modular assault weapons (family of weapons). In response, on February 27, 2004, the Picatinny Center for Contracting and Commerce awarded a sole-source letter contract W15QKN-04-C-1074 to Heckler and Koch. The memorandum of urgent requirement stated that the Army Chief of Staff approved acceleration of the XM8 Program to supply two brigade combat teams with the XM8.

(U) The Commanding General, Third Infantry Division (Mechanized) submitted an operational need statement, dated March 17, 2004, to the Army Deputy Chief of Staff G-3/5/7 for an integrated modular assault weapon system in the form of the XM8. The Commanding General submitted the operational need statement after the date of the memorandum of urgent requirement. In addition, the Office of the Army Deputy Chief of Staff G-3/5/7 did not validate or approve the operational need statement. Consequently, when the Program Executive Officer Soldier signed the memorandum of urgent requirement, the Army had neither an urgent user need nor an approved operational need statement for the XM8 as a materiel solution to the need for an integrated modular assault weapon system. Without an operational need statement approved by the Army Deputy Chief of Staff G-3/5/7, the Picatinny Center for Contracting and Commerce did not have valid justification for accelerating the XM8 acquisition.

Effects of Contract Modifications and a Contract for the XM8 to Support Urgent Requirements (U)

(U) By not complying with contracting requirements, the Picatinny Center for Contracting and Commerce did not ensure that the contract modifications were competed, as required. Further, without an approved operational need statement for the XM8, the Picatinny Center for Contracting and Commerce did not have valid justification to award the contract modifications to the overall OICW contract and the separate contract for the XM8.

Management Comments on the Finding and Audit Response (U)

(U) Summaries of management comments on the finding and audit responses are in Appendix H.

Recommendations, Management Comments, and Audit Response (U)

(U) **B. We recommend that the Executive for Contracting, Picatinny Center for Contracting and Commerce, U.S. Army TACOM Life Cycle Management Command:**

1. Establish procedures that require its contracting officers to verify, before award, that contract modifications are within the scope of the contract statement of work, as required in Federal Acquisition Regulation 43.2, “Change Orders.”

(U) **Management Comments.** The Deputy Chief of Staff, U.S. Army TACOM Life Cycle Management Command nonconcurred with the recommendation. He stated that although his command nonconcurs with the recommendation, the Picatinny Center for Contracting and Commerce will formalize a standing operating procedure. The procedure will address the inclusion of a bona fide change determination memorandum for any modification that requires a change to the existing contract terms and conditions. For the complete text of the Deputy’s comments, see the Management Comments section of this report.

(U) **Audit Response.** The comments from the Deputy Chief of Staff were responsive. Although the Deputy nonconcurred with the recommendation, the action taken by the Picatinny Center for Contracting and Commerce to formalize a standing operating procedure satisfied the intent of the recommendation. Therefore, no further comments are required.

2. Obtain justification from the user, in the form of an operational need statement approved by the Army Deputy Chief of Staff G-3/5/7, to support an urgent requirement before issuing a contract action to initiate and accelerate a contract award and the acquisition process, as required in Army Regulation 71-9, “Materiel Requirements,” April 30, 1997.

(U) **Management Comments.** The Deputy Chief of Staff, U.S. Army TACOM Life Cycle Management Command nonconcurred with the recommendation. He stated that Defense Federal Acquisition Regulation Supplement 217.7404-1, “Authorization,” delineates the contracting officer’s authority to enter into an undefinitized contract action. He provided specific guidance from that reference. In addition, the Deputy Chief of Staff stated that U.S. Army TACOM Delegation of Authority No. 04-02, “Authority to Issue Undefinitized Contractual Actions and Allow Use of a Letter Contract,” February 2, 2004, provides guidance concerning the delegation of authority. He also provided specific guidance from

the delegation of authority. The Deputy Chief of Staff concluded that the reasons for not concurring with the recommendation were that:

- no regulations exist requiring an operational need statement before awarding an undefinitized contract action;
- field commanders can use an operational need statement to request mission-essential items from any source, not just the acquisition community; and
- an undefinitized contract action can be issued for many purposes, not just for the acquisition of urgent materiel, and requiring an operational need statement for all undefinitized contract actions would inadvertently circumvent a customer's program.

(U) Audit Response. The comments from the Deputy Chief of Staff were nonresponsive. He disregarded the obligation of contracting officers to safeguard the interests of the United States before issuing undefinitized contract actions. Federal Acquisition Regulation 1.602-2, "Applicability," states that contracting officers are responsible for:

- ensuring performance of all necessary actions for effective contracting,
- ensuring compliance with the terms of the contract, and
- safeguarding the interests of the United States in its contractual relationships.

Safeguarding the U.S. interests includes complying with Army Regulation 71-9, "Materiel Requirements," April 30, 1997. Army Regulation 71-9 requires the operational field commanders (the user) to use an operational need statement to document an urgent need for a materiel solution to correct a deficiency or to improve a capability that affects mission accomplishment. Further, the Regulation states that the materiel developer, the combat developer, or the training developer organizations will not initiate or develop an operational need statement. The Regulation requires the Army Deputy Chief of Staff G-3/5/7 to return operational need statement submitted by those organizations without action.

(U) The contracting officer at the Picatinny Center for Contracting and Commerce, who issued the contract actions, did not safeguard the U.S. interests when accepting memorandums of urgent requirement from the Program Executive Officer Soldier and OICW Program Office. The contracting officer issued the undefinitized contract actions without having operational need statements from the user to develop and produce the XM8. Specifically, an operational need statement was submitted to the Army Deputy Chief of Staff G-3/5/7 1 month after the last memorandum of urgent requirement had been issued. The Army Deputy Chief of Staff G-3/5/7 did not approve the operational need statement. In addition, the Joint Requirements Oversight Council had not validated the capability development document to develop and produce the XM8. By not safeguarding U.S. interests, the contracting officer wasted \$33.3 million of Army and taxpayer dollars to accelerate the development and production of the XM8.

(U) The recommendation was not intended to apply to all undefinitized contractual actions, just those undefinitized contractual actions that are issued based on an urgent need. Accordingly, we request that the Deputy Chief of Staff, U.S. Army TACOM Life Cycle Management Command reconsider his position on Recommendation B.2. in response to the final report.

C. Designation of Milestone Decision Authority for the XM8 (U)

(U) On June 11, 2003, the then-Program Executive Officer Soldier, without evident authority, issued an acquisition decision memorandum. That memorandum started the XM8 as an acquisition program and authorized entry of the program into the system development and demonstration phase of the acquisition process. Further, the Program Executive Officer Soldier approved the start of the XM8 Program 9 months after the OICW Program Office authorized the contractor to start work on the XM8. This condition occurred because of confusion over the Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) procedures concerning the entry and use of milestone decision authority information in the Army Acquisition Information Management Database for Army acquisition programs that had not been started. As a result, the OICW Program Office inappropriately spent \$33.3 million in research, development, test, and evaluation funds for the development of the XM8, which later became the OICW Increment I.

Milestone Decision Authority Policy (U)

(U) DoD Directive 5000.1, "The Defense Acquisition System," May 12, 2003, and Army Regulation 70-1, "Army Acquisition Policy," December 31, 2003, provide guidance on the responsibilities and designation of milestone decision authorities.

(U) **DoD Directive.** DoD Directive 5000.1 states that the milestone decision authority is the designated individual with overall responsibility for a program, including the authority to approve entry of an acquisition program into the next phase of the acquisition process.

(U) **Army Regulation.** Army Regulation 70-1 identifies the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) as the Army Acquisition Executive and as the milestone decision authority for Acquisition Category IC and II programs. The regulation states that the Army Acquisition Executive may designate the milestone decision authority for Acquisition Category II programs to a level no lower than the program executive officer.

Designation of Milestone Decision Authority (U)

(U) **Designation of Milestone Decision Authority for the OICW Program and the XM8.** On April 4, 2001, the Army Acquisition Executive issued a memorandum in which he designated himself as the milestone decision authority for the OICW Program. However, on April 19, 2003, the Army Acquisition

Information Management Database⁵ (the Database), maintained by the Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), identified the Program Executive Officer Soldier as the milestone decision authority for the XM8. An administrative note for the XM8 in the Database stated that the Program was added to the Database “per PEO [Program Executive Officer] request.” Appendix E further discusses the Army Acquisition Information Management Database.

(U) In September 2005, we asked the Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) for documentation to confirm the designation of the Program Executive Officer Soldier as the milestone decision authority for the XM8. In response to DoD Inspector General Report No. D-2006-004, “Acquisition of the Objective Individual Combat Weapon,” October 7, 2005, the Office of the Assistant Secretary stated that the Database identified Program Executive Officer Soldier as the milestone decision authority for the XM8 Program as of June 11, 2003. However, as of July 2006, the Office of the Assistant Secretary did not have documentation indicating that the Program Executive Officer Soldier was ever designated as the milestone decision authority for the XM8. Further, in addition to listing the XM8, the Database listed the OICW Program separately and showed the Assistant Secretary as the milestone decision authority for that program.

(U) Change of Research, Development, Test, and Evaluation Funding. Although the Program Executive Officer Soldier was not designated the milestone decision authority for the XM8, on June 11, 2003, he issued an acquisition decision memorandum⁶ that initiated the start of the XM8 Program, which later became OICW Increment I. As a result of that memorandum, the XM8 entered into the system development and demonstration phase of the acquisition process. When the XM8 entered the system development and demonstration phase, the research, development, test, and evaluation funding used for the development of the XM8 changed from Budget Activity 4, Advanced Component Development and Prototypes, to Budget Activity 5, System Development and Demonstration. As shown in Appendix D, the XM8 Program did not comply with requirements for research, development, test, and evaluation funding.

(U) As a result, the OICW Increment I Program was not approved by proper authority for program initiation and entry into the system development and demonstration phase of the acquisition process. Further, the Program entered that acquisition phase before the Joint Requirements Oversight Council, representing the warfighter, validated a capability development document justifying a need for OICW Increment I.

⁵(U) The Army Acquisition Information Management Database lists Army programs along with their respective descriptions, acquisition phases, milestone decision authorities, acquisition categories, and other pertinent information.

⁶(U) See Appendix F for the June 11, 2003, acquisition decision memorandum issued by the Program Executive Officer Soldier.

(U) Retention of Milestone Decision Authority by the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) for the OICW Program.

On May 2, 2005, the Program Executive Officer Soldier issued a memorandum to the Army Acquisition Executive requesting that he designate the milestone decision authority for the 376 programs, including OICW Program Increments I, II, and III, on the Program Executive Office Soldier Oversight List. The Oversight List showed the Program Executive Officer Soldier as the milestone decision authority for OICW Increments I and II and the Army Acquisition Executive as the milestone decision authority for OICW Increment III.

(U) On September 16, 2005, in response to the May 2, 2005, Program Executive Officer Soldier memorandum, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), the Army Acquisition Executive, issued a memorandum stating that, although the OICW Program was shown as three distinct Acquisition Category II programs on the Program Executive Officer Soldier Oversight List, the OICW was one program with three increments. Further, the Assistant Secretary stated that the OICW Program was being reviewed for possible redesignation as an Acquisition Category I, Major Defense Acquisition Program. The Assistant Secretary stated that until the acquisition category issue for the OICW Program was resolved, he would retain milestone decision authority for the OICW Program. He also designated the OICW as an Acquisition Category IC program. See Appendix G for the September 16, 2005, memorandum issued by the Assistant Secretary of the Army (Acquisition, Logistics, and Technology).

(U) Entering Milestone Decision Authority Information Into the Army Acquisition Information Management Database. The Database is a management tool and does not constitute official documentation of milestone decision authority designation. When the systems administrator for the Database inputs a program that has not yet entered the system development and demonstration phase of the acquisition process, and that is expected to be an Acquisition Category II or III program upon program start, the administrator designates the program executive officer of the responsible organization for the program as a point of contact under the data field for milestone decision authority. This procedure could confuse the users of the Database because the program executive officer appears to have been designated as the milestone decision authority. However, only the Army Acquisition Executive has the authority to designate the milestone decision authority for Acquisition Category II and III programs.

(U) To preclude misunderstandings about who has milestone decision authority for a program, the system administrator needs to modify the procedures for entering milestone decision authority information into the Database. Specifically, the system administrator should not enter data into the milestone decision authority data field until the Army Acquisition Executive designates a milestone decision authority for a program and the system administrator has official documentation of that designation. Without this internal control, a program could be initiated by an individual other than the officially designated milestone decision authority, as occurred with the OICW Program.

