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Audit



Report

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OFFICE OF THE INSPECTOR GENERAL

**TIME-AND-MATERIALS BILLINGS ON
AIR FORCE CONTRACT F33600-86-D-0295**

Report Number 93-023

November 13, 1992

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The following acronyms are used in this report.

ACO.....Administrative Contracting Officer
AFAA.....Air Force Audit Agency
AFFARS.....Air Force Federal Acquisition Regulation Supplement
AFR.....Air Force Regulation
AFSPACECOM.....Air Force Space Command
CICA.....Competition in Contracting Act
CSPO.....Communications Systems Program Office
ESC.....Electronic Security Command
ESI.....Electrospace Systems, Incorporated
FAR.....Federal Acquisition Regulation
GAO.....General Accounting Office
MAC.....Military Airlift Command
O&M.....Operation and Maintenance
PACAF.....Pacific Air Forces
SCIF.....Sensitive Compartmented Information Facility
T&M.....Time-and-Materials
TAC.....Tactical Air Command
UPS.....Uninterruptible Power Supply



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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November 13, 1992

**MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)**

**SUBJECT: Audit Report on Time-and-Materials Billings
on Air Force Contract F33600-86-D-0295
(Report No. 93-023)**

We are providing this final report for your information and use. We performed the audit in response to a request from the House Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce. Comments on a draft of this report were considered in preparing the final report.

Comments on a draft of this report conformed to the requirements of DoD Directive 7650.3 and there are no unresolved issues. Therefore, no additional comments are required. If you wish to comment, please provide the comments by January 13, 1993.

If you have any questions on this audit, please contact Mr. Salvatore D. Guli at (703) 692-3025, (DSN 222-3025) or Ms. Sandra L. Fissel at (703) 614-9645 (DSN 224-9645). The planned distribution of this report is listed in Appendix O. The courtesies extended to the staff are appreciated.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

cc:

Secretary of the Air Force
Director of Defense Procurement
Comptroller of the Department of Defense
Assistant Secretary of the Air Force (Acquisition)
Air Force General Counsel

Office of the Inspector General, DoD

AUDIT REPORT NO. 93-023
(Project No. 1CF-5009)

November 13, 1992

**TIME-AND-MATERIALS BILLINGS ON AIR FORCE
CONTRACT F33600-86-D-0295.**

EXECUTIVE SUMMARY

Introduction. We performed this audit in response to a request from the House Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce (the Subcommittee). On December 17, 1985, the Air Force Logistics Command awarded requirements contract F33600-86-D-0295, with firm-fixed price and time-and-materials (T&M) provisions, to Electrospace Systems, Incorporated (ESI) for \$12.6 million to install and maintain secure communications switches (Red Switches). The contract was valued at \$122.4 million as of March 1991. Certain facts, considered to be within the purview of an ongoing Air Force criminal investigation of the Red Switch program, and pending civil and criminal prosecutive action by the U.S. Attorney, Department of Justice, were omitted from this report. The recommendations made in this report address the administrative remedies the Air Force must take to improve internal controls over the procurement process and to act on funding violations. The report does not provide all-inclusive coverage of the events that occurred during the Red Switch procurement, and is limited to those facts that fall within the scope of the audit.

Objective. We performed the audit to address the Subcommittee's request to determine if work was performed that was outside the scope of the contract and whether incompetent and unverifiable labor hours were billed and paid for through the T&M line items in the contract. We expanded the objectives to evaluate the propriety of contracting procedures and funding used on the subject contract.

Audit Results. The Subcommittee's concerns about improper purchases under the T&M portion of the contract were valid. We could not determine if incompetent labor was billed because of a lack of detailed Air Force and contractor records. Further, we found no evidence to show that unverifiable labor hours were billed to the contract.

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Statement A auth: DOD IG
Ms. Saudra L. Fissel 614-9645)
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The audit showed that Air Force contract F33600-86-D-0295 was improperly awarded and managed. This contributed to contract growth of \$109.8 million over a 5-year period (Finding A).

Air Force contracting officers improperly used Operation and Maintenance (O&M) funds and Industrial funds to finance work performed under delivery orders issued against the contract. The wrong appropriated monies were used to acquire about \$8.7 million of Red Switch systems. Also, about \$330,465 in O&M funds was improperly used to construct sensitive compartmented information facilities. Further, at least \$265,000 of expired O&M funds and at least \$900,000 of O&M funds were improperly obligated at fiscal year-end to acquire services in subsequent years that did not meet the bona fide need criteria (Finding B).

Internal Controls. We determined that there were material internal control weaknesses in the procurement and funding areas. Internal controls were not effective to ensure that Federal Acquisition Regulations and that public law and DoD regulations on funding were followed. Details of the weaknesses are discussed in Part I and Part II of this report.

Potential Benefits of Audit. No readily identifiable potential monetary benefits are associated with this audit. However, implementing the recommendations in this report will improve the efficiency and effectiveness of the award, administration, and funding of Air Force contracts. A list of the potential benefits of audit are in Appendix M.

Summary of Recommendations. We recommended that disciplinary action be initiated against Air Force officials; that the Air Force bring its procurement regulations in line with the Defense Federal Acquisition Regulation Supplement; that the Air Force establish specific procedures to strengthen internal controls over the award, administration, and funding of Air Force contracts; and that the Air Force make appropriation adjustments and report any funding violations to the appropriate authorities.

Management Comments. The Air Force generally concurred with our recommendations. However, given the imminent release of additional information concerning the ongoing Air Force investigation, consideration of disciplinary actions in Recommendations A.1. and A.2 will be deferred until the impact of that information can be assessed. The Air Force acknowledges that problems were associated with contract F33600-86-D-0295. The Air Force has initiated corrective actions on those items that can be corrected, and is instituting policies to preclude a reoccurrence.

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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

PART I - INTRODUCTION

Background

We performed this audit at the request of the House Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce (the Subcommittee) shown in Appendix A. The Subcommittee questioned the validity of the time-and-materials (T&M) billings to the Air Force on contract F33600-86-D-0295. The contract was awarded as a fixed-price contract. However, it included line items that were priced on a T&M basis. Federal Acquisition Regulation (FAR) 16.601 states that a T&M contract may be used only when it is not possible at the time of placing the contract to accurately estimate the extent or duration of the work or to anticipate costs with any reasonable degree of confidence. The FAR also states that a T&M contract provides no positive profit incentive to the contractor for cost control or labor efficiency. Therefore, appropriate Government surveillance of contractor performance is required to give reasonable assurance that efficient methods and effective cost controls are being used.

Contract F33600-86-D-0295 was awarded by the Air Force Logistics Command (the Logistics Command) to Electrospace Systems, Incorporated (ESI), a subsidiary of the Chrysler Corporation, on December 17, 1985, for \$12.6 million to upgrade communications capability. The upgrade was to be accomplished by replacing existing emergency action consoles with new terminal/console equipment and by procuring digital switching subsystems for application in a secure environment. This communications system was commonly referred to as a "Red Switch" system. The contract was valued at \$122.4 million as of March 1991.

Further details about contract F33600-86-D-0295 and its relationship to Red Switch requirements in the DoD are explained in Appendix B. A chronology of the Red Switch program is shown in Appendix C.

Certain facts, considered to be within the purview of an ongoing Air Force criminal investigation of the Red Switch program, and pending civil and criminal prosecutive action by the U.S. Attorney, Department of Justice, were omitted from this report. The recommendations made in this report address the administrative remedies the Air Force must take to improve internal controls over the procurement process and to act on funding violations. The report does not provide all-inclusive coverage of the events that occurred during the Red Switch procurement, and is limited to those facts that fall within the scope of the audit.

Objectives

The objectives of the audit were to address the concerns of the Subcommittee about T&M billings made to the Air Force. We specifically addressed the following questions:

o How did the contract define the T&M contract line items, especially installation, installation labor, installation miscellaneous parts and materials, and engineering technical assistance?

o How much of the contract constituted T&M work?

o What was purchased under the contract line items for miscellaneous parts and materials that did not appear to meet the contract definition?

o What improper activities, incompetent labor, and unverifiable labor hours were billed under T&M contract line items?

Answers to the Subcommittee's questions are provided in Other Matters of Interest.

In addressing these concerns, we expanded our objectives to include an evaluation of the propriety of contracting procedures and funding used on contract F33600-86-D-0295.

Scope

We identified 97 delivery orders issued against contract F33600-86-D-0295 by 3 Air Force commands. Total contractor billings to the Air Force from contract award through March 31, 1991, for the 97 delivery orders were \$122.4 million. Details are shown in the following chart.

<u>Delivery Order Issued By</u>	<u>Number of Delivery Orders Issued</u>	<u>Firm- Fixed- Priced Billings (Millions)</u>	<u>T&M Billings (Millions)</u>	<u>Total Amount Billed (Millions)</u>
Air Force Logistics Command	14	\$ 1.8	\$ 0.8	\$ 2.6
Air Force Communications Command	74	69.5	49.0	118.5
Tactical Air Command	<u>9</u>	<u>1.0</u>	<u>0.3</u>	<u>1.3</u>
Totals Percents	<u>97</u>	<u>\$72.3</u> (59)	<u>\$50.1</u> (41)	<u>\$122.4</u> (100)

We concentrated our audit effort on delivery orders that the Air Force Communications Command (the Communications Command) issued, which consisted of 74 (76 percent) of the 97 delivery orders, accounting for \$118.5 million (97 percent) of the \$122.4 million total billings. Details on the delivery orders, which were issued from December 31, 1985, through November 30, 1989, for Red Switch systems and maintenance, are shown below.

