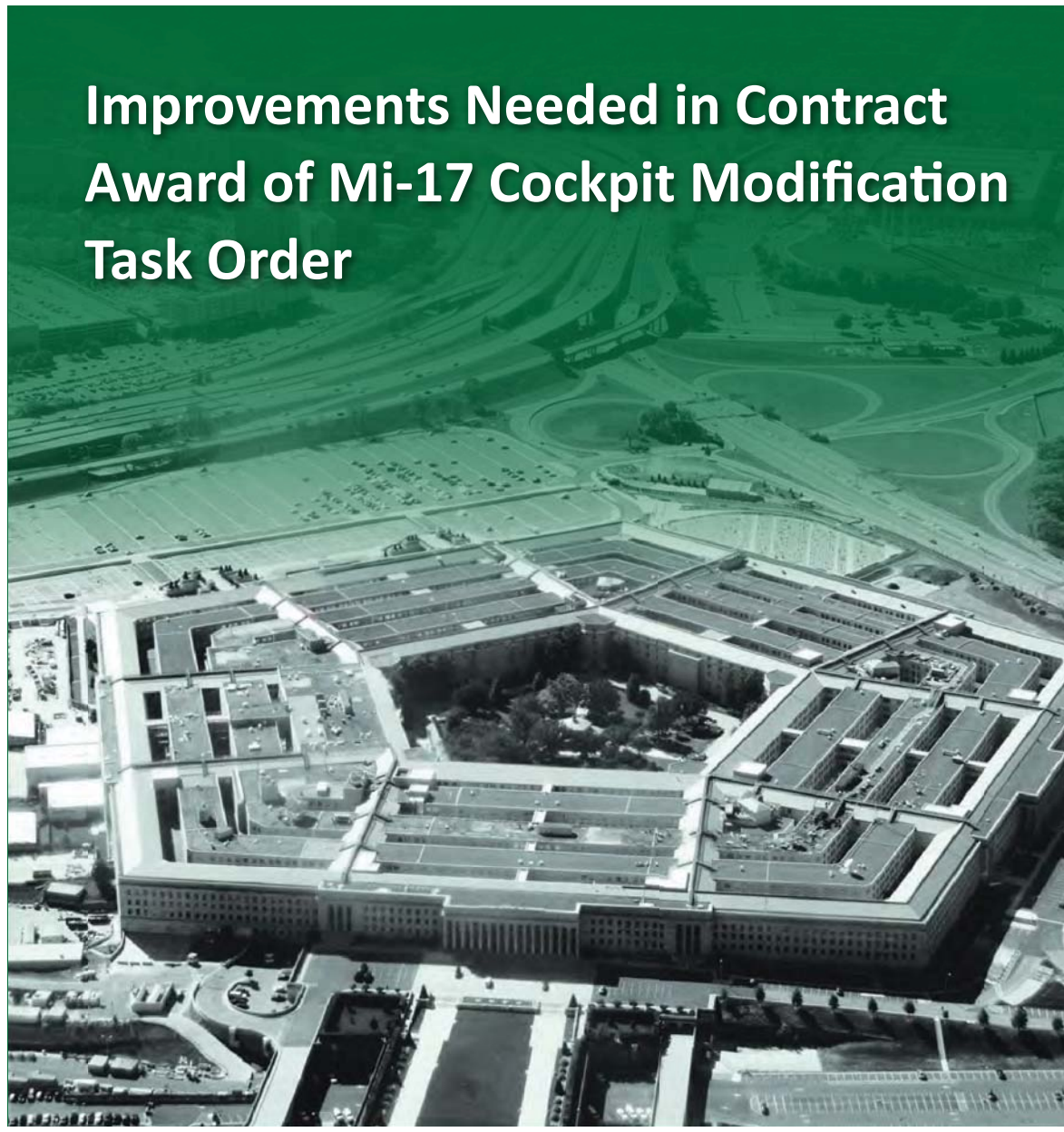


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INSPECTOR GENERAL

U.S. Department of Defense

SEPTEMBER 19, 2014



Improvements Needed in Contract Award of Mi-17 Cockpit Modification Task Order

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Results in Brief

Improvements Needed in Contract Award of Mi-17 Cockpit Modification Task Order

September 19, 2014

Objective

Our objective was to determine whether DoD officials properly awarded and administered indefinite-delivery, indefinite-quantity contract W58RGZ-09-D-0130, Task Order 0102, for the modification of DoD-owned Mi-17 variant aircraft in accordance with Federal and DoD regulations and policies.

Findings

Officials from Army Contracting Command (ACC)-Redstone and Non-Standard Rotary Wing Aircraft (NSRWA) Program Management Office (PMO) did not properly award the Mi-17 cockpit modifications. NSRWA PMO officials did not perform adequate market research and directed the modification requirement to a contractor who had no Mi-17 experience. These officials decided to use a single award indefinite-delivery, indefinite-quantity contract instead of competing the requirement. In addition, NSRWA PMO officials accepted the contractor's proposal despite its significant weaknesses. As a result, cost and schedule risks were increased; [REDACTED] was obligated over the originally proposed cost for the modifications, and aircraft delivery was delayed up to 12 months.

In addition, the contractor received payments for Mi-17 manuals not accepted or delivered to the Government. ACC-Redstone contracting officers did not establish adequate procedures to monitor performance or modify the contract to include the

Findings (cont'd)

manuals as a deliverable item. As result, the Army paid [REDACTED] in questionable costs.

An NSRWA PMO official made an unauthorized commitment for repair work outside the scope of the Mi-17 cockpit modifications under the task order. [REDACTED] in questionable costs for repair work.

In total, we identified [REDACTED] in questionable costs. See Appendix B for details on potential monetary benefits.

Recommendations

We recommend the Assistant Secretary of the Army for Acquisition, Logistics, and Technology review the Army officials' actions in noncompetitively awarding Mi-17 work.

We recommend the NSRWA Project Manager establish quality assurance procedures for conducting market research.

We recommend the Director, ACC-Redstone NSRWA Directorate improve performance-monitoring procedures for cost-reimbursable contracts, take action to recoup payments for sets of manuals not accepted or delivered, and take action to address the unauthorized commitment.

Management Comments and Our Response

The Assistant Secretary of the Army for Acquisition, Logistics, and Technology did not provide comments on Recommendation A.1, and the NSRWA Project Manager did not provide comments on Recommendation A.2. Comments from the Deputy to the Commanding General, ACC, addressed Recommendations B.1, B.2, C.1, and C.2, but we request planned dates of completion on Recommendations B.2 and C.2. We request additional comments, as specified in the recommendations table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional wComments Required
Assistant Secretary of the Army for Acquisition, Logistics, and Technology	A.1	
Deputy to the Commanding General, Army Contracting Command	B.2 and C.2	B.1 and C.1
Non-Standard Rotary Wing Aircraft Project Manager	A.2	

Please provide comments by October 20, 2014.



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

September 19, 2014

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Improvements Needed in Contract Award of Mi-17 Cockpit Modification Task Order
(Report No. DODIG-2014-118)

We are providing this report for your review and comment. Army Contracting Command-Redstone contracting officer and Non-Standard Rotary Wing Aircraft Program Management Office officials directed a Mi-17 cockpit modification requirement to a contractor that had no prior Mi-17 experience and accepted the contractor's proposal, which did not meet the requirements. In addition, a Non-Standard Rotary Wing Aircraft Project Management Office official created an unauthorized commitment, and the contractor received payments for Mi-17 manuals not accepted or delivered to the Government. During the audit, we identified that the contractor received (b)(4) in questionable costs for Mi-17 manuals and repairs.