Effects of Authorizing the Start of an Acquisition Program (U)

(U) By having an undesignated official act as the milestone decision authority and start the XM8 as an acquisition program, the OICW Program Office inappropriately spent \$33.3 million in research, development, test, and evaluation funds for the development of the XM8.

Management Comments on the Finding and Audit Response (U)

(U) Summaries of management comments on the finding and audit responses are in Appendix H.

Recommendation and Management Comments (U)

(U) **C.** We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) modify the procedures for entering milestone decision authority information into the Acquisition Information Management Database for a program. Specifically, the system administrator should not enter data into the milestone decision authority data field until the Army Acquisition Executive designates milestone decision authority and the system administrator has official documentation of that designation.

(U) **Management Comments.** The Deputy for Acquisition and Systems Management, responding for the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), concurred with the recommendation. For the complete text of the Deputy's comments, see the Management Comments section of this report.

Appendix A. Scope and Methodology

(U) To accomplish the audit objectives, we reviewed the following documentation and information dated from December 1993 through June 30, 2006:

- program documents including the OICW mission need statement, December 9, 1993; the OICW operational requirements document, February 11, 2000; the OICW Increment I acquisition strategy, February 2005; the Army Requirements Oversight Council-approved OICW capability development document, October 2004; XM8 System Requirements Review, November 13, 2002; XM8 Preliminary Design Review, December 4 and 5, 2002; XM8 Critical Design Review, July 28 through 29, 2003;
- contractual documents for the OICW, including contract DAAE30-00-C-1065 with Alliant Techsystems Integrated Defense Company, contract W15QKN-04-C-1074 with Heckler and Koch, Justification and Approval for Other than Full and Open Competition for the Heckler and Koch letter contract W15QKN-04-C-1074, December 2003;
- R-2A Exhibit, “Army RDT&E [Research, Development, Test, and Evaluation] Budget Item Justification,” for 0603802A-Weapons and Munitions-Advanced Development, Project AS3, February 2003; and R-2A Exhibit, “Army RDT&E [Research, Development, Test, and Evaluation] Budget Item Justification,” for 0604802A-Weapons and Munitions-Engineering Development, Project 134, February 2004;
- Project Manager Soldier Weapons memorandum, “Urgent U.S. Army Requirement for the XM8 Lightweight Carbine,” September 9, 2002; Program Executive Officer Soldier memorandum, “Urgent United States Army Requirement for 200 XM8 Lightweight Carbines,” March 12, 2003; Program Executive Officer Soldier memorandum, “Urgent U.S. Army Requirement for Tooling, Design Improvement and XM8 Modular Assault Weapons to Support Fielding of the XM8 to Two Brigade Combat Teams in the 2nd Quarter of FY05,” February 10, 2004; Program Executive Officer Soldier memorandum, “Milestone Decision Authority (MDA) Designation for PEO [Program Executive Officer] Soldier Programs,” May 2, 2005; and Program Executive Officer Soldier memorandum, “Acquisition Decision Memorandum for 5.56 mm [millimeter], XM8, Light Weight Carbine,” June 11, 2003;
- Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) memorandum, “Delegation of Milestone Decision Authority for Selected Acquisition Category II Programs,” April 4, 2001; and Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) memorandum, “Milestone Decision Authority (MDA) Designation for Program Executive Officer (PEO) Soldier Programs,” September 16, 2005; Major General, Third Infantry

Division (Mechanized) memorandum, "Operational Need Statement for an Integrated Modular Assault Weapon System," March 17, 2004;

- management principles and mandatory policies for acquisition programs in DoD Directive 5000.1, DoD Instruction 5000.2, and the Defense Acquisition Guidebook; and management control provisions and key internal controls in Army Regulation 70-1 and Army Regulation 71-9;
- contracting principles and mandatory policies for acquisition programs in the Federal Acquisition Regulation, Defense Federal Acquisition Regulation Supplement, and the U.S. Army TACOM Procurement Procedure; and
- House of Representatives Committee on Armed Services Report 109-452, "National Defense Authorization Act for FY 2007," May 5, 2006.

(U) We also contacted the staffs of the Offices of the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Assistant Secretary of the Army (Acquisition, Logistics, and Technology); the Joint Staff; the Army Deputy Chief of Staff G-3/5/7; the Assistant Secretary of the Army (Financial Management and Comptroller); the U.S. Army Infantry Center; the Program Executive Officer Soldier; the Project Manager Soldier Weapons; the Product Manager Individual Weapons; the Picatinny Center for Contracting and Commerce; the U.S. Army Armament Research, Development and Engineering Command; and the Defense Contract Management Agency to determine whether management was effectively implementing the requirements and systems engineering processes, adequately applying contracting and funding procedures, and applying procedures for assigning milestone decision authority responsibilities to an individual. In addition, we contacted contractor representatives from Alliant Techsystems Integrated Defense Company and Heckler and Koch to determine the contractor's perspective concerning the acquisition of the XM8 weapon system.

(U) We performed this audit from March 2006, through June 2006, in accordance with generally accepted government auditing standards. This audit project also included data gathered between October 2005 and February 2006 as part of DoD Inspector General Report No. D-2006-087, "Acquisition of the Objective Individual Combat Weapon Increments II and III," May 15, 2006.

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

(U) Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Weapon Systems Acquisition high-risk area.

Prior Coverage

(U) During the last 5 years, the DoD Inspector General has issued two reports addressing the OICW Program. Unrestricted DoD Inspector General Reports can be accessed at <http://www.dodig.mil/audit/reports>.

DoD Inspector General Report No. D-2006-087, "Acquisition of the Objective Individual Combat Weapon Increments II and III," May 15, 2006

DoD Inspector General Report No. D-2006-004, "Acquisition of the Objective Individual Combat Weapon," October 7, 2005

Appendix B. Glossary (U)

(U) Acquisition Category. An acquisition category facilitates decentralized decision making and execution and compliance with statutory requirements. The categories determine the level of review, decision authority, and applicable procedures. The following are definitions for Acquisition Categories I and II:

Acquisition Category I. An acquisition category I program is defined as a major Defense acquisition program estimated by the Under Secretary of Defense for Acquisition, Technology, and Logistics to require an eventual expenditure of research, development, test, and evaluation funds of more than \$365 million in FY 2000 constant dollars, or of procurement funds of more than \$2.19 billion in FY 2000 constant dollars, or is designated by the Under Secretary of Defense for Acquisition, Technology, and Logistics to be an Acquisition Category I program. Acquisition Category I programs have two subcategories: Acquisition Category ID and Acquisition Category IC. The Under Secretary of Defense for Acquisition, Technology, and Logistics designates programs as Acquisition Category ID or IC.

Acquisition Category ID. For this category, the Under Secretary of Defense for Acquisition, Technology, and Logistics is the milestone decision authority. The “D” refers to the Defense Acquisition Board that advises the Under Secretary of Defense for Acquisition, Technology, and Logistics at major decision points.

Acquisition Category IC. For this category, the DoD Component Head or, if delegated, the DoD Component Acquisition Executive is the milestone decision authority. The “C” refers to Component.

Acquisition Category II. An Acquisition Category II program is an acquisition program that does not meet the criteria for an Acquisition Category I program, but does meet the criteria for a major system. A major system is defined as a program estimated by the DoD Component Head to require an eventual expenditure of research, development, test, and evaluation funds of more than \$140 million in FY 2000 constant dollars, or of procurement funds of more than \$660 million in FY 2000 constant dollars, or those designated by the DoD Component Head to be an Acquisition Category II program.

(U) Acquisition Decision Memorandum. An acquisition decision memorandum is a memorandum signed by the milestone decision authority. The memorandum documents the decisions made as a result of a milestone decision review.

(U) Acquisition Program Baseline. An acquisition program baseline prescribes the key performance, cost, and schedule constraints approved by the milestone decision authority as criteria for allowing a program to proceed into the next phase of the acquisition process.

(U) Acquisition Strategy. An acquisition strategy is a business and technical management approach designed to achieve program objectives within the resource

constraints imposed. It is the framework for planning, directing, contracting for, and managing a program. It provides a master schedule for research, development, test, production, fielding, modification, post-production management, and other activities essential for program success. The acquisition strategy is the basis for formulating functional plans and strategies.

(U) Affordability Assessment. An affordability assessment demonstrates that a program's projected funding and human resources requirements are realistic and achievable in the context of the DoD Component's overall long-range modernization plan.

(U) Analysis of Alternatives. The analysis of alternatives is the evaluation of the operational effectiveness, operational suitability, and estimated costs of alternative systems to meet a mission capability. The analysis assesses the advantages and disadvantages of alternatives being considered to satisfy capabilities, including the sensitivity of each alternative to possible changes in key assumptions or variables.

(U) Army Acquisition Executive. The Army Acquisition Executive is responsible for all acquisition functions within the Army. The Secretary of the Army delegated this authority to the Assistant Secretary of the Army (Acquisition, Logistics, and Technology).

(U) Army Requirements Oversight Council. The Army Requirements Oversight Council advises the Army Chief of Staff on Army warfighting capabilities, and reviews capabilities documents and makes recommendations. For requirements documents requiring Joint Requirements Oversight Council action, the Army Requirements Oversight Council will recommend approval of the documents and then forward them to the Joint Requirements Oversight Council.

(U) Budget Activity 3. DoD Regulation 7000.14, "Financial Management Regulation," Volume 2B, Chapter 5, June 2004, states that Budget Activity 3, Advanced Technology Development, in the research, development, test, and evaluation appropriation, is used to develop subsystems, components, and efforts to integrate subsystems and components into system prototypes for field experiments, tests in a simulated environment, or both. Budget Activity 3 is primarily used to fund development efforts before a program enters the technology development phase of the acquisition process.

(U) Budget Activity 4. DoD Regulation 7000.14, "Financial Management Regulation," Volume 2B, Chapter 5, June 2004, states that Budget Activity 4, Advanced Component and Prototypes, in the research, development, test, and evaluation appropriation, is used to fund system-specific efforts that expedite technology transition from the laboratory to operational use. Budget Activity 4 is used to fund development efforts before a program enters the system development and demonstration phase of the acquisition process.

(U) Budget Activity 5. DoD Regulation 7000.14 states that Budget Activity 5, System Development and Demonstration, in the research, development, test, and evaluation appropriation, is used to fund programs that have entered the system

development and demonstration phase of the acquisition process and are conducting engineering and manufacturing development tasks to meet validated requirements before full-rate production.

(U) Capability Development Document. A capability development document contains the information necessary to develop a proposed program, normally using an evolutionary acquisition strategy. The capability development document outlines an affordable increment of militarily useful, logistically supportable, and technically mature capability. The capability development document should be approved before the system development and demonstration decision review.

(U) Change Order. A change order is a unilateral order signed by a Government contracting officer. It directs the contractor to make a change authorized by the Federal Acquisition Regulation's "Changes" clause without the contractor's consent.

(U) Cost Analysis Requirements Description. A cost analysis requirements description describes the most significant features of an acquisition program and its associated system. It describes the technical and programmatic features that are used to prepare the program office cost estimate, component cost analysis, and independent life-cycle cost estimates.

(U) Evolutionary Acquisition. An evolutionary acquisition delivers capability in increments, recognizing up front the need for future capability improvements. There are two approaches to achieving an evolution acquisition: spiral development and incremental development.

- **Spiral Development.** A desired capability is identified, but the end-state requirements are not known at program initiation. Requirements are refined through demonstration, risk management, and continuous user feedback. Each increment provides the best possible capability, but the requirements for future increments depend on user feedback and technology maturation.
- **Incremental Development.** A desired capability is identified and an end-state requirement is known. The requirement is met over time by developing several increments, each dependent on available mature technology.

(U) Full and Open Competition. Full and open competition for a contract means that all responsible sources are permitted to compete.

(U) Full-Rate Production and Deployment. Full-rate production and deployment is the second effort of the production and deployment phase of the acquisition process. This effort follows a successful full-rate production decision review. In this phase, the system is produced at full-rate and deployed to the field. This phase overlaps the operations and support phase because fielded systems are operated and supported while full-rate production is ongoing.

(U) Independent Cost Estimate. An independent cost estimate is a life-cycle cost estimate for an Acquisition Category I program that is prepared by an office or other entity not under the supervision, direction, or control of the Military

Department, Defense agency, or other DoD Component that is responsible for developing or acquiring the program. If the DoD Component is the decision authority, then the independent cost estimate is prepared by an office or other entity that is not responsible for developing or acquiring the program.