<u>Delivery Order For</u>	<u>Number of Delivery Orders Issued</u>	<u>Firm-Fixed- Priced Billings</u> (Millions)	<u>T&M Billings</u> (Millions)	<u>Total Amount Billed</u> (Millions)
Systems	32	\$57.5	\$48.7	\$106.2
Maintenance	42	12.0	0.3	12.3
Total	74	\$69.5	\$49.0	\$118.5
Percents		(59)	(41)	(100)

The delivery orders and the locations where Red Switch systems were installed and maintained are listed in Appendix D. The costs associated with each delivery order are in Appendix E. We reviewed 4 of the 32 delivery orders to procure systems issued by the Communications Command. Details on each delivery order that we reviewed are shown below.

<u>Delivery Order Number</u>	<u>Date of Issue</u>	<u>Command Receiving Benefit</u>	<u>Initial Delivery Order Amount</u> (Millions)	<u>Total Dollars Billed on the Delivery Order March 31, 1991</u> (Millions)
RM-03	December 31, 1985	Tactical Air Command	\$0.7	\$ 2.2
RM-10	December 24, 1985	Military Airlift Command	1.8	6.3
RM-12	May 19, 1986	Air Force Communications Command	0.5	4.7
RM-18	September 16, 1986	Air Force Space Command	4.1	15.1
Totals			7.1	28.3

To achieve the audit objectives, we reviewed Air Force and contractor records for the period FY 1985 through FY 1991. We also relied in part on computer-processed data contained in the contractor's job-cost transaction listings. To determine the reliability of these data and to minimize the effect of incorrect data on the audit, we traced the individual job-cost transaction listings to the source documents (vendors' invoices) and the monthly total job costs to the contractor's monthly billings (public vouchers) made to the Air Force. We also reversed the review process and traced source documents and the contractor's monthly billings back to the job-cost transaction listings to determine if the costs were included in the job-cost transaction listings. When these data are viewed in context with other available documented evidence of costs, we believe that the data were accurate and reliable to support the opinions, conclusions, and recommendations in this report.

This economy and efficiency audit was performed from February 1991 to April 1992 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Appendix O.

Internal Controls

We evaluated internal controls for the procurement and funding areas. The audit identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were not adequate to ensure that acquisition planning, to include establishment of program requirements, was performed. Controls also were not adequate to ensure that the most suitable type of contract was selected for the acquisition, and that contracting officers exercised their responsibilities to award and administer the contract in accordance with the FAR. Also, internal controls were ineffective in preventing out-of-scope purchases. Details are in Finding A.

Further, internal controls were not in place to ensure that the proper funds were obligated for system purchases, that annual appropriations were obligated for properly incurred expenses during the period of availability, and that annual appropriations were properly obligated in the year of availability. Details are in Finding B.

Recommendations A.1., A.2., A.3., A.4., B.1., B.2., B.3., B.4., B.5., and B.6., if implemented, will correct these weaknesses. We have determined that monetary benefits will not be realized by implementing the recommendations. A copy of the final report will be provided to the senior officials responsible for internal controls within the Office of the Secretary of the Air Force.

Prior Audits and Other Reviews

We identified two audit reports related to the contract. General Accounting Office (GAO) Audit Report No. NSIAD-89-124 (OSD Case No. 8025), "Contract Pricing, Overpricing of Secure Voice Communication Systems," June 1989, addressed the accuracy of cost or pricing data provided by ESI on contract F33600-86-D-0295. Air Force Audit Agency (AFAA) Project No. 7215211, "Management of the Red Switch Program," October 14, 1988, addressed whether the Air Force had effectively and efficiently managed the Red Switch Program. Details related to both audits are shown in Appendix F.

Other Matters Of Interest

In direct response to the Subcommittee's questions, we determined that the contract did not define the T&M contract line items. We also determined that as of March 31, 1991, the Air Force was billed about \$50.1 million for T&M costs (41 percent of the \$122.4 million total billings). Since the contract did not define the T&M contract line items, we identified major purchases that did not appear to apply to the installation of an "off-the-shelf" secure voice communications system. The AFAA identified the same type of out-of-scope work in its October 14, 1988, report. Improper activities performed on this contract were related to the purchases that appeared to be outside the scope of the contract (Finding A). We found that the Air Force ordered and directed the contractor to perform the out-of-scope purchases and activities. Based on available Air Force documentation, the lack of contractor records on employees' daily tasks, and the number of variables involved, we were unable to determine whether incompetent labor was billed to the Government. To determine if unverifiable labor hours were billed under the T&M contract line item, we traced contractor billings to employee time cards, which identified the projects to which each employee was assigned during the period. Employee time cards supported the billings.

PART II - FINDINGS AND RECOMMENDATIONS

A. RED SWITCH CONTRACT

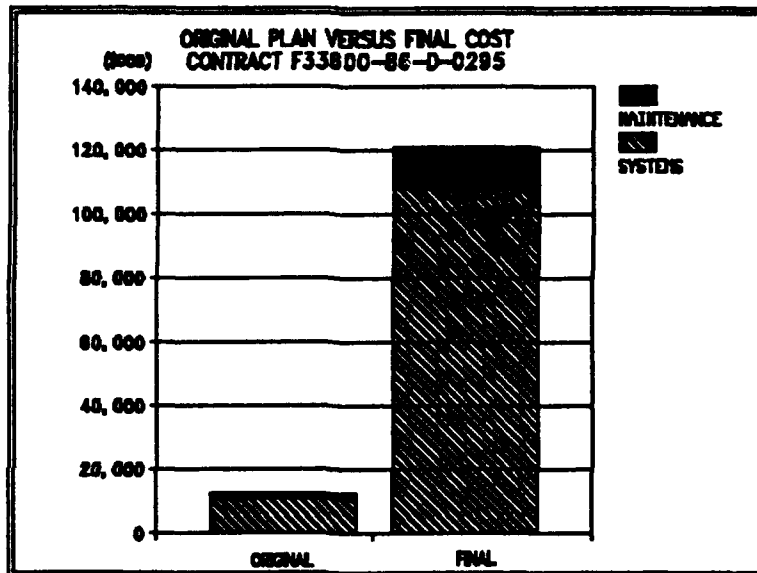
Air Force contract F33600-86-D-0295 was not properly planned, awarded, or administered. Contracting irregularities occurred because the Air Force did not adhere to basic contracting practices in planning, awarding, delegating responsibility for, and administering the contract. As a result, these conditions contributed to growth in the contract from an initial planned program cost and award of \$12.6 million in FY 1986 to \$122.4 million through FY 1991.

DISCUSSION OF DETAILS

Acquisition Planning

In its desire to fulfill Red Switch requirements, both defined and undefined, the Air Force did not follow the required acquisition process for award and administration of contract F33600-86-D-0295. FAR subpart 7.102, "Acquisition Planning Policy," requires agencies to perform acquisition planning and to conduct market surveys for all acquisitions in order to promote and provide for full and open competition. In addition, a written acquisition plan should be developed for complex and costly acquisitions. Acquisition planning to establish total Red Switch systems program requirements was not provided for by the Air Force. Our review showed that the Air Force did not determine how many Red Switch systems were needed, did not design the configuration of each system, did not determine where the systems were needed, and did not determine the estimated cost of each system, including the life-cycle cost. Lack of acquisition planning contributed to the uncontrolled growth of contract F33600-86-D-0295, in both numbers of Red Switch systems procured and the costs to get the systems in place and operational.

The following graph illustrates the difference between the Air Force's planned program cost at contract award on December 17, 1985, and the actual cost incurred by the Government as of March 1991.



The contract was solicited, negotiated, and awarded by the Wright-Patterson Contracting Center (the Contracting Center) and manually approved by the Air Force Logistics Command (now the Air Force Materiel Command) to fulfill the command and control communications upgrade requirements of the headquarters of the Logistics Command and five Air Logistics Centers. However, when the contract was awarded, the Communications Command had been added as an unrestricted ordering activity. The Communications Command ultimately procured and installed 48 secure and 14 nonsecure Red Switch systems, valued at \$106.2 million, under the contract. These requirements were neither defined nor included in the original acquisition process by either the Logistics Command or the Contracting Center.

Air Force Logistics Command requirements. In May 1985, the Logistics Command identified requirements for Red Switch systems at its headquarters at Wright-Patterson Air Force Base and the five Air Logistics Centers at Warner Robins, Georgia; Sacramento, California; San Antonio, Texas; Ogden, Utah; and Oklahoma City, Oklahoma. The stated requirements were for "off-the-shelf" systems. The Logistics Command perceived that contractor installation involved only plugging units into jacks and other power connections, providing wiring and connections between subassemblies that made up the system, and providing limited effort to relocate receptacles, if necessary. The Logistics Command contemplated that military personnel from base operations would provide the power and wiring changes required to install the Red Switch systems. The Contracting Center issued solicitation number F33600-85-R-0399 to fulfill the Logistics Command's requirements.