We considered management comments on a draft of this report when preparing the final report. DoD Directive 7650.3 requires that recommendations be resolved promptly. Comments from the Deputy to the Commanding General, ACC, addressed all specifics of recommendations, and no further comments are required. The Assistant Secretary of the Army for Acquisition, Logistics, and Technology and the Non-Standard Rotary Wing Aircraft Project Manager did not respond to the draft report. Therefore, we request comments on Recommendations A.1 and A.2 by October 20, 2014.

Please send a PDF file containing your comments to audapi@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9077.

Jacqueline L. Wicecarver
Jacqueline L. Wicecarver
Assistant Inspector General
Acquisition, Parts, and Inventory

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Introduction

Objectives

Our audit objective was to determine whether DoD officials properly awarded and administered indefinite-delivery, indefinite-quantity (IDIQ) contract W58RGZ-09-D-0130, Task Order 0102, for the modification of DoD-owned Mi-17 variant aircraft in accordance with Federal and DoD regulations and policies. See Appendix A for a discussion of the scope and methodology and prior audit coverage. This is the final report in this series on Task Order 0102. The first report, DODIG-2013-123, “Army Needs To Improve Mi-17 Overhaul Management and Contract Administration,” August 30, 2013, addressed improper advance payments, unnecessary parts purchased for Mi-17 overhauls, Mi-17 parts inventory pricing problems, and contract quality assurance concerns for Mi-17 overhauls. The second report, **DODIG-2014-096, “Improvements Needed in Contract Administration of Mi-17 Cockpit Modification Task Order,” July 28, 2014**, addressed cost-plus-a-percentage-of-cost-type contracting, Mi-17 cockpit modifications proposal analyses, and sole-source subcontracting concerns under Task Order 0102. This report addresses the award of Mi-17 cockpit modifications, payments for Mi-17 manuals and an unauthorized commitment under Task Order 0102.

Mi-17 Aircraft

The Mi-17 supports the United States’ and partner nations’ counterterrorism efforts. The Mi-17 is a medium-lift utility helicopter that can perform both attack and movement missions and is one of the most common helicopters in the world. The Mi-17 is manufactured in Russia at the Kazan helicopter and the Ulan-Ude aviation plants. The governments of Iraq, Pakistan, and Afghanistan requested that the United States provide Mi-17 support for their counterterrorism efforts. The U.S. Government procured Mi-17s to provide those partner nations assistance and address their immediate operational requirements. The Afghans have been using Mi-17 helicopters since the early 1980s because of the aircraft’s ability to operate in the country’s severe environment and fly at high altitudes and in high temperatures with heavy loads.

Program and Contracting Activities

On January 19, 2010, the Under Secretary of Defense for Acquisition, Technology, and Logistics issued an Acquisition Decision Memorandum that directed the Army to establish a Project Management Office (PMO) responsible for executing procurement, sustainment, and technical support to meet user requirements for Non-Standard Rotary Wing Aircraft (NSRWA). The NSRWA PMO manages the procurement and maintenance of Mi-17 aircraft for DoD and partner nations, including Afghanistan, Iraq, and Pakistan.

U.S. Army officials established the NSRWA PMO at Redstone Arsenal in Huntsville, Alabama, under the U.S. Army Program Executive Office (PEO) for Aviation. The NSRWA PMO's mission "is to procure, field, and sustain NSRWA for DoD, allied countries, or as directed by the Under Secretary of Defense for Policy in support of other contingency operations." The NSRWA PMO responsibilities include the procurement of aircraft and parts, modification and overhauls, and logistical support for maintaining and sustaining the Mi-17 aircraft. U.S. Army Aviation Engineering Directorate (AED) provides engineering support to NSRWA PMO for modifications to Mi-17 aircraft.

On November 5, 2010, the Assistant Secretary of the Army for Acquisition, Logistics, and Technology issued a memorandum to the heads of U.S. Army Contract Activities establishing the NSRWA procurement process and designating the U.S. Army Contracting Command (ACC) at Redstone Arsenal, Alabama, as the single DoD contracting organization responsible for pre-award and post-award functions for NSRWA.

Logistics Support Facility Contract

On September 1, 2007, Army Sustainment Contracting Command, Rock Island, Illinois, awarded a single award, 5-year IDIQ contract (Original Contract No. W52P1J-07-D-0039) to Science and Engineering Services (SES) to provide all services necessary to support the PEO Aviation's Logistical Support Facility (LSF) mission requirements. Contracting responsibilities were transferred from Rock Island to ACC-Redstone in June 2009, and the contract number was changed to W58RGZ-09-D-0130. The LSF IDIQ has grown from \$209 million to more than \$976 million, and the period of performance was extended to April 2013. In April 2013, ACC-Redstone awarded a follow-on LSF multiple-award IDIQ contract to SES and Support Systems Associates, Incorporated, that expires April 2018.

Task Order 0102

(FOUO) On September 28, 2010, ACC-Redstone awarded contract W58RGZ-09-D-0130-0102 (Task Order 0102), a cost-plus-fixed-fee type contract for the modification of six DoD-owned Mi-17 aircraft. The task order originally established contract line item number 0001 to modify cockpits for four aircraft and established contract line item number 0002 for the option of two additional aircraft cockpit modifications, later exercised in April 2011. The contracting officer established additional contract line item numbers to cover increased costs associated with the cockpit modifications. In March 2011, the prime contractor subcontracted with [REDACTED]. Subsequently, [REDACTED] partnered with its affiliated company, [REDACTED] to assist in the cockpit modifications.¹ The period of performance for the cockpit modifications was originally from September 2010 through September 2011, but because of delays, ACC-Redstone extended performance to December 2013. Task Order 0102 period of performance expired in December 2013. A total of 49 contract modifications were made to Task Order 0102 since contract award, and contract value has grown from about [REDACTED]. Task Order 0102 modifications added maintenance overhauls, pilot training, and the procurement of Government furnished equipment to support another Mi-17 contract. This report specifically addresses the Mi-17 cockpit modifications under Task Order 0102, a total award of about [REDACTED].

Mi-17 Cockpit Modifications

The Mi-17 aircraft receiving cockpit modifications under Task Order 0102 were delivered to the U.S. Army Aviation Center of Excellence 110th Aviation Brigade at Fort Rucker, Alabama. The U.S. Army Aviation Center of Excellence 110th Aviation Brigade mission is to coordinate and conduct flight instruction and operations to provide the Army with professionally trained CH-47, C-12, and Mi-17 aviators. The purpose of the Mi-17 cockpit modification is to standardize pilot training and common core training programs for maintainers and to enhance the common skills base across the Afghan Ministry of Defense, Afghan Ministry of Interior, and the U.S. Army Aviation Center of Excellence Mi-17 fleet. The Mi-17 cockpit modifications integrate western communication radios, gauges and clocks; relocate instrumentation; add duplicate gauges to both pilot and copilot stations; modify

¹ Because AVB and SPARC are affiliated companies, we refer to them as AVB/SPARC in our report.

interior and exterior Mi-17 aircraft lighting; and extend the center console rearward. Figure 1 shows a picture of the Mi-17 cockpit installed under Task Order 0102.



Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses in the award and administration of the Mi-17 cockpit modifications under Task Order 0102. Specifically, the NSRWA PMO officials did not conduct adequate market research in accordance with the Federal Acquisition Regulation (FAR). In addition, ACC-Redstone contracting officials did not establish adequate surveillance procedures for the cost-reimbursable contract and identify improper payments for Mi-17 manuals. Lastly, a NSRWA PMO official caused an unauthorized commitment. We will provide a copy of the report to the senior official responsible for internal controls in the Department of the Army.