(U) Initial Capabilities Document. An initial capabilities document describes a need for a materiel approach to a specific capability gap resulting from an initial analysis of materiel approaches by the operational user and an independent analysis of materiel alternatives, as required. The initial capabilities document defines the gap in terms of the functional area, the relevant range of military operations, desired effects and time. It also summarizes the results of doctrine, organization, training, materiel, leadership, personnel, and facilities analyses; and describes why nonmateriel changes are inadequate to provide the desired capability.

(U) Joint Capabilities Board. The Joint Capabilities Board assists the Joint Requirements Oversight Council in performing its duties and responsibilities. The Joint Capabilities Board reviews and, if appropriate, endorses all proposals for the Joint Capabilities Integration and Development System and the Doctrine, Organization, Training, Materiel, Leadership, Personnel, and Facilities Analysis before they are submitted to the Joint Requirements Oversight Council. The Joint Capabilities Board is chaired by the Joint Staff Director for Force Structure, Resources, and Assessment.

(U) Joint Capabilities Integration and Development System. The Joint Capabilities Integration and Development System supports the Chairman, Joint Chiefs of Staff and the Joint Requirements Oversight Council in identifying, assessing, and prioritizing joint military capability needs as required by law.

(U) Joint Requirements Oversight Council. The Joint Requirements Oversight Council validates and approves the Joint Capabilities Integration and Development System documents for programs of interest to the Joint Requirements Oversight Council.

(U) Justification and Approval. A justification and approval is a document required by the Federal Acquisition Regulation to justify and obtain approval for contract solicitations that use other than full and open competition.

(U) Key Performance Parameters. Key performance parameters are capabilities considered to be so significant that failure to meet them is cause for a system or program to be reevaluated, reassessed, or terminated.

(U) Low-Rate Initial Production. Low-rate initial production is the first effort of the production and deployment phase of the acquisition process. The purpose of this effort is to establish an initial production base for the system, permit an orderly ramp-up sufficient to lead to a smooth transition to full-rate production, and to provide production-representative articles for initial operational test and evaluation and live-fire testing.

(U) Major Defense Acquisition Program. A major Defense acquisition program is one that the Under Secretary of Defense for Acquisition, Technology,

and Logistics designates as a major Defense acquisition program, or is estimated to require an eventual total expenditure for research, development, test and evaluation of more than \$365 million in FY 2000 constant dollars or, for procurement, of more than \$2.19 billion in FY 2000 constant dollars.

(U) Manpower Estimate. A manpower estimate is an estimate of the number of people required to operate, maintain, support, and train for the acquisition when it is deployed. A manpower estimate is required for all Acquisition Category I programs.

(U) Materiel Solution. A materiel solution is a Defense acquisition program (nondevelopmental, modification of existing systems, or new program) that satisfies or is a primary basis for satisfying identified warfighter capabilities. For family-of-system approaches, an individual materiel solution may not fully satisfy a capability gap on its own.

(U) Milestone Decision Authority. The milestone decision authority is the designated individual who has the overall responsibility for a program and is accountable for cost, schedule, and performance reporting to higher levels of management. The milestone decision authority has the authority to approve the program's entry into the next phase of the acquisition process.

(U) Mission Need Statement. A mission need statement is a statement of the operational capabilities needed to meet a specific threat.

(U) Modular Weapon System. A modular weapon system is the generic term for various devices and accessories on firearm systems. A modular weapon system adds flexibility and adaptability to many proven designs.

(U) Nondevelopmental Item. A nondevelopmental item is any previously developed supply item used exclusively for Government purposes and that requires only minor modifications or modifications available commercially to meet the requirements.

(U) Operational Need Statement. Operational field commanders use an operational need statement to document the urgent need for a materiel solution to correct a deficiency or to improve a capability that affects mission accomplishment. The operational need statement provides an opportunity to the field commander, outside of the acquisition and combat development and training development communities, to initiate the requirements determination process. The operational need statement is not a materiel requirements document.

(U) Operational Requirements Document. An operational requirements document lists the operational performance parameters for the proposed concept or system.

(U) Operational Test and Evaluation. Operational test and evaluation is field testing, under realistic conditions, of any item or component of weapons, equipment, or munitions to determine its effectiveness and suitability for use in combat by typical military users and the evaluation of the results of such tests.

(U) Request for Proposal. A request for proposal is a solicitation used in negotiated acquisitions to communicate Government requirements to prospective contractors.

(U) Research, Development, Test, and Evaluation Budget. Research, development, test, and evaluation funds are those appropriated for basic research; applied research; advanced technology development; system development and demonstration; research, development, test, and evaluation management support; and operational systems development.

(U) Statement of Assurance. The statement of assurance indicates whether the Managers' Internal Control Program meets the standards, goals, and objectives of management controls.

(U) Statement of Work. The statement of work is the portion of a contract that establishes and defines all nonspecification requirements for contractor's efforts either directly or with the use of specific cited documents.

(U) System Development and Demonstration. The system development and demonstration phase is the third phase of the DoD systems acquisition process. It begins after the milestone decision to enter this phase, and consists of system integration and system demonstration. It contains a design readiness review at the conclusion of the system integration effort. DoD Instruction 5000.2, "Operation of the Defense Acquisition System," May 12, 2003, states that entry into the systems development and demonstration phase of the acquisition process occurs at Milestone B, which is also the point of program initiation for an acquisition program.

(U) Systems Engineering. Systems engineering is the overarching process that a program team applies to transition from a stated capability need to an operationally effective and suitable system. Systems engineering encompasses the application of systems engineering processes across the acquisition life cycle (adapted to each phase). It is intended to be the integrating mechanism for balanced solutions addressing capability needs, design considerations, and constraints, as well as limitations imposed by technology, budget, and schedule. The systems engineering processes are applied early in concept definition, and then continuously throughout the life cycle.

(U) Technical Reviews. Each acquisition phase of a program involves a number of technical reviews. The purpose of these reviews is to provide the program manager with an integrated technical assessment of program technical risk and readiness to proceed to the next technical phase of effort. The following are three kinds of technical reviews.

System Requirements Review. The system requirements review is conducted to ensure that the system under review can proceed into the system development and demonstration phase of the acquisition process. The review also makes certain that system and performance requirements derived from the initial capabilities document or draft capability development document are defined and remain consistent with the preferred system solution.

Preliminary Design Review. The preliminary design review is conducted to ensure that the system under review can proceed into detailed design and can meet stated performance requirements with cost, schedule, risk and other system constraints. The review is normally conducted during the early part of the system development and demonstration phase after all major design issues have been resolved.

Critical Design Review. The critical design review is conducted to ensure that system under review can proceed into system fabrication, demonstration, and test and can also meet stated requirements with cost, schedule, risk, and other system constraints. The review is normally conducted during the system development and demonstration phase once the “build-to” baseline has been achieved.

(U) Technology Development. The technology development phase is the second phase of the DoD systems acquisition process and starts after a Milestone A decision. The purpose of this phase is to reduce technology risk and to determine the appropriate set of technologies to be integrated into the full system. This phase is usually for advanced development work and does not mean that a new acquisition program has been initiated.

(U) Technology Development Strategy. A technology development strategy documents the underlying reason for adopting an evolutionary strategy; a program strategy, including overall cost, schedule, and performance goals for the total research and development program; specific cost, schedule, and performance goals, including exit criteria, for the first technology spiral demonstration; and a test plan to demonstrate that the goals and exit criteria for the first technology spiral are met. For either a spiral or an incremental evolutionary acquisition, the technology development strategy includes a preliminary description of how the program will be divided into technology spirals and development increments, the appropriate number of prototype units that may be produced and deployed, how these units will be supported, and the specific performance goals and exit criteria that must be met.

(U) Test and Evaluation Master Plan. A test and evaluation master plan documents the overall structure and objectives of the test and evaluation program. It provides a framework within which to generate detailed test and evaluation plans, and it documents the schedule and resources for the test and evaluation program. The test and evaluation master plan identifies the necessary activities for developmental test and evaluation, operational test and evaluation, and live-fire test and evaluation. Further, the test and evaluation master plan links program schedule, test management strategy and structure, and required resources with critical operational issues, critical technical parameters, and objectives and thresholds in the operational requirements document.

(U) Undefined Contractual Action. An undefined contractual action is a new procurement action entered into by the Government for which contractual terms, specifications, or prices are not agreed on before the work begins. A letter contract is an example of an undefined contractual action.

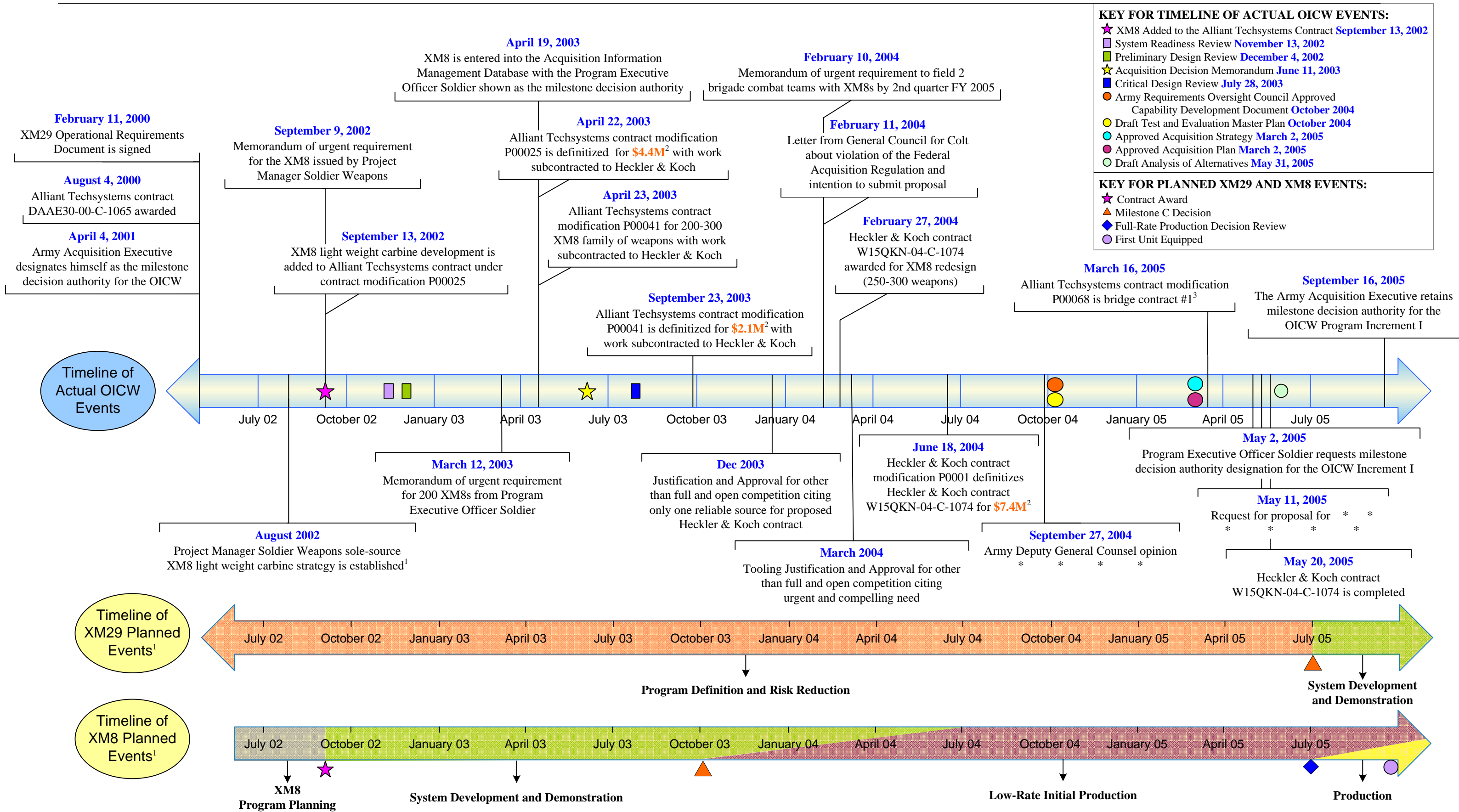
Appendix C. OICW Timeline of Events (U)

(U) The following chart illustrates the OICW timeline of events and depicts those events in three timelines. The keys for all of the timelines are in the upper right corner of the chart.

(U) The timeline at the top of the page, “Timeline of Actual OICW Events,” charts actual OICW events between February 2000 and September 2005. The timeline includes the requirements documents, contracting procedures, and milestone decision authority events for the OICW, including the XM8 Program, which later became OICW Increment I.