The Contracting Center negotiated two contracts, totaling \$13.6 million, with ESI, the only offerer to the solicitation. The contracts were F33600-85-C-0621 for \$1 million and F33600-86-D-0295 for \$12.6 million. As of March 31, 1991, the Logistics Command had spent about \$3.6 million (\$1 million on contract F33600-85-C-0621 and \$2.6 million on contract F33600-86-D-0295) for two secure and one nonsecure Red Switch systems. The systems included equipment, installation, maintenance, training, and operators' manuals for its headquarters and the San Antonio Air Logistics Center. No orders were placed for Red Switch systems for the other four Air Logistics Centers. As a result, the Red Switch systems requirements of the Logistics Command for solicitation number F33600-85-R-0399 were overstated by \$10 million.

Air Force Communications Command requirements. In September 1985, before the Logistics Command approved the award of any contract to ESI, the Communications Command identified Red Switch systems requirements for four other major commands: the Military Airlift Command (MAC); the Pacific Air Forces (PACAF); the Tactical Air Command (TAC); and the Electronic Security Command (ESC). The Communications Command stated that the Red Switch systems requirements of the Logistics Command were only \$1.8 million, not \$13.6 million as solicited. The Communications Command also stated that the combined hardware orders for the four major commands and for the Logistics Command were estimated at \$14 million. However, the Communications Command did not identify to either the Logistics Command or the Contracting Center the specific requirements of the four major commands.

On November 2, 1985, the Logistics Command authorized the Communications Command to order against the Red Switch contract that the Contracting Center was negotiating. The Contracting Center did not know the extent of the requirements to be fulfilled or the extent of the orders to be placed by the Communications Command on behalf of the other four major commands. Further, the Contracting Center did not resynopsise the changed requirements to be fulfilled by the impending contract because it assumed the Communications Command would only place orders for \$10 million, which was the value of the planned requirements overstated by the Logistics Command. However, the Contracting Center added the Communications Command to the contract as an ordering activity without any restrictions on the amount of orders to be placed.

As of March 31, 1991, ESI had billed the Air Force for more than \$118.5 million for 74 orders placed by the Communications Command against contract F33600-86-D-0295. The orders are listed in Appendix D, and the costs associated with each delivery order are listed in Appendix E. The costs included equipment, installation, maintenance, training, and operators' manuals for 48 secure and 14 nonsecure Red Switch systems. The Red Switch systems

fulfilled requirements for 29 Defense Components located at 28 Government sites worldwide. The Communications Command placed orders for requirements that surpassed the planned requirements of the Logistics Command by more than \$108.5 million.

Contract Award

Competition in Contracting Act. The Competition in Contracting Act (CICA), U.S.C., title 10, sec. 2304, requires full and open competition when conducting a procurement of property or services unless a limited number of exceptions apply. The FAR defines "full and open competition," when used with respect to a contract action, to mean that all responsible sources are permitted to compete. CICA is implemented in the FAR at subpart 6.1, "Full and Open Competition," and applies to all acquisitions, but not to contract modifications that are within the scope of an existing contract. The FAR requires that all contract modifications beyond the scope of an existing contract be made only after full and open competition.

Noncompetitive procurement of additional requirements. Our audit results confirmed the September 23, 1986, opinion of the Air Force Staff Judge Advocate (Appendix C) and the October 14, 1988, opinion of the AFAA (Appendix F) that the Logistics Command should have resynopsized the additional Red Switch requirements. Both opinions related to the orders placed by the Communications Command, and stated that the failure to subject these additional requirements to full and open competition violated CICA. The Headquarters, Air Force, Director of Contracting and Manufacturing Policy arrived at a similar conclusion based on comments made by the Air Force General Counsel (Appendix G) concerning the Red Switch procurement.

Requirements. We found that the requirements synopsis in the Commerce Business Daily did not include the requirements ordered by the Communications Command. The solicitation opened June 3, 1985, and closed July 2, 1985. In November 1985, during negotiations with ESI, the Logistics Command authorized the Contracting Center to add the requirements for the Communications Command to the negotiations. However, solicitation F33600-85-R-0399 was not resynopsized to reflect the additional requirements.

The Contracting Center modified contract F33600-86-D-0295 23 times between February 28, 1986, and September 10, 1990. In those modifications, the Contracting Center added 71 contract line items to the original 30 contract line items for a total of 101 contract line items. Each modification stated that there was no change in the value of the contract.

When the Communications Command requested to be added to the contract for ordering purposes, the Command stated there would be

no prejudice to the acquisition process by adding MAC, PACAF, TAC, and ESC because there would be no change to the approximate equipment quantities in the existing bid schedule. The Communications Command stated that the only change was essentially that of delivery point from the Logistics Command and the five Air Logistics Centers to either MAC, PACAF, TAC, or ESC. These statements proved to be erroneous because the Communications Command placed orders for 29 Defense Components, and did not limit its ordering authority to the 4 major Air Force commands.

Noncompetitive orders. The Communications Command placed 74 orders under the subject contract. None of the orders issued by the Communications Command were competed.

During the first month of the contract, the Communications Command's first seven delivery orders, alone, exceeded the negotiated contract price. As of March 31, 1991, Air Force had been billed \$118,485,570.78, almost 840 percent over the estimated contract price, for orders issued by the Communications Command. Despite the Air Force changes in the scope of the contract, the number of deliverable line items, the number of ordering activities, and the value of the contract, no action was taken to recompet the contract or to justify sole-source procurement. Consequently, all responsible sources were not reasonably permitted to bid for the requirements contained in the contract or the orders under the contract.

These actions demonstrated that contract F33600-86-D-0295 was not awarded with full and open competition and that the delivery orders issued by the Communications Command violated CICA.

Contract type. In the solicitation, the Logistics Command and the Contracting Center stated they planned to award one fixed-price contract. Subsequently, because funds were near expiration, they decided but did not advertise their intent to divide the requirements between two contracts. The first contract awarded, F33600-85-C-0621, was a fixed-price contract for a Red Switch system at the headquarters of the Logistics Command. The second contract, F33600-86-D-0295, was a hybrid contract, having segments that were priced on a fixed-price basis, a T&M basis, and an indefinite delivery basis. For some users it was perceived to be a requirements contract and for others an indefinite quantity contract.

According to FAR part 16, "Types of Contracts," each contract type has its own purpose, its own method of application, and its own required Government surveillance. The Logistics Command and the Contracting Center awarded a contract that was not defined well enough to specifically identify the supplies and services that the Air Force wanted to buy. The Logistics Command and the Contracting Center also did not incorporate controls to allow for

adequate Government surveillance over the work being received. The lack of contract definition and Government surveillance made it difficult for the Government to properly administer the contract and to safeguard the interest of the Government.

Time-and-materials contracting. As of March 31, 1991, ESI had billed the Air Force \$50.1 million for work performed on a T&M basis. The contract included three line items, priced on a T&M basis, that were for systems installation, on-call maintenance, and engineering technical assistance. Systems installation was divided into six categories: installation labor hours; subcontractor installation labor hours; subcontractor overtime labor hours; miscellaneous parts and materials; travel, which included per diem and car rental; and progress review meetings. On-call maintenance was divided into four categories: travel, which included per diem and car rental; maintenance labor hours; modular card repairs; and miscellaneous parts and materials. All three T&M line items were priced with base-year prices for calendar year 1985 and escalated prices for each calendar year 1986 through 1989.

Neither the contract nor the delivery orders defined the T&M line items beyond the category names. Specific work to be accomplished was identified in tasking orders issued directly to the contractor by the program managers at the Communications Command. The official division designation for the program managers was "AIZ," the Emergency Requirements Office of the Acquisition and Integration Division. However, these program managers from the Communications Command were known to the other major commands as the "A-Team." The tasking orders were not made a part of the official contract file. As such, the tasking orders were not available to the contracting officers who issued the delivery orders and modifications or to the administrative contracting officer (ACO) who administered the contract. Without definitions and procedures, the T&M line items did not provide the criteria needed to place orders, administer the contract, and safeguard the Government's interests.

Time-and-materials determination and finding. A T&M contract provides for acquiring supplies or services on the basis of direct labor hours at specified fixed hourly rates and materials at cost. According to FAR 16.601, a T&M contract may be used only when it is not possible at the time of placing the contract to accurately estimate the extent or duration of the work or to anticipate costs with any reasonable degree of confidence. When using a T&M contract, the contracting officer is required to execute a determination and finding stating that no other contract type is suitable. The Logistics Command and the Contracting Center did not do this for the T&M line items. Also, the contract must include a ceiling price to limit and safeguard the interest of the Government. Subsequent changes in the ceiling price must be justified and documented in the contract file. The

contractor assumes the risk for exceeding the contract ceiling price. Since neither the contract nor the T&M line items had a ceiling price, the Government assumed all the risk.