Finding A

Improper Award of Task Order for Mi-17 Cockpit Modifications

The ACC-Redstone contracting officer and NSRWA PMO officials did not properly award the Mi-17 cockpit modifications. Specifically, NSRWA PMO officials did not perform adequate market research and directed the Mi-17 cockpit modification requirement to a contractor who had no prior Mi-17 experience. This occurred because the ACC-Redstone contracting officer and NSRWA PMO officials decided to use a single award IDIQ contract instead of competing the requirement. In addition, NSRWA PMO officials accepted the contractor's proposal, which contained significant weaknesses. As a result, the ACC-Redstone contracting officer and NSRWA PMO officials increased cost and schedule risks for the Mi-17 cockpit modifications. The ACC-Redstone contracting officer obligated an additional [REDACTED] over the originally proposed cost for the Mi-17 cockpit modifications, and aircraft delivery was delayed up to 12 months.

Market Research for Mi-17 Cockpit Modifications

The NSRWA PMO officials did not perform adequate market research to acquire Mi-17 cockpit modifications. FAR Part 10, "Market Research," prescribes policies and procedures for conducting market research to determine the most suitable approach for acquiring, distributing, and supporting supplies and services. In addition, FAR Part 10.001, "Policy," states that agencies are required to conduct market research appropriate to the circumstances before soliciting offers for acquisitions with an estimated value over the simplified acquisition threshold.² The original \$8 million³ task order award for Mi-17 cockpit modifications was well above the simplified acquisition threshold, thus requiring NSRWA PMO officials to conduct market research. NSRWA PMO officials stated that formal market research was not performed except for the market research performed before the award of the LSF IDIQ contract, which did not include Mi-17 aircraft.

² As defined in the FAR, "simplified acquisition threshold" means \$150,000, except for acquisitions related to supporting a contingency operation or nuclear, biological, chemical, or radiological attack; the term means \$300,000 when performance or purchase is inside the United States.

³ The exact amount of the task order was \$7,995,320.

NSRWA PMO officials stated that informal market research was performed by contacting U.S. Government Mi-17 subject matter experts to discuss the Mi-17 cockpit modification requirements. According to NSRWA PMO officials, the informal market research evaluated the Mi-17 modification market worldwide and identified that Interstate Aviation Committee (IAC)⁴-certified organizations were in Russia, Eastern Europe, and the Middle East. NSRWA PMO officials stated that because of funding and schedule constraints, shipping the aircraft overseas to an IAC-certified organization was cost prohibitive, and NSRWA PMO officials made the decision to use SES under the LSF IDIQ contract. However, NSRWA PMO officials did not provide any analysis to support their decision.

According to the Office of Management and Budget memorandum "Acquisition Workforce Development Strategic Plan for Civilian Agencies-FY 2010-2014," dated October 27, 2009, the Government depends on skilled acquisition and program personnel to conduct thorough market research so that competition is maximized. Army Federal Acquisition Regulation Supplement 5110.002, "Procedures," states that market research is the responsibility of program managers or the requiring activity. NSRWA PMO officials did not conduct thorough market research to determine whether a noncompetitive award to SES was the most suitable approach for acquiring Mi-17 cockpit modifications. The NSRWA Project Manager should establish quality assurance procedures for conducting market research to determine the most suitable approach for acquiring services.

Requirement Directed to Contractor With No Prior Mi-17 Experience

(~~FOUO~~) The ACC-Redstone contracting officer and NSRWA PMO officials directed the Mi-17 cockpit modification requirement to SES, a company with no prior Mi-17 experience. SES is an aviation and manufacturing company in Huntsville, Alabama. According to NSRWA PMO officials, SES had experience in performing modifications on PEO Aviation aircraft, such as Apache and Blackhawk helicopters. In addition, NSRWA PMO officials stated that SES was staffed with Federal Aviation Administration-certified mechanics. However, SES did not have experience with Mi-17 aircraft. Among other concerns, SES did not have qualified personnel to perform the Mi-17 modifications. After contract award, the DoD paid SES [REDACTED] to send personnel, including aircraft mechanics, to

⁴ The IAC is the Russian Federation equivalent to the U.S. Federal Aviation Administration as independent airworthiness authorities for civil aircraft.

(FOUO) [REDACTED] to receive Mi-17 aircraft systems training so that SES would have qualified personnel to work on the aircraft. Figure 2 shows a picture of a Mi-17 aircraft undergoing cockpit modification at SES's facility.



Figure 2. Mi-17 Aircraft Undergoing Cockpit Modification
Source: DoD OIG

FAR 6.101, "Policy," states that contracting officers should promote and provide for full and open competition in soliciting offers and awarding Government contracts. Army and Joint Command contracting officers had previously awarded Mi-17 modification work competitively to contractors with Mi-17 experience. For example using full and open competition, Kabul Regional Contracting Center⁵ awarded contract W91B4M-11-C-0007 to Afghanistan Rotary Logistics.⁶ In addition, using a multiple award IDIQ contract, U.S. Army Space and Missile Defense Command awarded task order W9113M-07-D-0009-0002 to ARINC Engineering Services, LLC. Both these contractors had prior experience performing Mi-17 cockpit modifications before being awarded the contracts.

⁵ Kabul Regional Contracting Center is organized under Joint Contracting Command-Iraq/Afghanistan. In February 2011, contracting responsibilities for contract W91B4M-11-C-0007 transferred from Kabul Regional Contracting Center to ACC-Redstone.

⁶ Afghanistan Rotary Logistic was the original prime contractor and [REDACTED] for contract W91B4M-11-C-0007. However, a modification dated May 2013, shows that AAL Group Ltd substituted Afghanistan Rotary Logistic as the prime contractor.

Single Award Indefinite-Delivery, Indefinite-Quantity Contract Used for Mi-17 Cockpit Modification Requirement

The ACC-Redstone contracting officer and NSRWA PMO officials decided to use the single award LSF IDIQ contract to meet the Mi-17 cockpit modification requirement instead of competing the requirement. NSRWA PMO officials stated that they did not consider competing the cockpit modification requirement because the scope of the work fell within the LSF IDIQ contract. The scope of the LSF IDIQ contract included a broad range of aircraft repair, modification, overhaul, fabrication, and sustainment support activities and was not limited by the type of aircraft. Therefore, this broad scope allowed the ACC-Redstone contracting officer and NSRWA PMO officials to direct Mi-17 cockpit modification requirement to SES under the single award LSF IDIQ contract. However, according to the Office of Federal Procurement Policy Best Practices for Multiple Award Task and Delivery Order Contracting, dated February 1999, “single award IDIQ contract often makes it difficult for the government to secure the same price reductions and contractor performance improvements that would occur if the contractor was competing against other qualified contractors throughout the contract.”

Additional Competition Concerns in Awarding Mi-17 Work

ACC-Redstone contracting officers and NSRWA PMO officials directed the noncompetitive award of seven Mi-17 task orders, valued at about [REDACTED] to SES using the single award LSF IDIQ contract. Table 1 shows the Mi-17 task orders that ACC-Redstone contracting officers awarded to SES. According to “Amended Acquisition Plan for Ceiling Increase to Logistics Support Facility,” September 15, 2011, the NSRWA PMO pursued a “competitive standalone contract for the Mi platforms.” However, as of April 2013, ACC-Redstone officials continued to award new Mi-17 task orders to SES under the single award LSF IDIQ contract.⁷ We recommend the Assistant Secretary of the Army for Acquisition, Logistics, and Technology perform a review of actions by ACC-Redstone contracting officers and NSRWA PMO officials in noncompetitively awarding more than \$200 million in Mi-17 work to SES under the LSF IDIQ contract, and as appropriate, initiate corrective measures and actions to hold personnel accountable.