(U) The timelines at the bottom of the page, “Timeline of XM29 Planned Events” and “Timeline of XM8 Planned Events,” represent the planned events for the XM29 and the XM8 between July 2002 and September 2005. Although the timelines do not show September 2005, the OICW Program Office planned to equip the first unit with the XM8 by the end of September 2005. In addition, the timelines associate the planned events for the XM29 and XM8 with applicable phases of the acquisition process: Program Definition and Risk Reduction,^{*} System Development and Demonstration, Low-Rate Initial Production, and Production (Full-Rate Production and Deployment).

^{*}(U) The Program Definition and Risk Reduction phase of the acquisition process was renamed Technology Development in May 2003.



¹ The timelines for the planned XM29 and XM8 events were established in August 2002.

² This timeline includes \$13.9M in funds spent on XM8 contract work. Additional incremental funding of \$3.5M was provided for the XM8 for a total of \$17.4M.

³ A bridge contract is an extension of an awarded contract whose period of performance has expired. Bridge contract #1 extended the period of performance to March 31, 2006. Bridge contract #2 was effective April 14, 2006, and further extends the period of performance to October 14, 2006.

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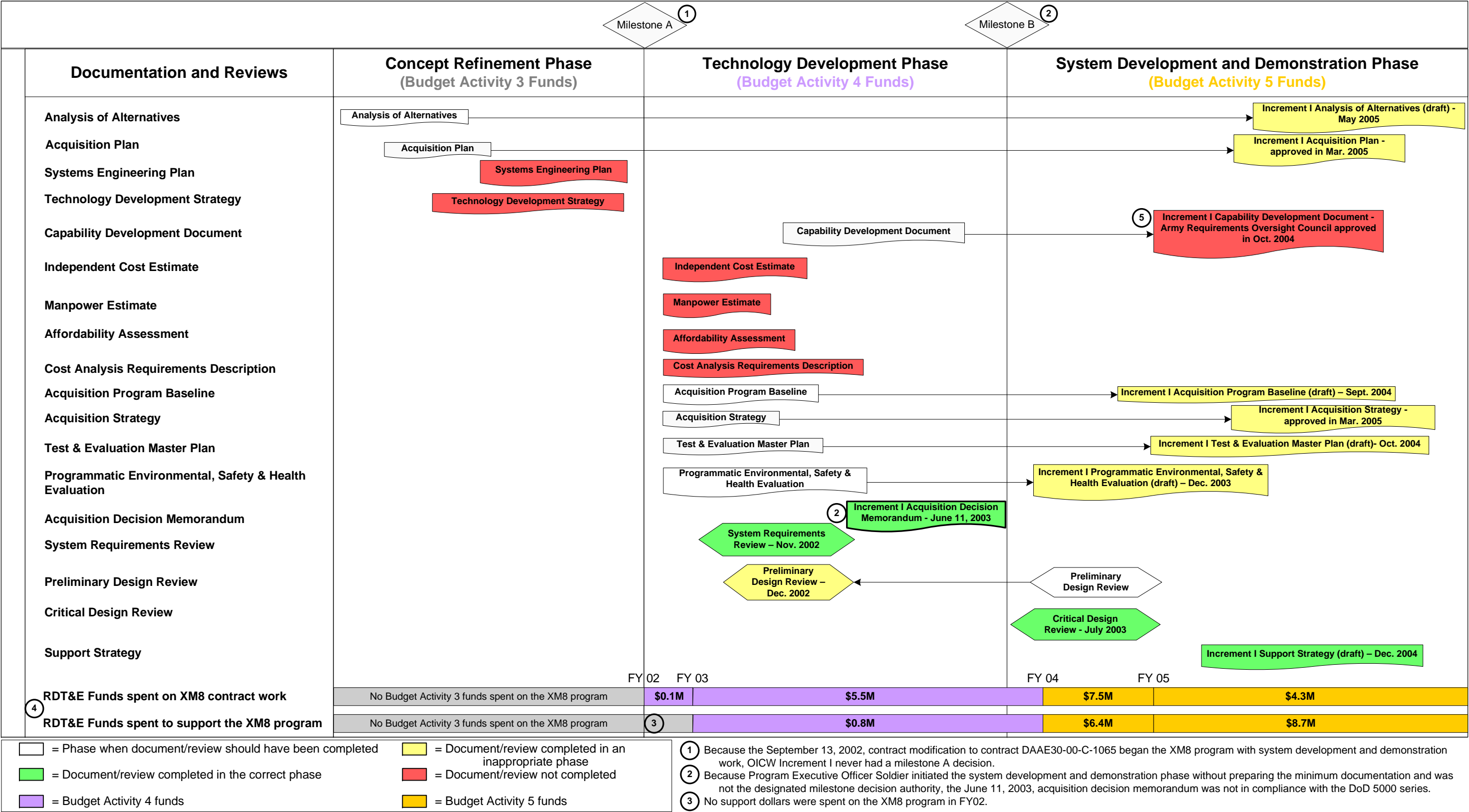
Appendix D. OICW Increment I Alignment With Research, Development, Test, and Evaluation Acquisition Phases and Funding Requirements (U)

(U) The following chart illustrates the ways in which the Program Executive Office Soldier and the OICW Program Office did not fully comply with DoD acquisition and funding requirements for the XM8 Program, which later became OICW Increment I.

(U) The chart is divided into the three research, development, test, and evaluation acquisition phases: concept refinement, technology development, and system development and demonstration. The chart's key can be found in the lower right-hand corner of the page.

(U) The OICW Increment I documents and reviews have been placed on the chart in chronological order within the acquisition phases. The white shapes placed throughout the chart represent when that document or review should have been completed according to DoD guidance. The green shapes represent the OICW Increment I documents and reviews that were completed during the correct phase of the acquisition process. The yellow shapes represent the OICW Increment I documents and reviews that were completed during the incorrect phase of the acquisition process. The red shapes represent the documents and reviews that have not been completed for OICW Increment I.

(U) The two funding lines on the bottom of the chart represent the funds spent on XM8 contract work and the funds spent to support the XM8 Program, which later became OICW Increment I, during FY 2002-2005. The purple sections on the funding lines represent Budget Activity 4 funds in the research, development, test, and evaluation appropriation and the orange sections represent Budget Activity 5 funds in the research, development, test, and evaluation appropriation spent on the XM8 Program, which later became OICW Increment I.



(1) Because the September 13, 2002, contract modification to contract DAAE30-00-C-1065 began the XM8 program with system development and demonstration work, OICW Increment I never had a milestone A decision.

(2) Because Program Executive Officer Soldier initiated the system development and demonstration phase without preparing the minimum documentation and was not the designated milestone decision authority, the June 11, 2003, acquisition decision memorandum was not in compliance with the DoD 5000 series.

(3) No support dollars were spent on the XM8 program in FY02.

(4) Research, Development, Test, and Evaluation

(5) As of July 2006, the Joint Requirements Oversight Council has not approved the OICW Increment I Capability Development Document as required by the Chairman of the Joint Chiefs of Staff Instruction 3170.01E.

Appendix E. Army Acquisition Information Management Database (U)

(U) The Army Acquisition Information Management Database (the Database) maintains the official list of programs with their respective description, program phase, milestone decision authority, and other information.

(U) Verification of an Acquisition Effort. When the Army identifies a new acquisition effort, it determines whether the responsible organization is in the Database. If the responsible organization is in the Database, the Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) adds the new program to the Database under the correct organization. If the organization is not in the Database, the Acquisition Support Center adds the organization and links it to the appropriate reporting chain. The Acquisition Support Center is responsible for maintaining the Program Executive Officer name and position link.

(U) Entry of a Program Into the Database. The Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) enters a program into the Database based on the program's status. When a program is uninitiated, or has not been started, it may be entered into the Database as a Pre-Major Defense Acquisition Program, a Pre-Major Automated Information System, or a Pre-Milestone B* program. Pre-Major Defense Acquisition Programs, Pre-Major Automated Information Systems, and Pre-Milestone B programs are expected to be in an acquisition category based on fiscal thresholds. For a Pre-Major Defense Acquisition Program or a Pre-Major Automated Information System, the milestone decision authority would be the Army Acquisition Executive. To facilitate tracking for Pre-Milestone B programs, the systems administrator enters the applicable Program Executive Officer by title as a point of contact for the program. Because the Database does not have a separate data field for a point of contact, the systems administrator enters this information in the data field for the milestone decision authority. The Database then automatically inserts the name of the person who has the applicable Program Executive Officer title. An initiated program is added to the Database with documentation that supports the acquisition category level, the acquisition program phase, and the designated milestone decision authority. When the Army Acquisition Executive officially designates or changes the milestone decision authority for a program, the systems administrator updates the Database to show the milestone decision authority designation.

(U) Changes to the Database. Program Executive Officers request changes to the Database through an automated request system to keep the Database current. Major changes, such as a change in the acquisition category level, milestone decision authority, and program name, require written documentation by the Army Acquisition Executive supporting the change. Minor changes, such as changes to

* (U) Milestone B is the milestone decision point for entry of a program into the system development and demonstration phase of the acquisition process and is also the point of program initiation for an acquisition program.

the program description, do not require supporting documentation. Although the intent is for all change requests to come through the automated system to record where the change request originated, the systems administrator also makes a note in the administrative notes section for the program of how the change originated, what supporting documents were provided (if required), the date of the change, and the systems administrator's initials.

(U) Program Termination. When a program is terminated, the program is not deleted from the Database immediately. Usually, a terminated program is moved to the "TERM" category when the program has been cancelled and money remains for contract closeout. When all of the contracts for a program have been completed, the program may be completely deleted from the Database.

Appendix F. Program Executive Officer Soldier Acquisition Decision Memorandum for the XM8 Carbine (U)



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
PROGRAM EXECUTIVE OFFICE SOLDIER
5901 PUTNAM ROAD, BLDG 328
FORT BELVOIR VA 22060-5422

SFAE-SDR (70-1ii)

JUN 11 2003

MEMORANDUM FOR Project Manager Soldier Weapons, (SFAE-SDR-SW/
Colonel Michael J. Smith), Building 151, Picatinny Arsenal, NJ 07806-5000

SUBJECT: Acquisition Decision Memorandum for 5.56mm, XM8, Light Weight Carbine

1. The 5.56mm, XM8, Light Weight Carbine is the Kinetic Energy (KE) Weapon for the Objective Force Warrior that provides the potential to increase the deployability and agility of all U.S. Forces. It supports the goals of the Objective Force through a reduction in weight over the current M4. The XM8 Light Weight Carbine is derived from the KE portion of the XM29 Integrated Airburst Weapon System, utilizes standard North Atlantic Treaty Organization 5.56mm ammunition, and will maximize commonality of parts and share the same logistics/supportability resources of the XM29. The XM8, through modularity of design, will be capable of being tailored to the mission.

2. Exit criteria for this phase to enable entry into Milestone-C have been outlined by the Infantry Center in their operational requirements document for the Future Combat Rifle, 24 March 2003, Rev. 1.0.

a. Key performance parameters include:

- (1) Interoperability with Land Warrior.
- (2) Reliability equal to a 0.99 probability of completing each mission.

b. Selected non-key performance parameters:

- (1) Accessory attachment points: To mount existing accessories.
- (2) Target Pointer/Illuminator/Aiming Light: Integrated to weapon with performance greater than existing accessories.
- (3) Weight: Less than a comparably equipped M4 Modular Weapon System with an objective of 20% less.

JUN 11 2003

SFAE-SDR (70-1ii)

SUBJECT: Acquisition Decision on 5.56mm, XM8, Light Weight Carbine

(4) Multiconfigurable: Multiple variants supported through easily changeable barrels and sighting systems at organizational level.

(a) General Purpose: Engage and hit an E-Silhouette at 300 meters within two minutes with 15 of 30 shots.

(b) Sharpshooter: Engage and hit an F-Silhouette at 300 meters within two minutes with 15 of 30 shots.

(c) Compact: Engage and hit an E-Silhouette at 150 meters within two minutes with 15 of 30 shots.

(d) Automatic: High rate of fire weapon, with a high capacity magazine, and a bipod.

3. Based on an urgent operational need for lightening the Warfighter's load in order to increase mobility, thus increasing combat survivability and effectiveness, I have authorized the initiation of a project to develop the XM8 as an early block development.

4. The point of contact for this action is Mr. M. David Ahmad, SFAE-SDR-SW-ICW, DSN 880-2229, commercial 973-724-2229.


JAMES R. MORAN
COL (P), USA
Program Executive Officer Soldier

Appendix G. Assistant Secretary of the Army (Acquisition, Logistics, and Technology) Memorandum for Milestone Decision Authority Designation (U)



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

16 SEP 2005

SAAL PA

MEMORANDUM FOR PROGRAM EXECUTIVE OFFICER SOLDIER, 5901
PUTNAM ROAD, BUILDING 328, FORT BELVOIR,
VIRGINIA 22060-5422

SUBJECT: Milestone Decision Authority (MDA) Designation for Program
Executive Officer (PEO) Soldier Programs

I have reviewed your request for appropriate Milestone Decision Authority (MDA) designation for programs that fall under your purview and applaud your initiative for undertaking a complete program review.