Contracting Responsibility

FAR subpart 1.6, "Contracting Authority and Responsibilities," states that contracting officers are responsible for entering into and administering contracts in accordance with all applicable requirements of law, regulation, and procedures. Contracting officers are also 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 Government in its contractual relationships. The Logistics Command Assistant Deputy Chief of Staff for Contracting and Manufacturing (Assistant Deputy) signed the approval of contract F33600-86-D-0295 on December 17, 1985. The Wright-Patterson contracting officer solicited, negotiated, awarded, and modified the contract. The Communications Command contracting officers issued the delivery orders and modifications against the contract. Each of the aforementioned individuals violated FAR subpart 1.6 and did not properly perform their duties.

Logistics Command Assistant Deputy Chief of Staff. The Assistant Deputy relinquished his contracting responsibilities by not establishing controls that would have protected the contract from misuse. He indicated that he approved the contract on the recommendation of the Logistics Command Contract Review Committee. However, documentation of the committee's review and recommendation were not provided. The Assistant Deputy did not require that the provisions of FAR 16.601 be applied to the T&M line items of the contract. Therefore, no determination and finding for the use of T&M contracting was executed and no ceiling price was placed on the contract or the T&M line items.

The Assistant Deputy approved the award of a contract that did not define the limits of the T&M line items. Without definitions that specifically described the items and services to be purchased on a T&M basis, the scope of the contract was left to the interpretation of each user.

The Assistant Deputy did not require that the ordering authority of the Communications Command be limited to fulfilling only the identified Red Switch requirements of the four major commands. The Assistant Deputy also did not require the Contracting Center or the ACO to monitor delivery orders issued by the Communications Command, and later by TAC, to make sure that the limits of the contract were not exceeded.

As a result, the Assistant Deputy was not aware that the Communications Command was misusing the contract by issuing

delivery orders for requirements that were not competed and that exceeded the limits of the contract in both scope and dollar amount.

Wright-Patterson contracting officer. The contracting officer at the Contracting Center who solicited, negotiated awarded, and modified contract F33600-86-D-0295 on behalf of the Logistics Command did not perform his contracting duties in a responsible manner. While the contract was under the ultimate approval authority of the Logistics Command, the contracting officer still had the responsibility to question the award of a contract that, by design, prevented him from direct oversight of the contract. We found no documentation to show that the contracting officer questioned the award or that the Logistics Command refused requests for such oversight. As a result, the contracting officer also was not aware that the Communications Command was misusing the contract by issuing delivery orders for requirements that exceeded the limits of the contract in both scope and dollar amount.

Communications Command contracting officers. The Communications Command used its Communications Systems Program Office (CSPO) to issue delivery orders against contract F33600-86-D-0295. The CSPO took direction from the A-Team program managers in the Communications Command. The CSPO contracting officers issued delivery orders without fully identifying the requirements to be satisfied from the resulting delivery orders. Delivery orders did not specifically define what the Government was to receive from the contractual agreement. The CSPO contracting officers did not report, nor were they required to report, the volume of orders issued against the contract to either the Logistics Command or the Contracting Center. The CSPO contracting officers improperly funded delivery orders with Operation and Maintenance (O&M) funds to procure equipment and equipment installation, facilities construction in excess of \$200,000 per project, and research and developmental studies. The CSPO contracting officers did not know the specific requirements that the delivery orders fulfilled. Therefore, the CSPO contracting officers were unaware that the funds were used improperly to purchase equipment and facilities construction. These purchases, which were also beyond the scope of the contract, are further described under the paragraphs on Contract Administration and Monitoring.

Contracting officer warrant authority. The CSPO contracting officers exceeded their warrant authorities when they issued delivery orders under contract F33600-86-D-0295 (Appendix H). A warrant acts as a license that specifies the parameters under which the contracting authority is exercised, including limits on the dollar amount to which the contracting officer may contractually bind the Government. According to the FAR, contracting officers may bind the Government only to the

extent of the authority delegated to them. Air Force FAR Supplement (AFFARS) 1.601-92(f)(8)(iii) provides that when contracting authority is limited as to dollar amount, the limitation does not include instruments obligating funds covering orders issued under terms of indefinite delivery contracts. Headquarters, Communications Command, interpreted the AFFARS to mean that contracting officers' warrant authority limitations did not apply when issuing delivery orders under indefinite delivery contracts. However, the Army, the Navy, and the Defense Logistics Agency all have regulations or guidance limiting the authority of individuals appointed to place orders under indefinite delivery contracts. The Air Force should bring its procurement regulations in line with FAR 1.602-1 on the authority of contracting officers' warrants to issue orders.

Knowledge of delivery order requirements. The CSPO contracting officers did not know the requirements being fulfilled by the delivery orders they issued. The CSPO contracting officers relinquished their contracting responsibilities, stating that they:

- o did not award the contract, but only issued delivery orders against it;

- o were doing their job of serving the Communications Command; and

- o did not have to know total requirements fulfilled by the contract.

However, we believe the contracting officers should have known the requirements the delivery orders fulfilled. CSPO contracting officers placed delivery orders exactly as identified on purchase requests received from the A-Team program managers at the Communications Command. As of March 31, 1991, the Government was billed for over \$118.5 million for delivery orders placed by the CSPO contracting officers, whose actions were a major contributor to the uncontrolled growth of contract F33600-86-D-0295 and to the lack of surveillance during that growth. A contracting officer must know the type and value of items and specific statements of work for services required on a delivery order to which he/she contractually binds the Government. The CSPO contracting officers who issued delivery orders against contract F33600-86-D-0295 should be disciplined for contractually binding the Government without knowing what was being purchased under each delivery order.

Contract Administration and Monitoring

Since the Logistics Command and the Contracting Center did not define the contract requirements and the T&M provisions of contract F33600-86-D-0295, there were no criteria for monitoring

the contract. The Defense Contract Management Area Operations-Dallas was assigned ACO responsibilities. Air Force contracting officers' technical representatives (technical representatives), through their on-site deputies, were responsible for monitoring surveillance of contractor performance. There was no established reporting system for the on-site deputies. The deputy for delivery order RM-10 at MAC stated that he did not receive training on how to perform his duties as a deputy contracting officer's technical representative. Generally, the deputies worked under the premise that they did not report to anybody unless problems occurred with the delivery orders. If problems did arise, the deputies contacted the technical representatives or the contracting officer who issued the specific delivery order, but the deputies did not contact the ACO. According to Defense Logistics Agency Manual 8105.1, "Defense Contract Management Command: Contract Administration Manual," the ACO should have developed a surveillance plan to monitor contractor performance. We are not making a recommendation regarding the ACO's failure to establish a surveillance plan because a different organization is now responsible for contract administration in DoD.

Purchases beyond the scope of the contract. The CSPO used the installation line item cited in the original contract when it issued delivery orders. These delivery orders were used as a vehicle to procure items and issue tasking orders in which the contractor performed work beyond the scope of the original contract. Tasking orders were issued to ESI, directing ESI to perform specific tasks under the delivery order. We identified over \$6.2 million of out-of-scope purchases on delivery orders RM-03, RM-10, RM-12, and RM-18. Examples included purchases of major items of equipment that were not available as separate contract line items; construction of sensitive compartmented information facilities (SCIF) and remodeling of command and control facilities; and purchases of customized cosmetic features, such as telephone faceplate overlays with command insignia. The Communications Command also used the installation option of the contract to purchase computer hardware and software for use by the A-Team project managers at the Communications Command, and to issue tasking orders to purchase communications research and developmental studies. The actual work ordered by the Communications Command was not identified in any contractual or funding document. Further, the work was ordered under tasking orders that were not furnished to the CSPO contracting officers for incorporation into the official contract file.

Major equipment purchases. The October 1988 AFAA report stated that Communications Command personnel used the miscellaneous parts and materials line items of contract F33600-86-D-0295 to acquire an unspecified dollar amount of major

items of equipment (unidentified) to support the Red Switch systems. We identified \$867,199 of major items of equipment in four delivery orders as follows:

<u>Delivery Order</u>	<u>Item Description</u>	<u>Quantity</u>	<u>Total Costs</u>
RM-03/RM-13 ^{1/}	Model 6060 UPS ^{2/}	2	\$112,523
RM-03	Multiplexer	1	44,321
RM-10	Model 6100 UPS	2	128,940
RM-18	Model 6080 UPS	1	55,315
RM-18	TSP-2000 (voice digitizer)	42	<u>526,100</u>
Total major equipment			<u>\$867,199</u>

^{1/} Although not included in the scope of our review, RM-03 included equipment for RM-13.

^{2/} UPS - uninterruptible power supply.

These major items of equipment were outside the scope of the miscellaneous parts and materials line item. Because the dollar value of the equipment exceeded the \$25,000 threshold, the equipment required separate pricing as equipment line items. In addition, these purchases were sole-source procurements that violated CICA because other contractors did not have an opportunity to bid on the procurements.

Other purchases. We identified other purchases in delivery orders RM-03, RM-10, and RM-18 totaling \$638,360 that were made under the miscellaneous parts and materials line item and were outside the scope of the basic contract. These items, which were not procurements identified in the contract and did not relate to the purchase and installation of Red Switch systems, are shown in Appendix I.