⁷ According to NSRWA PMO officials, no additional Mi-17 work has been awarded on the LSF contract since September 2013.

(FOUO) Table 1. Mi-17 Task Orders Awarded Under the LSF IDIQ Contract

Task Order	Description of Work	Value
(b)(4)		

Requirement for Modifying Mi-17 Aircraft

The ACC-Redstone contracting officer awarded Task Order 0102 to a contractor who did not meet the requirements to modify the Mi-17 aircraft. Task Order 0102’s statement of work (SOW) required the contractor to obtain a Mil Moscow Helicopter Plant (MMHP)⁸ Service Bulletin to standardize the Mi-17 cockpit design and to install [REDACTED]. In addition, AED requires that organizations certified by the IAC and approved by MMHP complete the modifications.

Contractor’s Certification Requirement

(FOUO) SES was not IAC-certified but submitted a proposal to perform all the Mi-17 cockpit modification work. AED “Airworthiness Requirements for Mi-8/Mi-17 Variant Aircraft Acquisitions and Their Modifications” memorandum states that “modifications [of Mi-17 aircraft] shall be completed...by IAC-certified organizations.” After task order award, SES had to subcontract with an IAC-certified organization to perform the Mi-17 cockpit modifications. In March 2011, about 6 months after the Task Order 0102 award, SES entered into a \$4 million subcontract with [REDACTED] to perform the cockpit modifications. [REDACTED] subcontract SOW stated it would help SES with the installation of the Mi-17 cockpit modification and obtain certification from MMHP. [REDACTED] assigned a program manager, team lead, structural and electrical technicians, and subject matter expert to the subcontract.

⁸ MMHP is the original designer of the Mi-17 aircraft.

Mil Moscow Helicopter Plant Requirement

(~~FOUO~~) SES did not include in its proposal the MMHP costs to obtain a Service Bulletin and aircraft certifications. AED “Airworthiness Requirements for Mi-8/Mi-17 Variant Aircraft Acquisitions and Their Modifications” memorandum states that “modifications [of Mi-17 aircraft] shall be completed through a MMHP[-]approved service bulletin.” In addition, before the award of Task Order 0102, DoD required MMHP certification for Mi-17 modifications in accordance with MMHP-approved service bulletins. For Task Order 0102, MMHP approved the Mi-17 cockpit modification design and issued a service bulletin. Also, MMHP certified the Mi-17 aircraft under Task Order 0102 after the contractor installed the cockpit modifications. SES required its subcontractor, [REDACTED] to enter into a contract with MMHP to obtain approval of the design of the Mi-17 cockpit modifications and a MMHP service bulletin. After task order award, SES proposed about \$1.8 million to coordinate and facilitate the receipt of certifications from MMHP for the planned six Mi-17 cockpit modifications.

Night Vision Imaging System Requirement

(~~FOUO~~) SES did not propose NVIS costs to meet the SOW requirement. The Task Order 0102 SOW requires SES to install NVIS lighting on the Mi-17 aircraft. SES stated that it lacked familiarity with the NVIS requirements of Mi-17 aircraft and proposed the NVIS costs on a later modification. Modification 10 added an additional \$1.7 million⁹ to Task Order 0102 for the NVIS requirement. NSRWA PMO stated that the “failure to identify the lack of these costs in the proposal was an oversight by the USG [United States Government].”

Contractor Responsible for Well-Written Proposal

According to United States Government Accountability Office decision “CACI Technologies, Inc., B-296946,” October 27, 2005, it is an offeror’s responsibility to submit a well-written proposal, with adequately detailed information clearly demonstrating compliance with the solicitation and allowing a meaningful review by the procuring agency. NSRWA PMO officials stated that when they awarded Task Order 0102, they did not have a relationship with MMHP or insight into the airworthiness process for modifications. SES was responsible for working with MMHP to understand the process of modifying Mi-17 aircraft and proposing the necessary costs to demonstrate compliance with the SOW.

⁹ \$1,682,242

Non-Standard Rotary Wing Aircraft Program Management Office Accepted Deficient Proposal

The NSRWA PMO officials performed a technical analysis of SES's proposal and accepted the proposal, although it contained significant weaknesses. FAR Subpart 15.404-1 "Proposal Analysis Techniques," states that the contracting officer should request that personnel having specialized knowledge, skills, and experience to perform a technical analysis to determine the need for and reasonableness of proposed resources. According to NSRWA PMO officials, "technical analyses are performed by individual who are knowledgeable regarding the services being procured and are qualified to determine the validity of a contractor's proposal. The Contractor's approach/methods of performance are analyzed to determine if it is acceptable to the Government."

The technical analysis of SES's Mi-17 cockpit modification proposal performed by NSRWA PMO officials did not identify that SES's proposal lacked subcontractor costs for an IAC-certified organization and MMHP. Instead of comparing SES's proposal against prior Mi-17 cockpit modification efforts, the NSRWA PMO officials compared SES's proposal against similar efforts performed on Blackhawk and Bell Ranger helicopters. The Army contracted for Mi-17 cockpit modifications before Task Order 0102 and received cost proposals that identified costs for an IAC-certified organization and MMHP. Even though SES's proposal did not meet the requirements to modify the Mi-17 aircraft, NSRWA PMO officials accepted SES's approach of performance.



Even though SES's proposal did not meet the requirements to modify the Mi-17 aircraft, NSRWA PMO officials accepted SES's approach of performance.

DoDIG Report No. DODIG-2013-123 "Army Needs To Improve Mi-17 Overhaul Management and Contract Administration," August 30, 2013, identifies deficiencies in NSRWA PMO's performance of technical analysis on other Mi-17 related work under Task Order 0102. In that report, we recommended that PEO Aviation evaluate NSRWA PMO's procedures for conducting technical analyses and implement a standardized process for conducting and documenting technical analysis. As of April 2013, the NSRWA PMO stated that it has implemented a standardized process for conducting and documenting technical analyses. NSRWA PMO stated that it significantly increased the level of detail and thoroughness associated

with technical analysis of proposals and was working with the U.S. Army Aviation and Missile Research Development and Engineering Center. We have not reviewed NSRWA PMO's new procedures for technical analyses of proposals.

Cost Increase and Delivery Delays

(~~FOUO~~) As a result of awarding Task Order 0102 to SES, the ACC-Redstone contracting officer and NSRWA PMO officials increased cost and schedule risks for the Mi-17 cockpit modifications. The original cockpit modifications included six Mi-17 aircraft for about [REDACTED] NSRWA PMO officials decided to cancel a modification because of technical problems with one of the six Mi-17 aircraft originally contracted for. According to NSRWA PMO officials, there were a number of issues that arose during the performance of this task order that resulted in schedule delays and cost growth to specifically include the condition of the aircraft as delivered to the PMO. However, awarding the Mi-17 cockpit modifications to SES, a contractor that had no prior experience performing Mi-17 work and whose proposal had significant weaknesses, increased cost and schedule risks. The ACC-Redstone contracting officer obligated an additional [REDACTED] over the original proposed costs for the Mi-17 cockpit modifications. In addition, four of the five Mi-17 aircraft modifications were delayed up to 12 months in the delivery to U.S. Army Aviation Center of Excellence at Fort Rucker, Alabama. Table 2 shows the number of months each Mi-17 aircraft was delayed during the cockpit modifications. The U.S. Army Aviation Center of Excellence could not start Mi-17 training without the delivery of the Mi-17 aircraft.