Land Warrior is an Acquisition Category (ACAT) IC program; the MDA is the Army Acquisition Executive (AAE). The Objective Individual Combat Weapon (OICW) program is shown as three distinct ACAT II programs on the PEO Soldier Program list. The OICW acquisition strategy and Initial Capabilities Document (ICD) describe OICW as one program with three increments. The development of our programs must incorporate guidance found in the ICD. OICW, therefore, remains one program with three increments. The OICW program is also being reviewed for possible re-designation as an ACAT I Major Defense Acquisition Program (MDAP). Until the ACAT and MDA for OICW are determined, I will retain MDA for OICW and designate it an ACAT IC program.

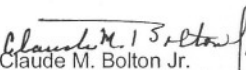
The PEO Soldier Program list shows the Objective Crew Served Weapon (OCSW), as an ACAT II program. The OCSW serves as the proposed Close Combat Support System for the Future Combat System. At this time, the Army requires only a limited number of OCSW systems. We will continue the system development of the OCSW project using research and development funds. The capability documentation for the stand-alone OCSW is under development and has not yet undergone Army staffing. When a final decision is made concerning OCSW, the system will be given the appropriate acquisition category level upon program initiation.

The ACAT III programs listed in your memorandum consist of programs and projects. My staff will work closely with your personnel and identify those efforts that meet the criteria for program status. The Acquisition Category database reflects the official listing of programs of record. PEO Soldier is the MDA for ACAT III programs listed in the Acquisition Category database.

See note at
the end of
memorandum.

-2-

My point of contact is Mr. Jim Adams, support contractor to the Acquisition and Industrial Base Policy Directorate. He may be reached at (703) 604-7025 or DSN 664-7025. His email address is James.Adams2@hqda.army.mil.


Claude M. Bolton Jr.
Assistant Secretary of the Army
(Acquisition, Logistics and Technology)

(U) Note: Although the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) stated that the initial capabilities document described the OICW as one program with three increments, the memorandum should have stated "capability development document" instead of "initial capabilities document," according to a representative from the Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology).

Appendix H. Management Comments on the Overall Report and Findings and Audit Response (U)

(U) Our detailed response to the comments from the Program Executive Officer Soldier on the overall report and Findings A and C in a draft of this report follow. The Deputy for Acquisition and Systems Management, responding for the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), included those comments as part of his response to the draft report. The complete text of those comments is in the Management Comments section of this report.

Management Comments on the Overall Report and Audit Response (U)

(U) **Comments on Reduction of Funds.** The Program Executive Officer Soldier stated that the draft report implied that the DoD Inspector General audit directly influenced the decision by the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) to withdraw \$10 million in FY 2006 research, development, test, and evaluation funds from OICW Increment I and to put those funds to better use. Further, he stated that the decisions made and actions taken by the Office of the Assistant Secretary were normal Army and congressional decision making processes and did not occur as a result of the DoD Inspector General audit. The Program Executive Officer Soldier reiterated this point in his comments.

(U) **Audit Response.** The decisions made and actions taken by the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) to withdraw \$10 million in FY 2006 research, development, test, and evaluation funds from OICW Increment I and to put those funds to better use did not occur as part of the normal Army and congressional decision making processes. That action occurred as a result of us proactively requesting the Office of the Assistant Secretary to put those funds to better use after the OICW Program Office informed us that it did not intend to use the funds.

(U) **Comments on the Procurement of OICW Increment I.** The Program Executive Officer Soldier questioned the draft report statement in the Executive Summary that “The Army designed the OICW Increment I as a one-for-one replacement for M16s, M4s, M249s, and select M9s throughout the U.S. Army.” He stated that the Army intended to procure OICW Increment I in accordance with an approved Army Acquisition Objective based on an approved Basis of Issue Plan that supported the Army’s modularity and transformation initiatives. He stated that those documents had not been approved for OICW Increment I.

(U) **Audit Response.** The capability development document prepared for OICW Increment I states that the OICW Increment I is a one-for-one replacement for M16s, M4s, M249s, and select M9s.

(U) Comments on Approved Warfighter Requirements. The Program Executive Officer Soldier commented on the draft report statement that “The OICW Program Office awarded contracts for the XM8 before having an approved warfighter requirement and it did not obtain appropriate milestone decision approval before initiating the acquisition.” He stated that contract modification P00025, September 13, 2002, to the XM29 contract was for examining the feasibility of spiraling out the kinetic energy portion (XM8) of the XM29 Program. The Program Executive Officer Soldier also stated that a warfighter requirement is not required to conduct feasibility studies. He stated that all parties were informed of actions being taken and approved during communications between the then-Program Executive Officer Soldier and the Army Acquisition Executive. The Program Executive Officer Soldier stated that, after the feasibility of spiraling out the kinetic energy portion was confirmed, the then-Program Executive Officer Soldier signed the acquisition decision memorandum to initiate the XM8 Program. Further, he stated that the OICW Program Office notified Headquarters, Department of the Army; the Office of the Secretary of Defense; and Congress in a timely manner about the efforts, and that Congress encouraged the OICW Program Office to accelerate those efforts. He concluded, therefore, the \$33.3 million in research, development, test, and evaluation funds for the development of the XM8 were appropriately spent.

(U) Audit Response. By awarding contracts and contract modifications for the XM8 before obtaining an approved capability development document for the XM8 from the Joint Requirements Oversight Council, the OICW Program Office wasted \$33.3 million in research, development, test, and evaluation funds by attempting to develop a weapon for which it did not have a Joint Requirements Oversight Council approved requirement. Furthermore, the then-Program Executive Officer Soldier was not designated the milestone decision authority for the XM8 when he issued the acquisition decision memorandum. In addition, the statement of work for contract modification P00025 did not require the contractor to examine the feasibility of spiraling out the kinetic energy portion (XM8) of the XM29 Program. Regardless of whether the contract modification required a feasibility study, the XM8 was in the system development and demonstration phase of the acquisition process, which does require an approved warfighter requirement.

(U) Comments on the Systems Engineering Process. The Program Executive Officer Soldier disagreed with the draft report statement that “development of Increment I through the systems engineering process was adversely affected because the OICW Program Office did not have approved warfighter requirements to evolve into XM8 specifications and contract specifications to create an operationally effective and suitable system.” He believed that Increment I was effectively developed through the systems engineering process, that Increment I met or exceeded current and planned specifications, and that testing would have proven the system to be operationally effective and suitable. The Program Executive Officer Soldier reiterated this point later in his comments.

(U) Audit Response. It is possible, but not likely, that the OICW Increment I could be effectively developed through the systems engineering process, meet or exceed current and planned specifications, and be operationally effective and suitable without having XM8 specifications and contract specifications derived

from Joint Requirements Oversight Council approved warfighter requirements. By not having XM8 specifications and contract specifications, the OICW Program Office agreed to accept what the contractor could produce based on contractor specifications as opposed to what the warfighter had approved as needed.

(U) Comments on Change in Acquisition Strategy. The Program Executive Officer Soldier stated that Army senior leadership directed the fielding of the XM8, beginning in FY 2005 in the memorandum for record, "Soldier Systems brief to CSA [Chief of Staff of the Army] (IBA, RFI, UA HMMWV, XM-8)," January 12, 2004.

(U) Audit Response. On September 9, 2002, the Project Manager Soldier Weapons issued a memorandum of urgent requirement for the development of the XM8 lightweight carbine about 16 months before Army senior leader directed the fielding of the XM8. The memorandum of urgent requirement was based on the ongoing requirement of the Program Executive Office Soldier to lighten the weight of equipment carried by warfighters.

(U) Comments on Appendix D. The Program Executive Officer Soldier stated that Appendix D in the draft report incorrectly showed that the Program Executive Office and the OICW Program Office did not fully comply with DoD acquisition and funding requirements for the XM8 Program. He stated that Appendix D assumed that the program was an Acquisition Category I program with corresponding documentation requirements. As previously provided in response to DoD Inspector General Report No. D-2006-004, "Acquisition of the Objective Individual Combat Weapon," October 7, 2005, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) stated that, "The U.S. Army maintains that the management controls have been followed. Previously our view was that the OICW I was an Acquisition Category (ACAT) II program. As such, it was managed as an ACAT II program." Therefore, the Program Executive Officer Soldier stated that Appendix D was not a true representation of the OICW Program's compliance with the DoD 5000 series of guidance.

(U) Audit Response. Appendix D does not differentiate between an Acquisition Category I and II program because the documents addressed in the chart are fundamental to all acquisition programs. Army Regulation 70-1, "Army Acquisition Policy," December 31, 2003, requires the Army to apply the guidance contained in DoD Directive 5000.1 and DoD Instruction 5000.2 to all acquisition programs while streamlining and tailoring the procedures within statutory and program requirements. The Regulation requires requests for waivers for regulatory requirements contained in DoD Instruction 5000.2 affecting all acquisition programs to be submitted to the Army Acquisition Executive for approval. A representative from the OICW Program Office stated that tailoring the documentation for OICW Increment I was discussed with the Assistant Secretary of the Army (Acquisition, Logistics, and Technology); however, the representative did not have documentation showing that the Assistant Secretary waived DoD Instruction 5000.2 requirements identified in Appendix D.

(U) As shown in Appendix D, when the OICW Increment I entered the system development and demonstration phase of the acquisition process on June 11,

2003, the OICW Program Office had not completed and received approval for basic acquisition documents, such as:

- analysis of alternatives,
- acquisition plan,
- capability development document,
- independent cost estimate,
- manpower estimate,
- affordability assessment,
- cost analysis requirements description,
- acquisition program baseline,
- acquisition strategy, and
- test and evaluation master plan.

(U) Around September 2005, when the Army withdrew the OICW Increment I requirement and shifted funds to other critical small arms needs, the OICW Program Office had received approval for the acquisition plan and the acquisition strategy and Army Requirements Oversight Council approval of the capability development document for OICW Increment I. However, the OICW Program Office had not received approval for the following documents that were in draft form:

- analysis of alternatives,
- acquisition program baseline, and
- test and evaluation master plan.

Further, the OICW Program Office had not completed the following documents:

- independent cost estimate,
- manpower estimate,
- affordability assessment, and
- cost analysis requirements description.

(U) DoD Instruction 5000.2 requires the statutory and regulatory documentation to be completed before the system development and demonstration decision so that the milestone decision authority can make an informed decision on whether to approve the initiation of a new acquisition program. If program offices do not provide all of the required documentation before issuing the request for proposal, the Army cannot be assured that the request for proposal adequately communicates approved Government requirements to prospective contractors so that the warfighter receives a quality product that satisfies their needs with measurable improvements to mission capability and operational support. Those documents also provide the basis for test and evaluation plans needed to determine whether the system will be operationally effective, suitable; the key

cost, schedule, and cost constraints; life-cycle cost estimates; technical and program features; and the rationale for adopting an evolutionary strategy.

(U) As discussed in DoD Inspector General Report No. D-2006-004, OICW Increment I had the potential to exceed the \$2.1 billion procurement threshold and should have been designated as an Acquisition Category I program and managed accordingly.

Management Comments on Finding A and Audit Response (U)

(U) Comments on Prime and Subcontractor Negotiating System

Specifications. The Program Executive Officer Soldier disagreed with the draft report statement that “the prime and subcontractor negotiated with the OICW Program Office to establish the system specifications for the XM8.” He stated that the Systems Engineering Process contains the design relationship between functional analysis/allocation and synthesis. He also stated that, as the design matured, tradeoffs were necessary to accomplish program goals, which is a standard practice. Accordingly, he stated that the draft report’s assertion that the prime and subcontractor negotiated to establish the specification for the XM8 was incorrect and should be deleted.

(U) Audit Response. During the December 2002 preliminary design review held for the XM8 Program, Heckler and Koch, the subcontractor for Alliant Techsystems Integrated Defense Company, the prime contractor, presented its proposed design concept for the XM8. This design solution did not focus on achieving a high level of commonality with the XM29, and it utilized G36 technology (the G36 is a Heckler and Koch carbine on which the XM8 was based). With no approved user requirement on which to base specifications or proposed design solutions, the OICW Program Office accepted Heckler and Koch’s design solution for the XM8. After the preliminary design review, the OICW Program Office incorporated changes suggested by the subcontractor into the XM8 system specification.