The purchases included a total of \$532,416 for facilities construction and renovation at three major commands. TAC spent \$94,951 to construct a SCIF at Langley Air Force Base, Virginia; the Air Force Space Command (AFSPACECOM) spent \$330,465 to construct a SCIF at Peterson Air Force Base, Colorado; and MAC spent \$107,000 to renovate the balcony and kitchen in its Command Center at Scott Air Force Base, Illinois. The AFAA report also identified SCIF construction at the Strategic Air Command, Offutt Air Force Base, Nebraska. While not identifying the specific cost, the AFAA report stated that SCIF construction costs of over \$800,000 were identified on this contract for the Strategic Air Command, TAC, and AFSPACECOM. This was not a construction contract, and the majority of the construction work was subcontracted out, with the contractor acting as the Government's procurement agent. For example, on delivery order RM-03, ESI

subcontracted at least \$56,670 of a \$94,951 SCIF construction project; and on delivery order RM-18, ESI subcontracted at least \$217,882 of a \$330,465 SCIF construction project. Separate contracts should have been awarded for this work.

Delivery order RM-12. On May 19, 1986, CSPO issued delivery order RM-12 for \$528,585 for Headquarters, Communications Command. As of March 31, 1991, the Air Force was billed for over \$4.7 million for miscellaneous equipment and services ordered on delivery order RM-12. No Red Switch systems were procured under delivery order RM-12, nor was the delivery order used to obtain maintenance. Therefore, the delivery order was not within the scope of contract F33600-86-D-0295 and all costs pertaining to RM-12, in essence, were out of scope. Examples of out-of-scope purchases included \$8,479 for faceplate overlays with command insignia, \$30,808 for computer hardware and software, and \$12,570 for land mobile radios. All of these purchases were billed to the Air Force as miscellaneous parts and materials.

Taskings issued against delivery order RM-12. The A-Team program managers at the Communications Command used delivery order RM-12 to issue taskings directly to the contractor, without the knowledge of CSPO, the issuing contracting officers. We identified 66 tasking orders issued by A-Team program managers during the period August 18, 1986, to July 30, 1990. These unauthorized tasking orders are identified in Appendix J.

Our review of delivery order RM-12 showed that \$2,148,856 was obligated for engineering technical assistance (contract line item 0060) without any price negotiations. According to contract modification P0003 of contract F33600-86-D-0295, delivery of item 0060 was to be negotiated on an individual basis and the agreed-to performance schedule was to be specified in each delivery order issued.

This contract made no provisions for research and developmental studies although research and developmental work was accomplished under the contract through individual tasking orders. We reviewed the 66 tasking orders and found research and developmental taskings that were outside the scope of the basic contract. For example, task number 15 was for the design and demonstration of a cryptographic interface unit. The products of this effort were to be a demonstration and report detailing the configuration and operation. The total estimated cost was \$106,550.

The above out-of-scope purchases contributed significantly to the growth of the Red Switch contract. Details of funding violations related to the out-of-scope purchases are in Finding B.

Conclusion

Air Force personnel responsible for planning, awarding, delegating responsibility, and administering contract F33600-86-D-0295 did not exercise prudent business acumen. Also, the Air Force did not perform acquisition planning to establish and identify the total Red Switch systems requirements the contract was to fulfill. The Air Force also did not ensure that FAR-required acquisition planning was performed, did not award the proper type of contract, and did not maintain control of a contract that increased by \$109.8 million (871 percent over the original contract award).

The Logistics Command did not establish contractual controls to inhibit the misuse of contract F33600-86-D-0295. The Communications Command issued delivery orders to fulfill Red Switch requirements that were not fully and openly competed and, therefore, violated CICA. The Staff Judge Advocate, Communications Command; the AFAA; the Assistant Chief of Staff, Systems for Command, Control, Communications, and Computers; the Air Force General Counsel; and the Headquarters, Air Force, Director of Contracting and Manufacturing Policy all commented on, or reacted to, the existence of CICA violations. We could find no evidence to indicate that any meaningful remedial or disciplinary actions were taken.

The contracting officers at the CSPO did not perform their duties as prescribed by the requirements of the FAR and the law. In addition, CSPO contracting officers did not monitor contractor performance. Further, the Communications Command program managers exceeded their authority by performing and controlling contracting officer functions that required a warrant, such as issuing tasking orders directly to the contractor.

Contracting officers must have specific dollar limitations on their contracting authority. Using the criteria of AFFARS 1.601-92(f)(8)(iii), the Air Force functioned without adequate procurement internal controls because contracting officers had unlimited obligational authority to contractually bind the Government on delivery orders issued against contract F33600-86-D-0295. The internal controls, established to protect the integrity of the procurement system, were not adhered to and the lack of such controls contributed to the problems identified in this report.

The procurement problems encountered on contract F33600-86-D-0295 bring into question the procurement process at the Logistics Command and at the Communications Command. The Air Force needs to determine if these procurement problems were unique to the contract, or if they represent a systemic problem.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Commander, Air Force Materiel Command initiate disciplinary action, including consideration of rescission of warrants, against Air Force officials responsible for the approval, award, and administration of contract F33600-86-D-0295.
2. We recommend that the Commander, Air Force Communications Command initiate disciplinary action against the contracting officers assigned to contract F33600-86-D-0295, to include rescinding their warrants.
3. We recommend that the Deputy Assistant Secretary of the Air Force (Contracting) revise the language in the Air Force Federal Acquisition Regulation Supplement, subpart 1.601-92(f)(8)(iii), to align it with the Federal Acquisition Regulation, subpart 1.602-1, which limits contracting officers' authority to bind the Government only to the extent of the authority delegated to them.
4. We recommend that the Assistant Secretary of the Air Force (Acquisition):
 - a. Review the procurement process at the Air Force Materiel Command and the Air Force Communications Command to determine whether the procurement problems encountered on contract F33600-86-D-0295 are unique to the contract or represent a systemic problem within the Air Force procurement community.
 - b. Take appropriate action to correct the systemic problems if the problem found in Recommendation 3.a. is identified as systemic in the procurement process.

MANAGEMENT COMMENTS

The Air Force deferred consideration of disciplinary action called for by Recommendations A.1. and A.2. until the impact of additional information concerning the ongoing criminal investigation can be assessed. The Air Force will provide quarterly updates on the status of actions taken on Recommendations A.1. and A.2. The Air Force concurred with Recommendation A.3. and agreed to revise the AFFARS. On Recommendation A.4., the Air Force proposed revising AFFARS to require thorough planning for contracts that use decentralized ordering procedures and to hold procurement contracting officers responsible for orders placed against contracts they award. The complete text of the Air Force comments is in Part IV.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

Air Force comments were responsive and meet the intent of the recommendations. We agree with the Air Force's decision to defer

consideration of disciplinary action until the impact of additional information concerning the ongoing criminal investigation can be assessed.

B. FINANCING THE RED SWITCH CONTRACT

Program managers improperly used O&M funds to finance delivery orders and modifications issued against contract F33600-86-D-0295 to purchase Red Switch equipment, perform construction, and make other out-of-scope purchases. This occurred because fund requests were routinely approved without adequate review by approving officials, and the related internal controls were not sufficient to ensure compliance with public laws and regulations. As a result, the Air Force improperly obligated \$8,708,725.33 of O&M funds and \$350,000 of Industrial funds to acquire secure digital switching subsystems and equipment (Red Switch systems). The Air Force improperly used \$330,465 of these O&M funds to construct a SCIF at one base. Further, at least \$368,458.20 of expired O&M funds were improperly reobligated in subsequent fiscal years, and at least \$900,000 of O&M funds were improperly obligated at fiscal year-end to acquire services in subsequent years that did not meet the bona fide need criteria.

DISCUSSION OF DETAILS

Background

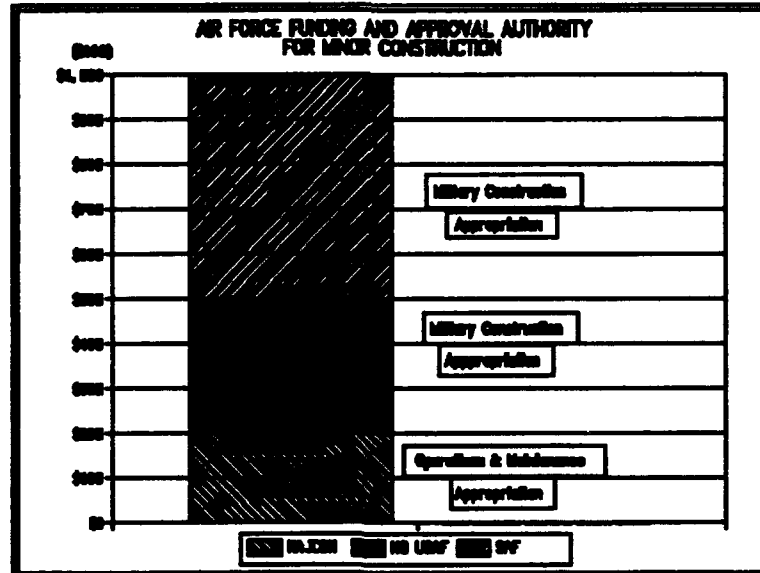
Public laws and DoD regulations. U.S.C., title 31, sec. 1301, "Money and Finance: Appropriations," requires that funds be used only for the purposes for which the funds are appropriated. U.S.C., title 31, sec. 1501, "Money and Finance: Appropriation Accounting," requires that documentary evidence of the occurrence of a transaction be available to support obligations. Section 1502 states that the balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability. However, the appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law. DoD Directive 5010.38, "Internal Management Control Program," requires that each DoD Component implement an internal management control program to ensure that obligations comply with applicable law.