Table 2. Delivery Delays per Aircraft

Aircraft Tail Number	Original Performance Completion Date	NSRWA PMO Date of Acceptance	Months Delayed	Weeks Ahead of Schedule
(b)(3)				

Conclusion

The ACC-Redstone contracting officer and NSRWA PMO officials directed the award of Mi-17 cockpit modifications to a contractor who had no Mi-17 experience and did not meet the requirements to modify the Mi-17 aircraft. NSRWA PMO officials did not perform adequate market research and accepted a contractor's proposal that contained significant weaknesses. As result, the ACC-Redstone contracting officer and NSRWA PMO officials increased cost and schedule risks for Mi-17 cockpit modifications.

Recommendations

Recommendation A.1

We recommend the Assistant Secretary of the Army for Acquisition, Logistics, and Technology perform a review of actions by Army Contracting Command-Redstone contracting officers and Non-Standard Rotary Wing Aircraft Program Management Office officials in noncompetitively awarding more than \$200 million in Mi-17 work to Science and Engineering Services under the Logistical Support Facility indefinite-delivery, indefinite-quantity contract, and, as appropriate, initiate corrective measures and actions to hold personnel accountable.

Management Comments Required

The Assistant Secretary of the Army for Acquisition, Logistics, and Technology, did not provide comments on this recommendation. We request that the Assistant Secretary provide comments on the final report.

Recommendation A.2

We recommend that the Project Manager, Non-Standard Rotary Wing Aircraft, establish quality assurance procedures for conducting market research to determine the most suitable approach for acquiring services.

Management Comments Required

The Project Manager, Non-Standard Rotary Wing Aircraft, did not provide comments on this recommendation. We request that the Project Manager provide comments on the final report.

Payments for Manuals Not Accepted or Delivered

(FOUO) SES received payments for manuals that were not accepted by or delivered to either ACC-Redstone or NSRWA PMO officials. Before acceptance NSRWA PMO officials evaluated four sets of manuals and found various discrepancies such as outdated technical publication revisions, publications not applicable to the aircraft configuration, and missing documentation. As a result of these discrepancies, the NSRWA PMO Logistics Division Chief issued an internal memorandum to the Business Division Contracts Chief, recommending rejection of the sets of manuals and consideration to the Government for the cost incurred. As a condition for acceptance, the NSRWA PMO and the ACC-Redstone contracting officer requested SES to provide authenticity documentation from the aircraft Original Equipment Manufacturers. SES did not provide the requested documentation, stating that there was no contractual requirement to do so. Furthermore, SES did not deliver the other [REDACTED] sets of manuals, but invoiced¹² and received payment of [REDACTED] representing 58 percent of the proposed cost for all [REDACTED] sets of manuals. As of March 2014, SES had not provided the requested authenticity documentation, and neither ACC-Redstone nor NSRWA PMO officials had accepted nor taken delivery of any of the sets of manuals.

Lack of Adequate Surveillance

ACC-Redstone contracting officers did not establish adequate surveillance procedures for the cost-reimbursable contract. **FAR Subpart 16.3, “Cost-Reimbursement Contracts,”** states that a cost-reimbursement contract may be used only when adequate Government resources are available to manage the contract, including the designation of a qualified Contracting Officer’s Representative (COR). Furthermore, FAR Subpart 46.4, “Government Contract Quality Assurance,” requires the preparation of a quality assurance surveillance plan that includes a description of all work requiring surveillance, location of inspections, and the method for accepting the goods or services. However, when the manuals were purchased, the ACC-Redstone contracting officers did not assign a COR or implement a quality assurance surveillance plan for the cockpit modifications under **Task Order 0102**. In Report No. DODIG-2013-123, “Army Needs To Improve Mi-17 Overhaul Management and Contract Administration,” August 30, 2013, we identified similar surveillance concerns for Mi-17 overhaul efforts under Task Order 0102 and included recommendations to address the lack of

¹² For the sets of manuals SES submitted two invoices, BVN0005 that included a cost of \$187,499, and BVN0007 including a cost of \$28,846.

surveillance. The lack of contract oversight for Task Order 0102 increased the risk that the contractor would receive payments for supplies and services neither delivered nor accepted.

Manuals Not Included as a Deliverable

The ACC-Redstone contracting officer did not modify Task Order 0102 to include the sets of manuals as a deliverable. Defense Federal Acquisition Regulation Supplement Subpart 204.7103-1 requires that “contracts shall identify the items or services to be acquired as separate contract line items unless it is not feasible to do so.” The contracting officer approved via letter the purchase of the sets of manuals but did not modify the contract to include the manuals as a deliverable item. The lack of a modification to establish the manuals as a contract deliverable increased the risk of paying for items neither accepted nor delivered. During a followup meeting, the Director, ACC-Redstone NSRWA Directorate, agreed that a contract deliverable “should have been established for the Mi-17 manuals.” In Report No. DODIG-2013-123, we recommended that the ACC-Redstone Principal Assistant Responsible for Contracting review the performance of the ACC-Redstone contracting officer and initiate administrative action as appropriate. In February 2014, ACC-Redstone confirmed that it had taken administrative action; therefore, we are not making an accountability recommendation in this report.

Improper Payments Made for Manuals

The ACC-Redstone contracting officer did not identify improper payments for the sets of manuals. The ACC-Redstone contracting officer stated, in her response dated May 2013, that she was unaware that SES had billed and had been paid for ■ percent of the ■ sets of manuals while attempting delivery of only 4 sets of manuals. However, SES submitted to the contracting officer project summary reports that identified a contract cost overrun because of the purchase of the ■ sets of manuals. The contracting officer stated that she had reviewed project summary reports to detect payment discrepancies, but had not detected any discrepancies with the payments for the sets of manuals.

The contracting officer was unaware that SES had billed and had been paid for ■ percent of the ■ sets of manuals while attempting delivery of only 4 sets of manuals.

According to the contracting officer, payments for the manuals occurred because under cost-type contracts, SES submits invoices for payment without

the contracting officer's or PMO's review and approval. However, FAR 1.602-2, "Responsibilities," states that contracting officers are responsible for ensuring performance of all necessary actions for effective contracting and ensuring compliance with the terms of the contract and safeguarding the interests of the United States in its contractual relationships. Therefore, the contracting officer was responsible for ensuring that the Government received what it paid for.

ACC-Redstone officials stated that contracting officers did not routinely review invoices under cost-type contracts because they relied on Defense Contract Audit Agency (DCAA) billed costs¹³ reviews at final audit. DCAA's policy is to perform annual incurred cost reviews on a contractor-wide basis, as opposed to on individual contracts. The DCAA-incurred cost reviews are not meant to substitute for oversight by contracting officers or their designated representatives. In Report No. DODIG-2013-123, we previously identified that lack of oversight on payments by the ACC-Redstone contracting officer allowed SES to receive advance payments of \$6.2 million in violation of United States Code and the FAR. The Director, ACC-Redstone NSRWA Directorate, should improve surveillance procedures for ACC-Redstone cost-reimbursable contracts and implement measures to verify that services and supplies received conform to contract requirements before contractors are entitled to payments.

Allowability of Manual Costs

The Army paid ██████ in questionable costs for Mi-17 manuals. See Appendix B for a summary of potential monetary benefits. FAR Clause 52.216-7, "Allowable Cost and Payment," states that payments are made to the contractor in amounts determined to be allowable by the contracting officer. Also, FAR 31.201-2, "Determining allowability," states that a cost must be reasonable to be allowable. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. According to FAR clause 52.216-7, at any time before final payment, the contracting officer may have the contractor's costs audited and reduce any payment for unallowable costs. Task Order 0102 expired on December 31, 2013, and ACC-Redstone officials stated in March 2014 that the Government will resolve issues pertaining to the manuals procurement during contract closeout. However,

¹³ Contract auditors from DCAA are designated representatives of the contracting officer to approve interim invoices. DCAA auditors perform interim invoice evaluations as a non-audit service; therefore, these evaluations are not intended to identify unallowable costs claimed by the contractor that would be found when performing substantive testing. DCAA's policy is to perform annual incurred cost audits to determine the overall acceptability of the contractor's claimed costs.

as of March 2014, the Army has paid ██████ for unacceptable manuals. The Director, ACC-Redstone NSRWA Directorate, should take action to recoup payments for the sets of manuals neither accepted nor delivered.