(U) According to the Defense Acquisition Guidebook, logical analysis is the process of obtaining sets of logical solutions to help improve the understanding of defined requirements and the relationships among those requirements. Functional analysis/allocation is one method used by the DoD to attain those sets of logical solutions. OICW Increment I did not have a Joint Requirements Oversight Council approved capability development document, and therefore, the OICW Program Office could not have used functional analysis/allocation to improve understanding of defined requirements. Tradeoffs are used to find different ways to meet defined program requirements.

(U) Comments on Continued Work on OICW Increment I. The Program Executive Officer Soldier disagreed with the draft report statement that “Even after we [DoD Inspector General] issued Report No. D-2006-004, the OICW Program Office continued to work on OICW Increment I without having a capability development document approved by the Joint Requirements Oversight Council. He stated that, in effect, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) suspended the OICW Increment I

Program when he suspended the request for proposal for Increment I. Accordingly, he stated that no work was ongoing for the OICW Increment I Program other than supporting the Joint Requirements Oversight Council process, replying to this report, and closing out prior test actions.

(U) Audit Response. Although the request for proposal was suspended in July 2005, modification P00068 to contract DAAE30-00-C-1065 did not expire until March 31, 2006. The modification tasked the prime contractor to deliver two target-acquisition and fire-control system interfaces and a separate battery mount for the OICW Increment I and to further develop Increment II. When the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) suspended the request for proposal in July 2005, the Picatinny Center for Contracting and Commerce should have suspended Increment I work related to modification P00068. Further, when the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) cancelled the request for proposal in November 2005, the Picatinny Center for Contracting and Commerce should have issued a stop work order for those tasks.

(U) Comments on XM8 Work Under Contract Modification P00068. The Program Executive Officer Soldier commented on these draft report statements:

On March 16, 2005, the Picatinny Center for Contracting and Commerce awarded contract modification P00068 to contract DAAE30-00-C-1065. The modification required the prime contractor, Alliant Techsystems Integrated Defense Company, to design, build, and deliver two target-acquisition and fire-control system interfaces and a separate battery mount for the OICW Increment I and to further develop Increment II. The expiration date for the modification was March 31, 2006.

The Picatinny Center for Contracting and Commerce should not have included work on the XM8 in contract modification P00068 because the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) directed the Program Executive Officer Soldier and the Project Manager Soldier Weapons to conduct a nondevelopmental item competition for OICW Increment I in January 2005.

The Program Executive Officer Soldier stated that the work referred to under contract modification P00068 was for the Future Force Warrior and paid for by Future Force Warrior, not with XM8 dollars. He stated that the effort was to build an interface to mount the XM25 target-acquisition and fire-control system on the XM8 to be used in the Future Force Warrior experiments. However, he stated that before any dollars were spent on the interface, the Future Force Warrior Program Office changed its requirement to use the M4 carbine instead of the XM8. He stated that the interfaces delivered were to mount the target-acquisition and fire-control system to the M4 carbine.

(U) Audit Response. The OICW Program Office did not provide contract documentation to support their statement that the work on contract modification P00068 was for the Future Force Warrior program instead of the XM8 carbine and that the Future Force Warrior Program Office changed its requirement to use the M4 carbine instead of the XM8.

If this change did occur, the Picatinny Center for Contracting and Commerce should have amended the contract statement of work. Regardless of which Program Office funded contract modification P00068, the XM8 work effort should not have been funded because:

- the XM8 did not have a Joint Requirements Oversight Council approved user requirement and
- the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) directed Program Executive Officer Soldier and Project Manager Soldier Weapons to conduct a nondevelopmental item competition for OICW Increment I approximately 3 months earlier.

(U) Comments on Recombining the XM8 with the XM25. The Program Executive Officer Soldier commented on the draft report statement that:

The XM8 under contract was not required to be capable of recombining with the airbursting XM25 (Increment II) to form the XM29 (OICW Increment III). Also, the prime and subcontractor did not design the XM8 to function with the target-acquisition and fire-control system. Further,

* * * * *

He stated that the purpose of the three-increment OICW strategy was to develop and mature the technologies separately and then integrate them into the final increment. The Program Executive Officer Soldier stated that the technologies were matured separately because of the weight constraints on the XM29 and the technology available at the time. Further, he stated that the Increment I (XM8) was to be a stand-alone kinetic energy weapon and that recombining it with the Increment II (XM25) would not occur until Increment III (XM29). The Program Executive Officer Soldier also stated that Increments I and II would require design modifications to integrate those increments and to achieve the required system weight. He stated that requiring Increment I to recouple immediately with Increment II defeats the purpose of the incremental strategy and suboptimizes each subsystem.

(U) The Program Executive Officer Soldier also stated that the use of the target-acquisition and fire-control system is primarily for the airbursting weapon, Increment II. He stated that the target-acquisition and fire-control system is not required to operate a kinetic energy system like the XM8 and would only increase the kinetic energy system weight and cost. He added that instead of the target-acquisition and fire-control system, the XM8 requires less complex and less costly sighting accessories. He stated that the target-acquisition and fire-control system from Increment II would ultimately be integrated into Increment III.

(U) Audit Response. According to the Defense Acquisition Guidebook, the acquisition strategy for a program should fully describe the initial increment of capability, preview similar planning for subsequent increments, and identify the approach to either integrate or retrofit, or both, earlier increments with later increments.

*Attorney-client privilege data omitted.

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(U) The February 2000 operational requirements document for the original OICW requires the kinetic energy subsystem to function with the target-acquisition and fire-control system.

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. Consequently,

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. Specifically, the OICW Increment I

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(U) Comments on Subcontractor Specifications. The Program Executive Officer Soldier commented on the draft report statement that “the XM8 Program did not have a Joint Requirements Oversight Council approved capability development document. Consequently, the subcontractor, Heckler and Koch, used its own specifications to produce the XM8.” He stated that, as part of the systems engineering process, the OICW Program Office and the contractor held a system requirements review after awarding the feasibility study for the XM8. He stated that, as part of that review, the OICW Program Office and the contractor reviewed the initial “High Risk/Critical Performance Thresholds,” which the Army provided. The “High Risk/Critical Performance Thresholds” formed the baseline of the performance specification for the XM8. The Program Executive Officer Soldier included a list of those performance thresholds in his comments. Accordingly, he concluded that the assertion that Heckler and Koch used its own specifications to produce the XM8 was incorrect and should be deleted.

(U) Audit Response. The OICW Program Office should not consider the “High Risk/Critical Performance Thresholds” as the baseline for the XM8 system specification. The OICW Program Office should have based the XM8 system specification on user requirements approved by the Joint Requirements Oversight Council. The OICW Program Office has no assurance that the XM8 as designed, which later became OICW Increment I, would meet warfighter requirements.

(U) Because the OICW Program Office did not have user requirements approved by the Joint Requirements Oversight Council on which to base its XM8 performance specification, the OICW Program Office, at all the technical reviews held for the XM8 program, agreed to modify the specifications to accommodate the prime and the subcontractor's changes to the system specification used to produce the XM8.

*Predecisional and source selection sensitive data omitted.

Management Comments on Finding C and Audit Response (U)

(U) The Program Executive Officer Soldier comments on Finding C were similar to his comments on other sections of the report. Please see Audit Response to those comments.

Appendix I. Report Distribution (U)

Office of the Secretary of Defense

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

Joint Staff

Director, Joint Staff
 Director for Force Structure, Resources, and Assessment (J-8)

Department of the Army

Commander, Army Training and Doctrine Command
 Commander, Army Infantry Center
Assistant Secretary of the Army (Acquisition, Logistics, and Technology)
 Program Executive Officer Soldier
 Project Manager Soldier Weapons
 Product Manager Individual Weapons
Assistant Secretary of the Army (Financial Management and Comptroller)
Commander, Army TACOM Life Cycle Management Command
 Executive for Contracting, Picatinny Center for Contracting and Commerce
Commander, Army Test and Evaluation Command
Deputy Chief of Staff G-3/5/7
Deputy Chief of Staff G-8
Deputy Under Secretary of the Army (Operations Research)
Auditor General, Department of the Army
Deputy General Counsel (Acquisition)

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Combatant Command

Commander, U.S. Special Operations Command

Other Defense Organizations

Director, Defense Contract Management Agency

Non-Defense Federal Organization

Office of Management and Budget

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

Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) Comments (U)



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

SAAL-SMS

MEMORANDUM FOR PRINCIPAL DIRECTOR FOR ACQUISITION, ACQUISITION
AND CONTRACT MANAGEMENT, OFFICE OF THE INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE, 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202

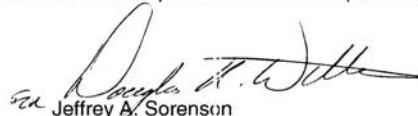
SUBJECT: Response to the Draft Report on Program Management of the Objective
Individual Combat Weapon Increment I (OICW I)

1. Thank you for the opportunity to address your draft report regarding the U.S. Army's Objective Individual Combat Weapon Increment I (OICW I) program management.
2. The report makes three recommendations. The U.S. Army Tank and Automotive Command's Life Cycle Management Command has addressed the recommendation concerning the actions of contracting officers (Tab B). I will address the remaining two recommendations. I have also attached the PEO Soldier specific response to the Draft Report (Tab A) to assist your auditors in correcting their facts and explaining perceptions that they have addressed in the report that the U.S. Army continues to take issue with and request that you incorporate their comments in the final report.
3. Recommendation: We recommend that the Secretary of the Army (Acquisition, Logistics, and Technology) (ASA(ALT)) not commit or obligate any future resources to fund or support OICW Increment I as an acquisition program until it has a capability development document approved by the Joint Requirements Oversight Council (JROC).

Response: Concur. The U.S. Army, as a result of the U.S. Army Training and Doctrine Command's (TRADOC) review and update of the Army's Small Arms Strategy, has withdrawn the OICW Increment I requirement and has shifted funds to other pressing Small Arms needs. When TRADOC completes further analysis of the family of small arms and provides supportable requirement documents for approval by the JROC, the U.S. Army will program the necessary funds to address those requirements.
4. Recommendation: We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) modify the procedures for entering milestone decision authority information into the Acquisition Information Management Database for a program. Specifically, the system administrator should not enter data into the milestone decision authority data field until the Army Acquisition Executive designates milestone decision authority and the system administrator has official documentation of that designation.

-1-

Response: Concur. The OASA(ALT) comments on this recommendation provided during the staffing of the discussion draft of this report have been incorporated.


for Jeffrey A. Sorenson
Major General, GS
Deputy for Acquisition and
Systems Management

Program Executive Office Soldier Comments (U)

Final Report
Reference

Pages 9
through 10

DOD Inspector General Draft Report
July 19, 2006
Program Management of the Objective Individual Combat Weapon Increment I (U)
(Project No.: Project No. D2006-D000AE-0154.000)

Report Page No.: 4

Paragraphs commenting on: Overall Audit Project.

Report Page No.: 9

Paragraphs commenting on: (U) Army Comptroller Reduction of funds.

Report Page No.: 9

Paragraphs commenting on: (U) Congressional Reduction of Funds.

Comments/Additional Facts: There are connotations throughout the draft report that the DoD IG audit directly influenced various decisions and actions. For clarification the decisions made and actions taken were in due course of normal Army and Congressional decision making processes and regardless of the DoD IG audit. For example, according to the draft report page 9 "...the OICW Program Office informed us (DoD IG) that it did not intend to use the remaining \$10 million in FY 2006 research, development, test, and evaluation funds that were still committed to OICW Increment I. Subsequently, we (DoD IG) met with a representative from the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) about those funds. The Office of the Assistant Secretary of the Army (Financial Management and Comptroller) then withdrew the \$10 million in FY 2006 research, development, test, and evaluation funds from OICW Increment I to put those funds to better use."

Report Page No.: i

Paragraphs commenting on: (U) Background

According to the DoDIG draft report the Army designed the OICW Increment I as a one-for-one replacement for M16s, M4s, M249s, and select M9s throughout the Army.

Comments/Additional Facts: For clarification the Army intended to procure OICW Increment I in accordance with an approved Army Acquisition Objective (AAO) based on an approved Basis Of Issue Plan (BOIP) that supported the Army's modularity and transformation initiatives. An AAO and BOIP have not been approved for OICW Increment I.

Report Page No.: i

1

Paragraphs commenting on: (U) Results

According to the DoDIG draft report the OICW Program Office awarded contracts for the XM8 before having an approved warfighter requirement, and it did not obtain appropriate milestone decision approval before initiating the acquisition.