Air Force regulations. Air Force Regulation (AFR) 177-16, "Administrative Control of Appropriations," implements the Federal law and makes the Accounting and Finance Officer, and the other individuals authorized to certify fund availability, responsible for ensuring that proper funds are used. Obligations incorrectly charged to an account must be corrected to charge the proper appropriation or fund.

AFR 170-8, "Accounting for Obligations," states that an annual appropriation is available for obligation only during the fiscal year specified in the appropriation act. The general rule for obligating an annual appropriation is that the contract must be

made within the fiscal year to be charged and the supplies or services to be received must serve a bona fide need of that fiscal year.

Limits for construction funding. In December 1985, when contract F33600-86-D-0295 was awarded, expenditures from O&M funds for unspecified military construction projects were limited to \$200,000 per project by U.S.C., title 10, sec. 2805, "Unspecified Minor Construction." As of December 5, 1991, the law was amended to raise the limit to \$300,000 per project. Projects exceeding the legal limit for the use of O&M funds must meet approval and funding authorities of the law as implemented by AFR 172-1, chapter 9, "Military Construction Appropriations." Such projects must be approved by the Air Force Directorate of Military Construction or the Secretary of the Air Force, depending on total project cost. Also, Congress must be notified in writing 21 days before funds are obligated for approved projects. Once approved, projects exceeding the legal limit for the expenditure of O&M funds must be funded with Military Construction funds. Projects requiring changes that cause the legal limit to be exceeded must be submitted for reapproval. Congress also must be notified and Military Construction funds must be obligated to replace the O&M funds expended to that date for construction. The funding levels and approval authority for minor construction that were in place at the time of the contract are shown in the following graph.



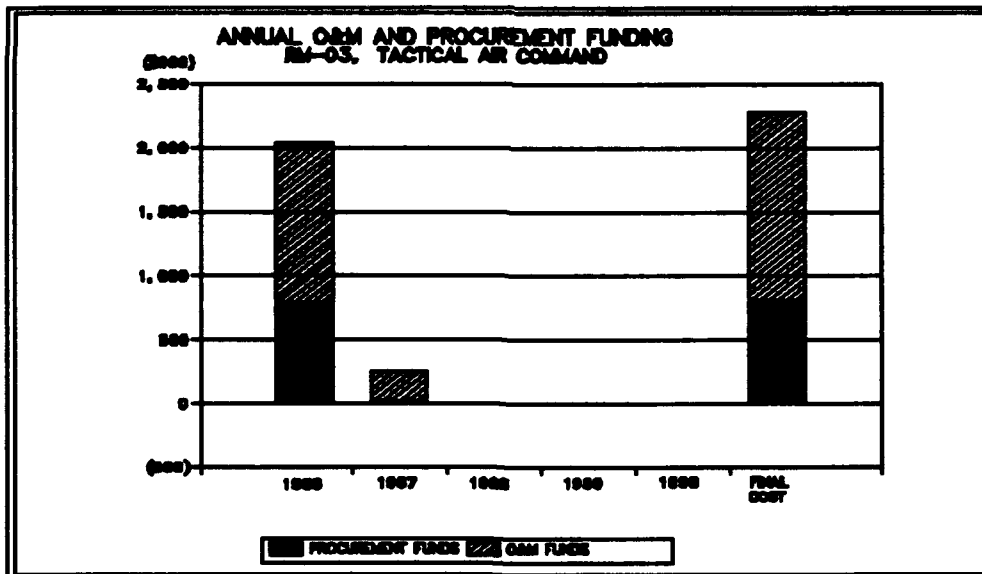
Use of O&M and Industrial Funds

The Air Force did not comply with U.S.C., title 31, sec. 1301 or with DoD and Air Force regulations applicable to the use of appropriations during the procurement of Red Switch systems on contract F33600-86-D-0295. The Air Force improperly used

\$8,708,725.33 of O&M funds and \$350,000 of Industrial funds instead of using Procurement funds (Appendix K). Also, the Air Force did not comply with U.S.C., title 10, sec. 2805 when it used AFSPACECOM O&M funds to pay the contractor, ESI, \$330,465 for the design and construction of a SCIF in the Space Operations Center at Peterson Air Force Base. Further, the Air Force did not comply with U.S.C., title 31, sec. 1502 or with AFR 170-8 when it obligated and spent MAC, Communications Command and AFSPACECOM FYs 1986, 1987, 1988, and 1989 O&M funds in subsequent years (Appendix L). Also, the Air Force did not comply with U.S.C., title 31, sec. 1501, sec. 1502, and AFR 170-8 when it obligated Communications Command O&M funds at the end of FY 1986 and FY 1988 for services performed in subsequent years. Funding violations were found to exist in the four delivery orders we reviewed.

Delivery Order RM-03

On December 31, 1985, delivery order RM-03 was issued in the amount of \$715,698 for Headquarters, TAC. As of March 31, 1991, the delivery order was modified 27 times and had a total value of \$2,276,596.17, an increase of 218 percent over the original amount. The following graph illustrates annual funding.

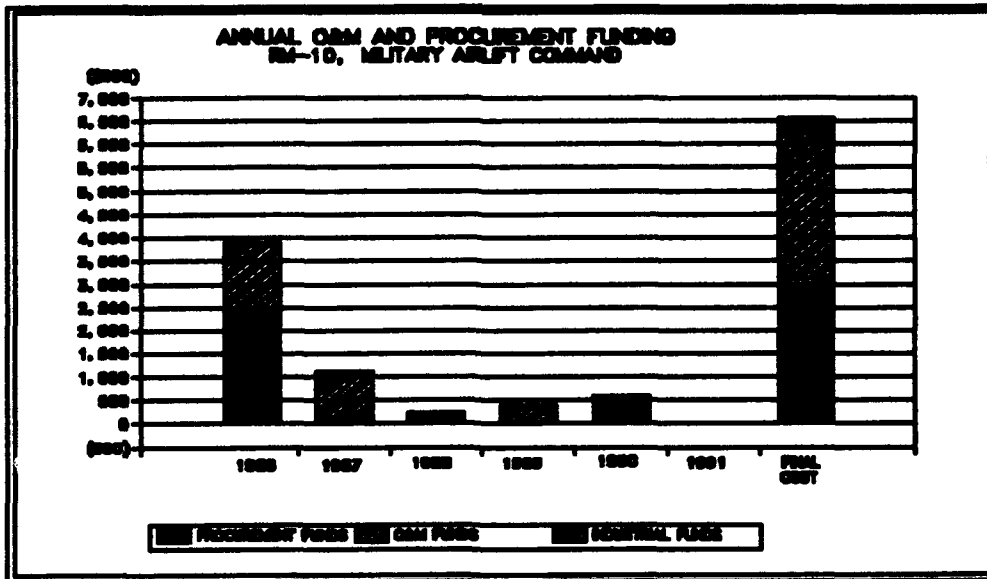


<u>Fiscal Years</u>	<u>Procurement Funds</u>	<u>O&M Funds</u>	<u>Final Cost</u>
1986	\$791,340.00	\$1,244,307.22	
1987	14,068.56	231,880.39	
1988	0	0	
1989	0	0	
1990	0	(5,000.00)	
Totals	\$805,408.56	\$1,471,187.61	\$2,276,596.17

TAC required ESI to furnish a turnkey Secure Digital Command and Control Switching System. The delivery order was funded with \$805,408.56 of Procurement funds and \$1,471,187.61 of O&M funds. However, the Air Force improperly used a net amount of \$1,054,914.81 in O&M funds to pay ESI for installation and system expansion. Procurement funds should have been used to finance the installation and expansion of a turnkey system.

Delivery Order RM-10

On December 24, 1985, delivery order RM-10 was issued in the amount of \$1,831,452 for Headquarters, MAC. As of March 31, 1991, the delivery order was modified 54 times and had a total value of \$6,597,798.69, an increase of 260 percent over the original amount. The following graph illustrates annual funding.