Recommendations, Management Comments, and Our Response

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, endorsed and forwarded comments from the Deputy to the Commanding General, ACC. The Deputy to the Commanding General, ACC, responded for the Director, ACC-Redstone NSRWA Directorate.

We recommend the Director, Army Contracting Command-Redstone Non-Standard Rotary Wing Aircraft Directorate:

Recommendation B

- 1. Improve surveillance procedures for Non-Standard Rotary Wing Aircraft Directorate cost-reimbursable contracts and implement measures to verify that services and supplies received conform to contract requirements before contractors are entitled to payments.**

Army Contracting Command Comments

The Deputy to the Commanding General, ACC, agreed, stating that a modification to the task order will be executed by September 30, 2014, to withdraw SES's direct billing authority. He stated that removing direct billing authority will require the contractor to submit all invoices to the COR for approval. In addition, the Deputy to the Commanding General stated that in cases where the COR could not obtain sufficient documentation, the COR will elevate the matter to the contracting officer for resolution. No payments would be authorized until the contractor provides adequate supporting documentation. The Deputy to the Commanding General also stated that the ACC-Redstone NSRWA Directorate will conduct training on voucher review by October 15, 2014, for NSRWA PMO CORs and provide a synopsis of this training and a list of attendees by October 30, 2014.

Our Response

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

2. **Take action to recoup payments for the sets of manuals that were not accepted or delivered.**

Army Contracting Command Comments

The Deputy to the Commanding General, ACC, agreed, stating that the Government will negotiate recoupment for the four sets of manuals during contract closeout if SES does not provide documentation supporting Original Equipment Manufacturer compliance. He also stated that the Government will seek to recoup any payments made for the remaining nine sets of manuals.

Our Response

Comments from the Deputy to the Commanding General, ACC, addressed the specifics of the recommendation. However, we request the Deputy to the Commanding General clarify when ACC will seek to recoup payments made for the remaining nine sets of manuals.

Finding C

Unauthorized Commitment for Out of Scope Aircraft Repairs

A NSRWA PMO official created an unauthorized commitment for repair work outside the scope of the Mi-17 cockpit modifications under Task Order 0102. This occurred because:

- without the proper contracting authority to direct a contractor's performance, the NSRWA PMO Assistant Product Manager directed SES to perform work;
- by not providing the contracting officer timely notification of work it regarded as changes to the contract terms and conditions, SES did not comply with LSF contract clauses; and
- the ACC-Redstone contracting officer was not aware that unauthorized personnel had directed SES to perform repair work and did not modify the contract to include the repair work.

These actions resulted in the contractor incurring ██████ in questionable costs for repair work not included in the contract and that may have been covered by an existing overhaul warranty.

Unauthorized Commitment

A NSRWA PMO official created an unauthorized commitment for repair work outside the scope of the Mi-17 cockpit modifications under Task Order 0102. FAR 1.602-3, "Ratification of unauthorized commitments," defines an unauthorized commitment as an agreement between a contractor and a Federal employee who lacks contracting officer authority to begin work. The SOW for Task Order 0102, in effect during 2011, did not include provisions to repair defects and deficiencies from an earlier Mi-17 aircraft overhaul contract. However, in January 2011, the NSRWA PMO Assistant Product Manager directed and SES performed repair work on Mi-17 aircraft that was outside the scope of the cockpit modifications under Task Order 0102. The NSRWA PMO Assistant Product Manager further instructed SES to track all costs separately for invoicing purposes.

SES accounted for ██████ in out of scope repair work and planned to bill the Government for the repair charges after obtaining approval from the contracting officer. By creating an unauthorized commitment, the PMO official caused a FAR violation that undermined the contracting officer's authority and requires Army resources to evaluate the commitment.

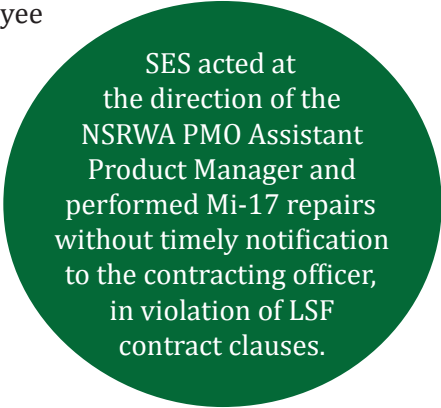
***Non-Standard Rotary Wing Aircraft Program Management
Office Personnel Without Contracting Authority Directed SES
To Perform Work***

Lacking contracting authority to obligate Government funds, the NSRWA PMO Assistant Product Manager for Mi-17 Production nevertheless directed SES to perform repair work on Mi-17 aircraft. FAR Subpart 43.102, "Policy," states that only contracting officers acting within the scope of their authority have the power to execute contract modifications on behalf of the Government. FAR 43.102 further states that other Government personnel "shall not act" in a manner to cause a contractor to believe that they have authority to bind the Government or direct the contractor to perform work that could be subject to a contract modification. The NSRWA PMO Assistant Product Manager directed SES to repair aircraft defects and deficiencies while SES was performing cockpit modifications. However, the Assistant Product Manager who caused the unauthorized commitment no longer works for the NSRWA PMO; therefore, we are not making an accountability recommendation in this report. The Director, Army Contracting Command-Redstone, Non-Standard Rotary Wing Aircraft Directorate, should coordinate with the NSRWA Project Manager to conduct training for NSRWA PMO personnel regarding the need to follow proper contracting procedures to avoid committing unauthorized commitments.

***Science and Engineering Services Did Not Comply With
Contract Terms and the Contracting Officer Was Not Aware of
the Mi-17 Repairs***

SES acted at the direction of the NSRWA PMO Assistant Product Manager and performed Mi-17 repairs without timely notification to the contracting officer, in violation of LSF contract clauses. Specifically, LSF contract clause H-5 states that "the contractor will not accept any instructions issued by any person other than the contracting officer or the COR when one is appointed." In addition, LSF contract clause I-113, which incorporates FAR Subpart 52.243-7, "Notification of Changes," states that the contractor "shall notify" the contracting officer within

10 calendar days of any Government employee conduct that the contractor regards as a change to the contract terms and conditions. After the audit team questioned the contracting officer on the repair costs, she requested information from SES, who notified her that the PMO had directed the repair work. The notification occurred more than 2 years after SES had completed the repairs.



SES acted at the direction of the NSRWA PMO Assistant Product Manager and performed Mi-17 repairs without timely notification to the contracting officer, in violation of LSF contract clauses.

In addition, the contracting officer stated that she was not aware that SES had performed any repair work at the direction of the Assistant Product Manager. When we questioned NSRWA PMO officials regarding a notification to the contracting officer, PMO officials stated they could not locate any documentation showing that they notified the contracting officer of the repair work that SES performed.