Comments/Additional Facts: The modification P00025 (dated 9/13/02) to the XM29 contract was for examining the feasibility of spiraling out the kinetic energy portion (XM8) of the XM29 program. No warfighter requirement is required to conduct feasibility studies, which can be performed in any phase of the program. During regular communications between PEO and the AAE, all parties were informed of actions being taken and approved.

Report Page No.: i

Paragraphs commenting on: Results (U)

According to the DoDIG draft report the development of Increment I through the systems engineering process was adversely affected because the OICW Program Office did not have approved warfighter requirements to evolve into XM8 specifications and contract specifications to create an operationally effective and suitable system.

Comments/Additional Facts: Based on our systems engineering and program management experience, Increment I was effectively developed through the systems engineering process. Increment I met or exceeded current and planned specifications and we are confident that testing would have proven the system to be operationally effective and suitable.

Report Page No.: ii

Paragraphs commenting on: Results (U)

According to the DoDIG draft report the PEO Soldier started the XM8 Program 9 months after the OICW Program Office authorized the contractor to start work on the XM8.

Comments/Additional Facts: The modification P00025 (dated 9/13/02) to the XM29 contract was for examining the feasibility of spiraling out the kinetic energy portion (XM8) of the XM29 program. No warfighter requirement is required to conduct feasibility studies, which can be performed in any phase of the program. During regular communications between PEO and the AAE, all parties were informed of actions being taken and approved. After the feasibility of spiraling out the kinetic energy portion was confirmed the PEO Soldier signed the ADM to formally initiate an XM8 program.

Report Page No.: 2

Paragraphs commenting on: Change in Acquisition Strategy

Comments/Additional Facts: In accordance with the previously provided memorandum for record dated 12 January 2004 subject: Soldier Systems brief to CSA (IBA, RFI, UA HMMWV, XM-8) there was Army senior leader direction to begin fielding XM-8s in FY 2005.

Report Page No.: 6

Paragraphs commenting on: A. Approval of Warfighter Requirements for OICW Increment I (U)

According to the DoDIG draft report the OICW Program Office should have obtained an approved capability development document for the XM8 from the Joint Requirements Oversight Council as required before awarding contracts and contract modifications.

Comments/Additional Facts: The modification P00025 (dated 9/13/02) to the XM29 contract was for examining the feasibility of spiraling out the kinetic energy portion (XM8) of the XM29 program. No warfighter requirement is required to conduct feasibility studies, which can be performed in any phase of the program.

Report Page No.: 6

Paragraphs commenting on: A. Approval of Warfighter Requirements for OICW Increment I (U)

According to the DoDIG draft report the XM8 systems engineering process was adversely affected because the OICW Program Office did not have approved warfighter requirements to evolve into XM8 specifications and contract specifications to create an operationally effective and suitable system.

Comments/Additional Facts: Based on our systems engineering and program management experience, Increment I was effectively developed through the systems engineering process. Increment I met or exceeded current and planned specifications and we are confident that testing would have proven the system to be operationally effective and suitable.

Report Page No.: 7

Paragraphs commenting on: Approving Warfighter Requirements for Increment I (U)

According to the DoDIG draft report the Army Requirements Oversight Council approved the capability development document about 2 years after the Picatinny Center for Contracting and Commerce placed the XM8 on contract.

Comments/Additional Facts: The modification P00025 (dated 9/13/02) to the XM29 contract was for examining the feasibility of spiraling out the kinetic energy portion (XM8) of the XM29 program. No warfighter requirement is required to conduct feasibility studies, which can be performed in any phase of the program.

Report Page No.: 7

Paragraphs commenting on: Approving Warfighter Requirements for Increment I (U)

According to the DoDIG draft report the prime and subcontractor negotiated with the OICW Program Office to establish the system specifications for the XM8.

Comments/Additional Facts: The Systems Engineering Process contains the design loop between Functional Analysis/Allocation and Synthesis, as the designs mature trades are necessary to accomplish program goals. It is a standard practice. Therefore, the DoD IG's assertion that the prime and subcontractor negotiated to establish the specification for the XM8 is a misstatement of fact and should be removed.

Report Page No.: 7

Paragraphs commenting on: Approving Warfighter Requirements for Increment I (U)

According to the DoDIG draft report the OICW Program Office continued work on OICW Increment I after they had issued Report No. D-2006-004 and without having a capability development document approved by the Joint Requirements Oversight Council.

Comments/Additional Facts: By suspending the RFP for OICW Increment I the Assistant Secretary of the Army (AL&T) in effect suspended the program. No work, other than supporting the JROC process, replying to this report, and closing out prior test actions, were ongoing for the OICW Increment I program.

Report Page No.: 7

Paragraphs commenting on: (U) Contract Modification

According to the DoDIG draft report the modification required the prime contractor, Alliant Techsystems Integrated Defense Company, to design, build, and deliver two target-acquisition and fire-control system interfaces and a separate battery mount for the

OICW Increment I and to further develop Increment II. The Picatinny Center for Contracting and Commerce should not have included work on the XM8 in contract modification P00068 because the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) directed the PEO Soldier and the PM Soldier Weapons to conduct a nondevelopmental item competition for OICW Increment I in January 2005.

Comments/Additional Facts: The work referred to under contract mod P00068 was for Future Force Warrior (FFW) and paid for by FFW not with XM8 dollars. The effort was to build an interface to mount the XM25 TAFC on the XM8 to be used in FFW experiments. However, prior to any dollars being spent on the interface, FFW changed their requirement to use the M4 in lieu of the XM8. The interfaces delivered were to mount the TAFC to the M4. Again, no XM8 dollars were expended on the interface for XM8.

Report Page No.: 8

Paragraphs commenting on: (FOUO) February 2000 Operational Requirements Document for the OICW

According to the DoDIG draft report the XM8 under contract was not required to be capable of recombining with the airbursting XM25 (Increment II) to form the XM29 (OICW Increment III). Also, the prime and subcontractor did not design the XM8 to function with the target-acquisition and fire-control system. Further,

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which later became OICW Increment I.

Comments/Additional Facts: The whole purpose of the three increment OICW strategy was to develop and mature the technologies separately and then integrate them into the final increment. This was done due to the weight constraints on the XM29 and the latest technologies available. The XM8, (Increment I of the three increment OICW strategy), was to be a stand alone KE weapon. Recombining it with the XM29, (Increment II of the OICW strategy), would not occur until Increment III. Increment III would be the integration of Increment I and II. In order to optimize the combined system, this would require some design modifications, due to integration, with both Increment I and Increment II in order to achieve the required system weight. Requiring the XM8 to recouple immediately to Increment II defeats the whole purpose of the incremental strategy as well as resulting in sub optimizing each subsystem.

The use of the target acquisition/ fire control (TAFC) is primarily for the airbursting weapon (Increment II). The functionalities in the TAFC are not required in the use of a KE system like the XM8 and would only increase both weight and system cost. Less complex and less costly sighting accessories are all that is required. Ultimately the TAFC from Increment II would be integrated into Increment III.

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*Attorney-client privilege data omitted.

Report Page No.: 8

Paragraphs commenting on: (FOUO) Systems Engineering Process

According to the DoDIG draft report the XM8 Program did not have a Joint Requirements Oversight Council approved capability development document. Consequently, the subcontractor, Heckler and Koch, used its own specifications to produce the XM8.

Comments/Additional Facts: As part of the Systems Engineering Process the PM office and the contractor team held a Systems Requirements Review (documentation provided to DoDIG under separate covers Nov-Dec 2005) shortly after awarding the feasibility study for the XM8. As part of that review the PM and the contractor team reviewed the initial government provided (as part of the Statement of Work) High Risk/Critical Performance Thresholds (shown below) that formed the baseline of a performance specification:

- Weapon Performance Characteristics:
 - Reliability Requirements,
 - Accuracy and Dispersion Requirements,
 - Barrel Life Requirements,
 - Forward Rail System Alignment Requirements,
- Other Requirements:
 - Commonality with the KE weapon portion of the XM29 Requirements,
 - Weight Requirements,
 - Accessory Rail Requirements,
 - Firing Modes Requirements,
 - Bayonet Compatibility Requirements,
 - Grenade Launcher Interface Requirements,
 - Configurable Barrels Requirements.

Therefore, the DoD IG's assertion that Heckler and Koch used its own specifications to produce the XM8 is a misstatement of fact and should be removed.

Report Page No.: 9

Paragraphs commenting on: Effects of Approving Warfighter Requirements for Increment I (U)

According to the DoDIG draft report by not having an OICW Increment I capability development document that the Joint Requirements Oversight Council has approved, the OICW Program had no assurance that the XM8, which later became Increment I, would satisfy warfighter requirements.

Comments/Additional Facts: Based on our systems engineering and program management experience, Increment I was effectively developed through the systems engineering process. Increment I met or exceeded current and planned specifications and we are confident that testing would have proven the system to be operationally effective and suitable to satisfy warfighter requirements.

Report Page No.: 17

Page 19

Paragraphs commenting on: C. Designation of Milestone Decision Authority for the XM8 (U)

According to the DoDIG draft report the PEO Soldier approved the start of the XM8 Program 9 months after the OICW Program Office authorized the contractor to start work on the XM8.

Comments/Additional Facts: The modification P00025 (dated 9/13/02) to the XM29 contract was for examining the feasibility of spiraling out the kinetic energy portion (XM8) of the XM29 program. No warfighter requirement is required to conduct feasibility studies, which can be performed in any phase of the program. During regular communications between PEO and the AAE, all parties were informed of actions being taken and approved. After the feasibility of spiraling out the kinetic energy portion was confirmed the PEO Soldier signed the ADM to formally initiate an XM8 program.

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Paragraphs commenting on: C. Designation of Milestone Decision Authority for the XM8 (U)

According to the DoDIG draft report the OICW Program Office inappropriately spent \$33.3 million in research, development, test, and evaluation funds for the development of the XM8, which later became the OICW Increment I.

Comments/Additional Facts: The modifications to the XM29 contract was for examining the feasibility of spiraling out the kinetic energy portion (XM8) of the XM29 program. No warfighter requirement is required to conduct feasibility studies, which can be performed in any phase of the program. The PM Office in a timely manner notified, HQDA, OSD, and Congress of the undertaken efforts and was provided encouragement to accelerate those efforts from Congress. Therefore, the funding was appropriately spent.

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Paragraphs commenting on: (U) Change of Research, Development, Test, and Evaluation Funding

According to the DoDIG draft report the XM8 Program did not comply with research, development, test, and evaluation funding requirements as shown in Appendix D.

Comments/Additional Facts: The chart in Appendix D. assumes that the program is an ACAT I program with the corresponding needed documents. As previously provided in the Army's comments (SAAL-SMS Memo of 14 Nov 2005), "The U.S. Army maintains that the management controls have been followed. Previously our view was that the OICW I was an Acquisition Category (ACAT) II program. As such, it was managed as an ACAT II program. ..." Therefore, the chart is not a true representation of OICW program's compliance with DoD guidance, i.e.; 5000 series documents.

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Paragraphs commenting on: (U) Appendix D. OICW Increment I Alignment With Research, Development, Test, and Evaluation Acquisition Phases and Funding Requirements

According to the DoDIG draft report, as illustrated in the Appendix D chart, the Office of the Assistant Secretary of the Army (A,L, and T) did not fully comply with DoD acquisition and funding requirements for the XM8 Program.

Comments/Additional Facts: The chart in Appendix D. assumes that the program is an ACAT I program with the corresponding needed documents. As previously provided in the Army's comments (SAAL-SMS Memo of 14 Nov 2005), "The U.S. Army maintains that the management controls have been followed. Previously our view was that the OICW I was an Acquisition Category (ACAT) II program. As such, it was managed as an ACAT II program. ..." Therefore, the chart is not a true representation of OICW program's compliance with DoD guidance, i.e.; 5000 series documents.