<u>Fiscal Years</u>	<u>Procurement Funds</u>	<u>O&M Funds</u>	<u>Final Cost</u>
1986	\$2,346,255.23	\$1,563,101.47	
1987	18,390.00	1,115,945.88	
1988	150,000.00	109,048.00	
1989	(3,268.00)	380,414.62	
1990	409,063.05	208,848.44	
1991	0	0	
Totals	<u>\$2,920,440.28</u>	<u>\$3,377,358.41</u>	<u>\$6,597,798.69</u> ^{*/}

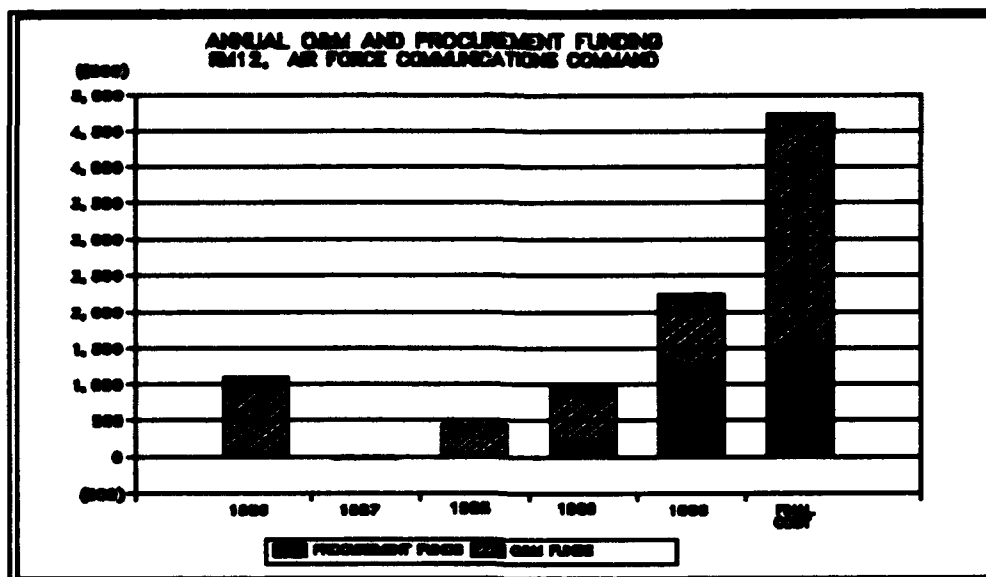
^{*/} Final cost includes \$300,000 of Industrial funds added in FY 1989.

MAC required ESI to furnish a turnkey Secure Digital Command and Control Switching System. The delivery order was funded with \$2,920,440.28 of Procurement funds, \$3,377,358.41 of O&M funds, and \$300,000 of Industrial funds. However, the Air Force improperly used net amounts of \$1,939,669.98 of O&M funds and \$300,000 of Industrial funds to pay ESI for installation and system expansion. Procurement funds should have been used to finance the installation and system expansion.

From May 1, 1987, through November 1, 1989, six modifications were issued against delivery order RM-10 that improperly obligated \$45,859.57 of FY 1986 O&M funds in FY 1987, \$20,048 of FY 1987 O&M funds in FY 1988, and \$36,483 of FY 1989 O&M funds in FY 1990. All of these funds were annual appropriations that were limited for obligation to the fiscal year in which they were appropriated. Details on each modification are shown in Appendix L.

Delivery Order RM-12

On May 19, 1986, delivery order RM-12 was issued in the amount of \$528,585.03 for the Technical Support Office of Headquarters, Communications Command. As of March 31, 1991, the delivery order was modified 50 times and had a total value of \$4,802,795.98, an increase of 809 percent over the original amount. The delivery order was initially funded with O&M funds. No procurement funds were provided until FY 1989. In total, the delivery order was funded with \$1,480,217.12 of Procurement funds; \$3,262,908.86 of O&M funds; \$50,000 of Industrial funds; \$2,620 of Research, Development, Test, and Evaluation, Defense Agencies funds; and \$7,050 of Procurement, Defense Agencies funds. The following graph illustrates annual funding.



<u>Fiscal Years</u>	<u>Procurement Funds</u>	<u>O&M Funds</u>	<u>Final Cost</u>
1986	\$ 0	\$1,096,584.60	
1987	0	(27,358.00)	
1988	0	436,000.00	
1989	243,250.00	747,974.95	
1990	<u>1,236,967.12</u>	<u>1,009,708.11</u>	
Totals	<u>\$1,480,217.12</u>	<u>\$3,262,908.86</u>	<u>\$4,802,795.98^{*/}</u>

^{*/} Final cost includes \$50,000 of Industrial funds, \$2,620 of Research, Development, Test, and Evaluation, Defense Agencies funds, and \$7,050 of Procurement, Defense Agencies funds. All of these funds were added in FY 1989.

The Technical Support Office required ESI to furnish equipment, materials, and services to the White House Communications Agency, the Four-Star Conference Network, and the National Security Agency in securing a voice network in support of the President, the Four-Star Generals, and the Executive Cabinet. However, the Air Force improperly used net amounts of \$1,224,780.54 in O&M funds and \$50,000 of Industrial funds to pay ESI for installation and system expansion. Procurement funds should have been used to finance these efforts.

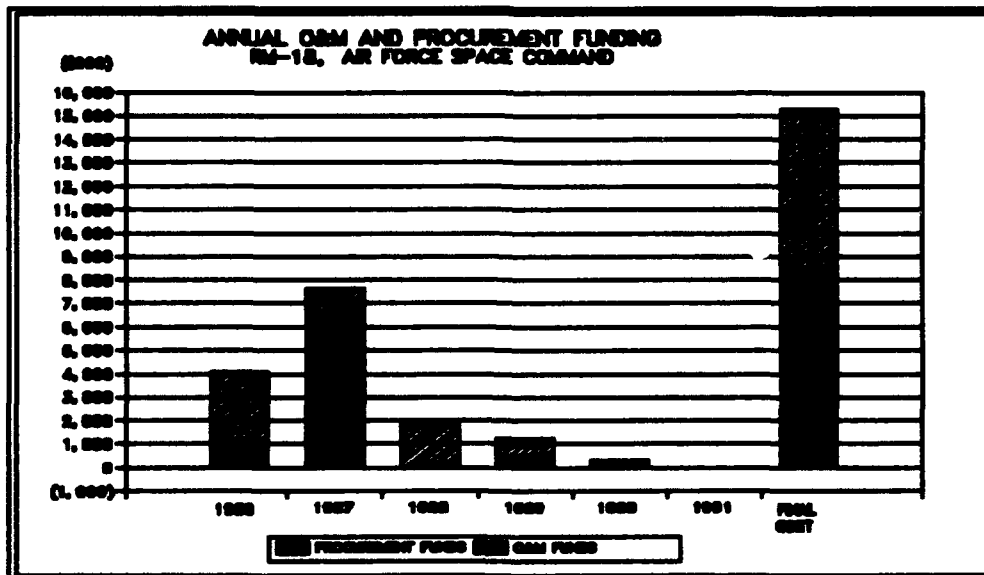
Annual appropriations. During the period December 28, 1988, through August 23, 1990, four modifications were issued against delivery order RM-12 that improperly obligated \$10,000 of FY 1987 O&M funds in FY 1989, \$13,275 of FY 1988 O&M funds in FY 1989, and \$103,516.43 of FY 1989 O&M funds in FY 1990. All of these

funds were annual appropriations that were limited for obligation to the fiscal year in which they were appropriated. Details on each modification are shown in Appendix L.

Year-end spending. Modifications were also issued against delivery order RM-12 that improperly obligated O&M funds of \$500,000 and \$400,000 at the end of FYs 1986 and 1988, respectively. Unsupported obligations were recorded in Modification 04 on September 18, 1986, and in Modification 14 on September 30, 1988. In both cases, the obligations were placed on delivery order line item 0005, "Miscellaneous Parts and Materials," to obligate annual appropriations of O&M funds, which were about to expire. The Air Force improperly used the \$500,000 and additional Communications Command FY 1986 O&M funds to pay for Engineering Technical Services and travel costs of \$394,436 and \$139,000 incurred in FY 1987 and FY 1988, respectively. Of the \$400,000, which was not properly supported at the end of FY 1988, at least \$233,965.16 was improperly used in FY 1989 for Engineering Technical Services and maintenance training.

Delivery Order RM-18

On September 16, 1986, delivery order RM-18 was issued in the amount of \$4,103,997.95 for Headquarters, AFSPACECOM. As of March 31, 1991, the delivery order was modified 71 times and had a total value of \$15,270,847.03, an increase of 272 percent over the original amount. The following graph illustrates annual funding.



<u>Fiscal Years</u>	<u>Procurement Funds</u>	<u>O&M Funds</u>	<u>Final Cost</u>
1986	\$1,103,997.95	\$3,000,000.00	
1987	6,541,000.00	1,114,163.81	
1988	0	1,872,363.84	
1989	497,875.00	769,089.20	
1990	298,558.32	73,798.91	
1991	0	0	
Totals	<u>\$8,441,431.27</u>	<u>\$6,829,415.76</u>	<u>\$15,270,847.03</u>

AFSPACECOM required ESI to furnish a customized turnkey Secure Digital Command and Control Switching System to integrate the Unified Space Command and the North American Aerospace Defense Command remote sensor sites with the Colorado Springs Command and Control Switching System in direct support of a national capability. The delivery order was funded with \$8,441,431.27 of Procurement funds and \$6,829,415.76 of O&M funds. AFSPACECOM and the Communications Command provided the initial \$3 million of O&M funds on September 16, 1986, when the delivery order was issued. These were FY 1986 funds, which were about to expire. Also, of the \$6.8 million of O&M funds, the Air Force improperly used a total of \$4,489,360 to pay ESI for installation and system expansion. Procurement funds should have been used to finance these efforts.