Science and Engineering Services Incurred Questionable Repair Costs

SES incurred (b)(4) in questionable repair costs. SES acted on the direction of the NSRWA PMO Assistant Product Manager and incurred costs on repair work outside the scope of the task order. These costs did not comply with contract terms because the contracting officer did not modify the task order to authorize the repair work and SES did not comply with LSF contract clauses H-5 and I-113 in performing the repairs. FAR clause 52.216-7, as incorporated into the LSF contract, states that the Government will make payments to the contractor in amounts determined to be allowable and in accordance with contract terms. Furthermore, FAR Clause 52.242-1, "Notice of Intent to Disallow Costs," allows the contracting officer to issue the contractor a written notice of intent to disallow specified unallowable costs incurred or planned to incur under a contract. Also, SES received the aircraft after a complete overhaul, which included a 1-year or 300 flying hour warranty. The overhaul warranty covered fixing defects and replacing defective components after submission of a claim. In January 2011, when the NSRWA PMO Assistant Product Manager directed and SES performed repair work, all aircraft receiving cockpit modifications had active overhaul warranties. However, the audit team found no instance where NSRWA PMO officials submitted warranty claims to the overhaul contractor before SES performed the repairs.

The Director, ACC-Redstone NSRWA Directorate, stated that she is considering ratification, approving the unauthorized commitment by the NSRWA PMO Assistant Product Manager. However, FAR 1.602-3 imposes some limitations on the contracting officer's authority to implement ratification. A key limitation is that the authority may be exercised only when "the resulting contract would otherwise have been proper if made by an appropriate contracting officer." Another limitation is that "the contracting officer reviewing the unauthorized commitment determines the price to be fair and reasonable." Furthermore, FAR 31.201-3, "Determining reasonableness," states that a cost is reasonable in its nature if it does not exceed the amount that would be incurred by a prudent person conducting competitive business. If the repair work performed by SES was covered under the overhaul warranty, it is questionable whether paying for those repairs was proper and reasonable. Therefore, ratification may not be possible. The Director, ACC-Redstone, NSRWA Directorate, should address the unauthorized commitment of [REDACTED] including determining whether ratification is appropriate in accordance with FAR 1.602-3; or provide notice to SES of the intent to disallow cost in accordance with FAR 52.242-1.

Recommendations, Management Comments, and Our Response

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, endorsed and forwarded comments from the Deputy to the Commanding General, ACC. The Deputy to the Commanding General, ACC, responded for the Director, ACC-Redstone NSRWA Directorate.

Recommendation C

We recommend that the Director, Army Contracting Command-Redstone Non-Standard Rotary Wing Aircraft Directorate:

- 1. Coordinate with the NSRWA Project Manager to conduct training for NSRWA PMO personnel regarding the need to follow proper contracting procedures to avoid committing unauthorized commitments.**

Army Contracting Command Comments

The Deputy to the Commanding General, ACC, agreed, stating the ACC-Redstone NSRWA Directorate would coordinate to conduct training with NSRWA PMO by November 15, 2014, and would provide the training synopsis and list of attendees by November 30, 2014.

Our Response

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

2. **Address the unauthorized commitment of [REDACTED] to include determining whether ratification is appropriate in accordance with FAR 1.602-3; or provide notice to SES of the intent to disallow cost in accordance with FAR 52.242-1.**

Army Contracting Command Comments

The Deputy to the Commanding General, ACC, agreed. He stated the contracting officer's research revealed new information the contracting officer must consider before making a decision. The contracting officer continues to review supporting documentation but has not yet determined whether ratification was appropriate.

Our Response

Comments from the Deputy to the Commanding General, ACC, addressed the specifics of the recommendation. However, we request the Deputy to the Commanding General clarify when ACC will render a decision.

Appendix A

Scope and Methodology

We conducted this performance audit from February 2014 through July 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This is the third report in a series. The first report addressed improper advance payments, unnecessary Mi-17 parts purchased, Mi-17 parts pricing problems, and contract quality assurance concerns for Mi-17 overhauls (Report No. DODIG-2013-123, “Army Needs To Improve Mi-17 Overhaul Management and Contract Administration”). The second report addressed cost-plus-a-percentage-of-cost-type contracting, Mi-17 cockpit modifications proposal analyses, and sole-source subcontracting concerns under Task Order 0102 (Report No. DODIG-2014-096, “Improvements Needed in Contract Administration of Mi-17 Cockpit Modification Task Order”). This current report addresses the award of Mi-17 cockpit modifications, payments for Mi-17 manuals, and an unauthorized commitment under Task Order 0102.

During the series of audits, we visited the NSRWA PMO, ACC-Redstone, and SES in Huntsville, Alabama, to obtain contract files, gather supporting documentation, and interview contracting officers, program management, Defense Contract Management Agency, AED, and SES personnel. We reviewed Task Order 0102 and contract file documentation for compliance with the FAR and Defense Federal Acquisition Regulation Supplement. We examined contractor-provided documentation and interviewed contracting officials to determine whether ACC-Redstone and NSRWA PMO officials properly awarded Mi-17 cockpit modifications, procured sets of manuals, and managed warranty provisions.

We examined contractor invoices and disbursement history reports to identify payments made to SES for training and manuals. Also, we reviewed the overhauls warranty provisions proposed and incorporated into the overhaul contract to

determine what the warranties covered and for what period of time. In addition, we requested the NSRWA PMO provide all warranty claims and supporting documentation to determine how many warranty claims were submitted, and whether the overhaul contractor denied any claim.

Use of Computer-Processed Data

We relied on computer-processed data from the Mechanization of Contract Administration Services Disbursement History and the DoD Electronic Document Access website. The Mechanization of Contract Administration Services Disbursement History reports, which we received from the Defense Contract Management Agency, Contract Manager, showed the detailed obligation and disbursement transactions on the contract. We verified that the information was accurate by matching the disbursement amount from these reports to the invoices. We concluded that data collected from the Mechanization of Contract Administration Services Disbursement History report were sufficiently reliable for determining the amount paid on the contract.

The DoD Electronic Document Access is a Web-based system that provides secure online access, storage and retrieval contracts, and contract modifications to authorized users through DoD. We downloaded Task Order 0102 and modifications from the DoD Electronic Document Access website. To verify the accuracy of the Electronic Document Access contract value, we compared the information that we obtained from Electronic Document Access with contract documentation from the ACC-Redstone contracting officer. We concluded that data collected from the DoD Electronic Document Access database were sufficiently reliable for the purpose of identifying the Task Order 0102, its modifications, and the total amount of Mi-17 work awarded to SES.

Use of Technical Assistance

We did not use technical assistance in conducting this audit.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), Department of Defense Inspector General (DoD IG), Special Inspector General for Afghanistan Reconstruction (SIGAR), and Army Audit Agency issued seven reports discussing Mi-17 aircraft. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>. Unrestricted SIGAR reports can be accessed at <http://www.sigar.mil/>.

Government Accountability Office

GAO Report No. GAO-13-319R, "Mi-17 Helicopter Procurement," April 1, 2013

DoD IG

DoD IG Report No. DODIG-2014-096, "Improvements Needed in Contract Administration of Mi-17 Cockpit Modification Task Order," July 28, 2014

DoD IG Report No. DODIG-2013-123, "Army Needs To Improve Mi-17 Overhaul Management and Contract Administration," August 30, 2013

DoD IG Report No. DODIG-2012-135, "Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays," September 27, 2012

DoD IG Report No. DODIG-2012-036, "DoD Needs to Improve Accountability and Identify Costs and Requirements for Non-Standard Rotary Wing Aircraft," January 5, 2012

Special Inspector General for Afghanistan Reconstruction

SIGAR Report No. SIGAR Audit 13-13, "Afghan Special Mission Wing: DOD Moving Forward with \$771.8 Million Purchase of Aircraft that the Afghans Cannot Operate and Maintain," June 28, 2013

Army Audit Agency

Army Audit Agency Report No. A-2011-0060-ALM, "Mi-17 Helicopter Airworthiness and Flight Safety," February 11, 2011

Appendix B

Summary of Potential Monetary Benefits

Recommendations	Type of Benefit	Amount of Benefit
B.2	Questioned costs. Recoup payments for unallowable costs.	(b)(4)
C.2	Questioned costs. Provide notice to contractor of the intent to disallow cost.	(b)(4)
	Total	\$367,359

Management Comments

U.S. Army Materiel Command



REPLY TO
ATTENTION OF:

DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
4400 MARTIN ROAD
REDSTONE ARSENAL, AL 35898-5000

AMCIR

AUG 20 2014

MEMORANDUM FOR Department of Defense Inspector General (DoDIG), ATTN:
(b)(6) Acquisition, Parts, and Inventory
4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Command Comments on DoDIG Draft Report, Improvements Needed in
Contract Award of Mi-17 Cockpit Modification Task Order, Project D2014AS-0111

1. The U.S. Army Materiel Command (AMC) has reviewed the subject draft report and the response from the U.S. Army Contracting Command (ACC). AMC endorses the enclosed ACC response.