U.S. Army TACOM Life Cycle Management Command Comments (U)



DEPARTMENT OF THE ARMY
UNITED STATES ARMY TACOM LIFE CYCLE MANAGEMENT COMMAND
6501 EAST 11 MILE ROAD
WARREN, MICHIGAN 48397-5000

REPLY TO
ATTENTION OF:

AMSTA-CS-CJ

AUG 15 2006

MEMORANDUM FOR Principal Director for Acquisition, Acquisition and Contract Management, Inspector General, Department of Defense, 400 Army Navy Drive, Arlington, Virginia 22202-4704

SUBJECT: DODIG Draft Report on Program Management of the Objective Individual Combat Weapon Increment I (Project No. D2006-D000AE-0154.000)

1. Reference memorandum, Department of Defense Inspector General, 19 July 2006, subject as above.
2. We have reviewed DODIG Draft Report titled "Program Management of the Objective Individual Combat Weapon Increment I, Project No. D2006-D000AE-0154.000". Please change all references to the "Tank-automotive and Armaments Command" in the report to the "TACOM Life Cycle Management Command" (LCMC). We are enclosing the TACOM LCMC position to the sections of the subject draft report pertaining to the Picatinny Center for Contracting and Commerce. Specifically, we non-concur with Finding B and recommendations B-1 and B-2. With regards to Recommendations B-1, while we non-concur, the Picatinny Center for Contracting and Commerce will take action to formalize, in writing (Standing Operating Procedure (SOP)), their existing procedures. The SOP will address the inclusion of a bona-fide change determination memorandum for any modification which requires a change to the existing contract terms and conditions. The rationale for the non-concurrence and our comments are contained in the reply.
3. The TACOM LCMC Internal Review and Audit Compliance Office will track the status of the Center's action and perform a follow-up review to verify that the SOP has been completed.
4. Point of contact for this reply is Ms. Kristin Saleh, AMSTA-CS-CJ, Comm: 586-574-5741, DSN 786-5741 or email: kristin.saleh@us.army.mil.

Encl

W. W. Pickenheim
Deputy Chief of Staff

**TACOM Life Cycle Management Command (LCMC) Reply
to DoD Inspector General Draft Report,
Program Management of the Objective Individual Combat Weapon (OICW)
Increment 1, Project No. D2006-D000AE-0154.000**

B – ADHERENCE TO CONTRACTING REQUIREMENTS FOR THE XM8

Objective: To determine whether management adequately applied contracting procedures.

DoDIG Conclusion: The Picatinny Center for Contracting and Commerce did not comply with Federal and DoD contracting requirements before awarding contract modifications to the overall OICW contract and a separate contract to accelerate the acquisition of the XM8. This condition occurred because the:

- Picatinny Center for Contracting and Commerce did not establish procedures that required contracting officers to verify, before award, that contract modifications were within the scope of the contract statement of work and the approved requirements document that supports the original contract; and
- Contracting officers at the Picatinny Center for Contracting and Commerce did not obtain justification from the user to support memorandums of urgent requirement that the then-Program Executive Officer Soldier and the OICW Program Office issued to accelerate the acquisition of the XM8.

By not complying with contracting requirements, the Picatinny Center for Contracting and Commerce did not ensure that the contract modifications were competed, as required. Further, the Picatinny Center for Contracting and Commerce awarded those contracting actions before obtaining the required justification in the form of an approved operational need statement for the XM8.

Additional facts:

Included below.

Recommendations:

We recommend that the Executive for Contracting, Picatinny Center for Contracting and Commerce, TACOM LCMC:

Recommendation B-1: Establish procedures that require its contracting officers to verify, before award, that contract modifications are within the scope of the contract statement of work, as required in Federal Acquisition Regulation, Part 43.2, "Change Orders."

Action Taken: Non-concur. We vehemently disagree with the assertion that we were not in compliance with Federal and DoD contracting requirements. The issue of whether

a change is in-scope or out of scope has always been a controversial topic because of its extremely subjective nature, and is rarely black or white. A PCO's obligation in cases like this is to obtain as much factual information as possible, consult with the technical, programmatic, and legal experts, and make a decision that has a reasonable basis. Due to its subjective nature, if given the same set of facts, a different PCO may come to a different conclusion that also has a reasonable basis. But that does not imply that only one decision is correct. In the subject case, the DoDIG has concluded that we did not comply with Federal and DoD contracting requirements solely because they disagree with the decision that it was an in-scope change. We would like to address some additional points with regard to the policies followed by the Picatinny Center for Contracting and Commerce, as well as the DoDIG recommendations pertaining to OICW-I/XM8 procurement.

While an official Standing Operating Procedure (SOP) does not currently exist, the Picatinny Center for Contracting and Commerce has observed a generally accepted procedure for examining and documenting changes to the contract scope of work. The procedure has existed for some time, and has been developed in coordination with our own legal staff. The procedure is as follows:

- 1) In the event that a change to the contract is requested (via contract modification), the contracting officer will advise the customer of what is an allowable change (referred to as "in-scope" change). The contracting officer/specialist will obtain information from the customer, and make a determination (in conjunction with legal recommendations) as to whether the change is in-scope or out-of scope.
- 2) In-scope and out-of-scope changes with regards to work statements are not black-and-white, and often require significant scrutiny based on several factors (for instance, function of the end-item, nature of the contract, phase of development/production, schedules, etc). For this reason, the contracting officer must document the contract file. If the change is determined to be in-scope, then the contracting officer must document the rationale with a "bona-fide change determination memorandum", which is to be included in the contract file. If the change is determined to be out-of-scope, the contracting officer will advise the customer of the need for a) a J&A, or b) a new requirements package, if the situation dictates.

These procedures are in place to ensure that the Government does not place an undue burden on the incumbent contractor, as well as provide additional opportunities for competition.

With regard to the OICW Increment I/XM8 Procurement in particular, we would like to address the following points:

1. DAAE30-00-C-1065, XM25/29 is a Cost Reimbursement, R&D contract, which by its very nature is a fluid contract that is highly susceptible to in-scope changes.

2. With the above statement in mind, the Picatinny Center for Contracting and Commerce asserts that the XM8 Unidentified Contractual Action (UCA) effort (P00025) on DAAE30-00-C-1065 was, for all intents and purposes, determined to be an in-scope change to the contract. This rationale has been ascertained based on the following:

- The OICW is a modular weapon, with the 5.56mm Kinetic Energy (KE), direct fire weapon to be one of two integral, but *separable* modules of the weapon system. With this in mind, one can easily ruminate how the concept of the XM8 was initially proposed. At the time, the XM8 UCA was a small deviation, rather than a substantial alteration to the original scope of work. To be specific, the UCA imposed a not-to-exceed price of \$5,003,476.00 out of a \$100,000,000.00 effort. Relatively speaking, \$5 million dollars is not a significant amount of program resources, especially when one considers that the overall program schedule had a predicted reduction of seven years with the introduction of the XM8. This anticipated savings of time was reasoned to be worth the \$5 million dollar initial investment of program resources. All of these points are indicative of an in-scope change. As cited in the Audit Report, FAR 43.201(a) requires a change to be in the *general* scope of the contract (key word=general).

The basic intent of the XM8 was simply to reduce the combat load weight of the soldier; sooner rather than later. Since the XM8 satisfied the requirement for a KE firing weapon as an integral part of the OICW, any reduction in the KE weapon weight would also benefit the OICW's overall weight objective, which was proving to be a major technical challenge.

In summary, the Executive for Contracting, Picatinny Center for Contracting and Commerce will be establishing a formal SOP, by 30 November 2006, which will address the inclusion of a bona-fide change determination memorandum in any modification which requires a change to the existing contract terms and conditions. However, we will also assert that the subject of in-scope/out-of-scope changes with regard to the XM8 had been deliberated, by the Soldier Weapons Systems Contracting Group, Executive for Contracting at the Center, the Legal Office, and PM offices. The final consensus was that the XM8 remained within the initial scope of work for the contract R&D effort. In as much as the DoDIG asserts; "Picatinny Center for Contracting and Commerce did not establish procedures that required contracting officers to verify, before award, that contract modifications were within the scope of the contract statement of work and the approved requirements document that supports the original contract...", we strongly disagree.

We also suggest that DoDIG recommend to DA or the DoD-level to implement guidance requiring all agencies to establish a similar procedure within their own contract organizations to document in-scope/out-of-scope changes to all contract work statements.

Recommendation B-2: Obtain justification from the user, in the form of an operational need statement approved by the Army Deputy Chief of Staff G-3/5/7, to support an urgent requirement before issuing a contract action to accelerate a contract award and the acquisition process, as required in Army Regulation 71-9, "Materiel Requirements," April 30, 1997.

Action Taken: Non-concur. We disagree with this recommendation based on the fact that DFARS 217.7404-1 clearly delineates the contracting officer's authority to enter into a UCA (or "letter contract"). The guidance provided by DFARS 217.7404-1 is provided in the following text:

The contracting officer shall obtain approval from the head of the contracting activity before—

(a) Entering into a UCA. The request for approval must fully explain the need to begin performance before definitization, including the adverse impact on agency requirements resulting from delays in beginning performance.

(b) Including requirements for non-urgent spare parts and support equipment in a UCA. The request should show that inclusion of the non-urgent items is consistent with good business practices and in the best interest of the United States.

(c) Modifying the scope of a UCA when performance has already begun. The request should show that the modification is consistent with good business practices and in the best interests of the United States.

In addition to the above regulation, TACOM Delegation of Authority No. 04-02 titled "AUTHORITY TO ISSUE UNDEFINITEZED CONTRACTUAL ACTIONS AND ALLOW USE OF A LETTER CONTRACT" dated 02 Feb 04, signed by N. Ross Thompson III, MG, Commander, US Army TACOM, provides the following delegation of authority:

1. FAR 16.603-3 states "A letter contract may be used only after the head of the contracting activity or a designee determines in writing that no other contract is suitable."

2. DFARS 217.7404-1 requires the contracting officer to obtain approval from the Head of the Contracting Activity before (1) entering into a UCA; (2) including requirements for non-urgent spare parts and support equipment in a UCA; and (3) modifying the scope of a UCA when performance has already begun.

3. As Head of the Contracting Activity, I hereby delegate the authority to execute the above determination and approval to the Principal Assistant Responsible for Contracting.

4. *This authority is subject to limitations set forth in FAR 16.603 and DFARS Subpart 217.74.*

5. *No further redelegation is authorized.*

6. *This delegation supersedes U.S. Army Tank-automotive and Armaments Command Delegation No. 95-08, without prejudice to any action taken under it.*

No other regulations currently exist pertaining to a contracting officer's authority to enter into a letter contract, and in no instance do any of the regulations mention a requirement of an operational need statement (ONS) to commence awarding a letter contract.

Not only do no requirements exist for an ONS to be in place to issue a UCA, but we believe that such a requirement would be nothing less than redundant. Specifics with regards to an ONS are listed in the text below:

1. According to Army Regulation 71-9 titled "Force Development Materiel Requirements, dated 30 Apr 97, page 8, paragraph 3-4 a., "Operational field commanders use an ONS to document the urgent need for a materiel solution to correct a deficiency or to improve a capability that impacts upon mission accomplishment. The ONS provides an opportunity to the field commander, ***outside of the acquisition, and combat development and training development communities***, to initiate the requirements determination processes..." This paragraph explicitly states that the ONS is a document that is not intended to be used within the acquisition process.

2. Paragraph 3-4 d. (6) continues with the following: "Do not use [the ONS] for development and/or procurement of a system ***for which there is another valid, approved requirements document...***" In short, the FAR outlines all contractual requirements for the issuance of a UCA, and in no instance is an ONS mentioned.

In the case of the UCA's that were issued for the XM8, we complied with all Federal and DOD contracting requirements. The UCA's were approved at the appropriate levels, and they were coordinated with the PM/PEO, Legal, and the PCO's management within PC3. Imposing additional requirements such as the DoDIG recommends would only lengthen the process and defeat the very purpose of a UCA.

It should be noted that urgent operational need is not the only situation that might justify a UCA. Other reasons include the prevention of breaks in production/work stoppage and associated increased costs, stock depletions, changes in requirements, and the purchase of long-lead items.

One additional point we would like to make, is that by requiring an ONS directly from the user, we would be inadvertently circumventing our customer's programs. Considering that many of the programs are R&D, many field commanders would have no idea that the items we are developing even exist in the first place. Why should we have to rely on the end-user to initiate a request for an item that may not even exist yet?

In summary, we disagree with the DoDIG recommendation to obtain an ONS before awarding a UCA contract action. The primary reason for the disagreement is that there are no regulations that exist that require an ONS before UCA award. The secondary reason is that the purpose of an ONS is for field commanders to request mission essential items at large, not exclusive to items via the acquisition community (i.e. a commander can submit a request for additional water trailers, which may be provided by another unit, and would not rely on a brand new procurement of additional water trailers). The tertiary reason is that the acquisition of "urgent" materiel is not the sole purpose of a UCA, and by forcing our customer's to require an ONS before issuing a UCA, we would inadvertently circumvent their programs, especially when one considers that the UCA is necessary for another reason (e.g. the purchase of long lead materials to anticipate the completion of contract work on time, and prevent stock depletions).

Team Members

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

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