2. The AMC point of contact is (b)(6)
(b)(6)

Encl

JOHN B. NERGER
Executive Deputy to the
Commanding General

U.S. Army Materiel Command (cont'd)REPLY TO
ATTENTION OF:**DEPARTMENT OF THE ARMY**
U.S. ARMY CONTRACTING COMMAND
3334A WELLS ROAD
REDSTONE ARSENAL, AL 35898-5000

AMSCC-IR

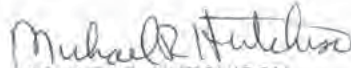
AUG 11 2014

MEMORANDUM FOR (b)(6) Internal Review and Audit
Compliance Office, Headquarters, U.S. Army Materiel Command, 4400 Martin Road,
Redstone Arsenal, AL 35898-5340

SUBJECT: Inspector General, Department of Defense Audit Report: Improvements
Needed in Contract Award of Mi-17 Cockpit Modification Task Order (Project No.
D2014-D000AS-0111.000) (D1420) (1925)

1. Memorandum and Audit Report, Inspector General, Department of Defense,
18 July 2014, subject as above.
2. The Army Contracting Command (ACC) provides the enclosed comments, in
response to the referenced document.
3. The ACC point of contact is (b)(6) Internal Review and Audit
Compliance Office (b)(6)
(b)(6)

Encl


MICHAEL R. HUTCHISON
Deputy to the Commanding General

U.S. Army Materiel Command (cont'd)

COMMAND COMMENTS

In Response to July 18, 2014 Request for Comments
On DODIG Draft Report: Improvements Needed
In Contract Award of Mi-17 Cockpit Modification
Task Order W58RGZ-09-D-0130-0102
(Project No. D2014-D000AS-0111.000)

Following, quoted from the audit report, are the OIG recommendations; and ACC-Redstone's (ACC-RSA's) responses to the recommendations.

Recommendation B.1:

"Improve surveillance procedures for Non-Standard Rotary Wing Aircraft Directorate cost reimbursable contracts and implement measures to verify that services and supplies received conform to contract requirements before contractors are entitled to payments."

Command Comments: Concur:

A modification to Task Order 0102 will be executed by 30 September 2014 withdrawing SES's direct billing authority. This action, in concert with the COR reviewing the adequacy of supporting documentation prior to payment, and the COR training addressed below, will significantly improve contract surveillance.

Currently SES has the ability to direct bill via Wide Area Work Flow (WAWF) and payment is approved by DCAA. Removing direct billing authority will require all invoices/vouchers to be submitted to the COR, who will approve the voucher for payment. Once approval has been annotated on the invoice/voucher, the COR will provide the invoice or public voucher and corresponding DD Form 250, Material Inspection and Receiving Report, to the contractor for uploading into WAWF, or as agreed to by the contractor. The COR will approve the invoice in WAWF after the contractor has uploaded supporting documentation.

The ACC-RSA Nonstandard Rotary Wing Aircraft (NSRWA) Contracts Directorate will assure that training specific to voucher review, to include verification, insofar as practicable, that the labor, material and other costs billed represent reasonable expenditures for the performance of the effort in accordance with the contract/task order, will be conducted by 15 October 2014 for the COR on this task order and for other CORs in the NSRWA Project Management Office (PMO). Such reviews shall be documented and maintained by the COR.

A synopsis of this training and a list of attendees will be provided to the IG by 30 October 2014.

U.S. Army Materiel Command (cont'd)

In cases where sufficient documentation cannot be obtained, the COR will elevate this matter to the Contracting Officer for resolution. Invoices will be rejected and no payment authorized until adequate supporting documentation is provided.

Recommendation B.2:

"Take action to recoup payments for the sets of manuals that were not accepted or delivered."

Command Comments: Concur:

The Government has not received the letter of authenticity or original equipment manufacturer (OEM) compliance for the four sets of manuals that were provided for approval. On 1 July 2014, a meeting was held between the contractor, SES, and the Government to discuss the open actions on Task Order 0102. As a result of this meeting, SES agreed to continue to pursue proper documentation that (b)(4) manuals are compliant with OEM procedures. If documentation supporting OEM compliance is not provided, the Government will negotiate recoupment of the payment for the four sets of manuals during contract close-out. The Government will also seek to recoup any payments made against the remaining nine sets of manuals. Another meeting with SESI is expected NLT 20 August 2014. Although closeout of the task order has been initiated, due to the complexity of the task order, we do not have a projection for the date of completion of contract closeout.

Recommendation C.1: "Coordinate with the NSRWA Project Manager to conduct training for NSRWA PMO personnel regarding the need to follow proper contracting procedures to avoid committing unauthorized commitments."

Command Comments: Concur:

The ACC-RSA NSRWA Contracts Directorate will coordinate with the NSRWA PMO to conduct training for NSRWA PMO personnel regarding the need to follow proper contracting procedures in order to avoid unauthorized commitments. The training will be conducted by 15 November 2014.

A synopsis of this training and a list of attendees will be provided to the IG by 30 November 2014

U.S. Army Materiel Command (cont'd)

Recommendation C.2:

"Address the unauthorized commitment of \$151,014 to include determining whether ratification is appropriate in accordance with FAR 1.602-3; or provide notice to SES of the intent to disallow cost in accordance with FAR 52.242-1."

Command Comments: Concur:

The Contracting Officer's determination of whether a ratification is appropriate or to disallow costs has not yet been made. The Contracting Officer is continuing to review supporting documentation in regard to the repair work performed under the alleged unauthorized commitment. Unfortunately, as the Contracting Officer has conducted research on this issue, new information has surfaced, requiring further consideration by the Contracting Officer before a decision can be made. A meeting with SES is planned NLT 20 Aug 14.

Note: There is no content in this document that is exempt from release under the Freedom of Information Act.

Acronyms and Abbreviations

ACC	Army Contracting Command
AED	Aviation Engineering Directorate
(b)(4)	
COR	Contracting Officer's Representative
DCAA	Defense Contract Audit Agency
FAR	Federal Acquisition Regulation
GAO	Government Accountability Office
IAC	Interstate Aviation Committee
IDIQ	Indefinite-Delivery, Indefinite-Quantity
LSF	Logistics Support Facility
MMHP	Mil Moscow Helicopter Plant
NSRWA	Non-Standard Rotary Wing Aircraft
NVIS	Night Vision Imaging System
PEO	Program Executive Office
PMO	Project Management Office
SES	Science and Engineering Services
SOW	Statement of Work
(b)(4)	

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD Hotline Director. For more information on your rights and remedies against retaliation, visit www.dodig.mil/programs/whistleblower.

For more information about DoD IG reports or activities, please contact us:

Congressional Liaison

congressional@dodig.mil; 703.604.8324

Media Contact

public.affairs@dodig.mil; 703.604.8324

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