Military construction. On behalf of the AFSPACECOM, the A-Team project managers at the Communications Command tasked the contractor to construct a SCIF at Peterson Air Force Base. However, contract F33600-86-D-0295 did not have any provisions for the construction of facilities. O&M funds were used to pay the contractor \$330,465 for the construction project. The A-Team project managers circumvented the laws and regulations of military construction by using the T&M installation line items of the contract to order and pay for the construction. The contractor was paid for the construction through the contract line items "Miscellaneous Parts and Materials" and "ESI Installation Labor." Because the total construction cost of \$330,465 exceeded \$200,000, the project should have been approved by Headquarters, Air Force, Director of Military Construction; should have been reported to Congress; and should have been funded with military construction funds.

Annual appropriations. From August 9, 1988, through December 28, 1988, two modifications issued against delivery order RM-18 improperly obligated \$48,005 of FY 1987 O&M funds in FY 1988 and \$91,271.20 of FY 1987 O&M funds in FY 1989. All of these funds were annual appropriations that were limited for obligation to the fiscal year in which they were appropriated. Details on each modification are shown in Appendix L.

AFAA Request For Legal Review

On October 13, 1988, the AFAA requested the Air Force General Counsel to determine if violations occurred relating to funding and approvals for facility construction, acquisition of major equipment items, and out-of-scope taskings of the contractor by noncontracting personnel. The audit agency sought advice as to what actions should be taken in accordance with AFR 177-16.

The Air Force General Counsel did not respond to the AFAA request because their internal controls were not effective to ensure that action was taken on the audit agency's request. Also contributing to the nonresponse was the audit agency's failure to follow up on its request. The referral to the Office of General Counsel was not included as part of the finding and recommendations in the AFAA audit report "Management of the Red Switch Program." Consequently, AFAA did not track the referral.

The potential funding violations that AFAA suspected were never reviewed and reported in accordance with AFR 177-16. The AFAA identified significant issues in its report on the Red Switch program, but did not properly report the potential funding violations because the referral to the Air Force General Counsel was not included in the audit report recommendations. Therefore, disposition of the referral was unknown. The Office of the Inspector General, DoD, has since performed two oversight reviews of AFAA and addressed the systemic problems of the audit agency in 1988. Therefore, this report contains no recommendations to AFAA about the handling of the request for legal review.

Conclusion

Internal controls were not in place at TAC, MAC, the Communications Command, and AFSPACECOM to ensure that proper funds were obligated for system purchases, and that annual appropriations were obligated for properly incurred expenses during the period of availability. The lack of internal controls for funding of contract F33600-86-D-0295 at four major commands brings into question the propriety of funding of all delivery orders issued against the contract. Since we only reviewed 4 of 97 delivery orders for \$28.3 million, the Air Force needs to review the remaining 93 delivery orders, valued at \$94.1 million, for other potential funding violations.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) require that the Commander, Tactical Air Command:

a. Make the appropriate accounting adjustments to deobligate \$1,054,914.81 of FY 1986 Operation and Maintenance

funds that were improperly used to procure Red Switch systems under contract F33600-86-D-0295, delivery order number RM-03; and obligate Other Procurement, Air Force, funds.

b. Follow procedures in Air Force Regulation 177-16, "Administrative Control of Appropriations," to report any antideficiency violations, and initiate disciplinary action against the responsible officials if actions taken to implement Recommendation 1.a. should cause an over-obligation in the appropriation accounts.

2. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), require that the Commander, Military Airlift Command:

a. Make the appropriate accounting adjustments to deobligate \$1,939,669.98 of Operation and Maintenance funds (\$1,157,535.32 in FY 1986 and \$782,134.66 in FY 1987), and \$300,000 of Air Force Industrial funds that were improperly used to procure Red Switch systems under contract F33600-86-D-0295, delivery order number RM-10; and obligate Other Procurement, Air Force, funds.

b. Make the appropriate accounting adjustments to deobligate Operation and Maintenance funds on contract F33600-86-D-0295, delivery order number RM-10 as following and obligate the funds for the fiscal year for which the funds were actually obligated and expended.

(i) \$45,859.57 for FY 1986 that was improperly obligated and expended in FY 1987;

(ii) \$20,048 for FY 1987 that was improperly obligated and expended in FY 1988; and

(iii) \$36,483 for FY 1989 that was improperly obligated and expended in FY 1990.

c. Follow procedures in Air Force Regulation 177-16, "Administrative Control of Appropriations," to report any antideficiency violations, and initiate disciplinary action against the responsible officials if actions taken to implement Recommendations 2.a. and 2.b should cause an over-obligation in the appropriation accounts.

3. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), require that the Commander, Air Force Communications Command:

a. Make the appropriate accounting adjustments to deobligate \$1,224,780.54 of Operation and Maintenance funds (\$401,349.54 in FY 1986, \$166,134.50 in FY 1988, \$224,035.51 in

FY 1989, and \$433,260.99 in FY 1990); and \$50,000 of Air Force Industrial funds that were improperly used to procure equipment, materials, and services under contract F33600-86-D-0295, delivery order number RM-12; and obligate Other Procurement, Air Force, funds.

b. Make the appropriate accounting adjustments to deobligate Operation and Maintenance funds on contract F33600-86-D-0295, delivery order number RM-12 as following and obligate the funds for the fiscal year for which the funds were actually obligated and expended.

(i) \$10,000 for FY 1987 that was improperly obligated and expended in FY 1989;

(ii) \$13,275 for FY 1988 that was improperly obligated and expended in FY 1989; and

(iii) \$103,516.43 for FY 1989 that was improperly obligated and expended in FY 1990.

c. Make the appropriate accounting adjustments to deobligate Operation and Maintenance funds on contract F33600-86-D-0295, delivery order number RM-12 as following and obligate the funds for the fiscal year for which the funds were actually obligated and expended.

(i) \$533,435.90 for FY 1986 that was improperly spent in FY 1987 (\$394,435.90) and FY 1988 (\$139,000); and

(ii) \$233,965.16 for FY 1988 that was improperly spent in FY 1989.

d. Follow procedures in Air Force Regulation 177-16, "Administrative Control of Appropriations," to report any antideficiency violations, and initiate disciplinary action against the responsible officials if actions taken to implement Recommendations 3.a., 3.b., and 3.c. should cause an over-obligation in the appropriation accounts.

4. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), require that the Commander, Air Force Space Command:

a. Make the appropriate accounting adjustments to deobligate \$4,158,895 of Operation and Maintenance funds (\$2,231,183.27 in FY 1986, \$686,442.13 in FY 1987, and \$1,241,269.60 in FY 1988) that were improperly used to procure Red Switch systems under contract F33600-86-D-0295, delivery order number RM-18; and obligate Other Procurement, Air Force, funds.

b. Make the appropriate accounting adjustments to deobligate \$330,465 of FY 1987 Operation and Maintenance funds that were improperly used to construct a sensitive compartmented information facility under contract F33600-86-D-0295, delivery order number RM-18; obligate Military Construction funds; and report the construction to Congress.

c. Make the appropriate accounting adjustments to deobligate Operation and Maintenance funds on contract F33600-86-D-0295, delivery order number RM-18 as following and obligate the funds for the fiscal year for which the funds were actually obligated and expended.

(i) \$48,005 for FY 1987 that was improperly obligated and expended in FY 1988; and

(ii) \$91,271.20 for FY 1987 that was improperly obligated and expended in FY 1989.

d. Follow procedures in Air Force Regulation 177-16, "Administrative Control of Appropriations," to report any antideficiency violations, and initiate disciplinary action against the responsible officials if actions taken to implement Recommendations 4.a., 4.b., and 4.c. cause an over-obligation in the appropriation accounts.

5. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller):

a. Review the funding of all delivery orders issued under contract F33600-86-D-0295, except delivery order numbers RM-03, RM-10, RM-12, and RM-18, to determine if the correct appropriations were obligated and expended to purchase Red Switch systems, equipment, installation, and other services.

b. Make the appropriate accounting adjustments to reimburse the proper appropriation accounts if actions taken to implement Recommendation 5.a. should result in the identification of improper funding.

c. Follow procedures in U.S.C., title 10, sec. 2805, "Unspecified Minor Construction"; Air Force Regulation 172-1, chapter 9, "Military Construction Appropriations"; and Air Force Regulation 177-16, "Administrative Control of Appropriations," if actions taken to implement Recommendation 5.a. should result in the identification of unauthorized, unreported, and improperly funded military construction. Also, report the military construction to Congress and initiate disciplinary action against the responsible officials.

d. Follow procedures in Air Force Regulation 177-16, "Administrative Control of Appropriations," to report any

antideficiency violations, and to initiate disciplinary action against the responsible officials if actions taken to implement Recommendation 5.b. should cause an over-obligation in the appropriation accounts.

e. Investigate the possible funding violations arising from contract F3360-86-D-0295. After such investigations are conducted, if questions remain concerning whether funding violations have occurred, the Assistant Secretary should refer the matter to the Air Force General Counsel for a formal opinion in accordance with paragraph 9 of Air Force Regulation 177-16, "Administrative Control of Appropriations."

6. We recommend that the Air Force General Counsel review internal controls and initiate appropriate controls to verify that responses are provided for all incoming requests from the Air Force Audit Agency.

MANAGEMENT COMMENTS

The Air Force concurred with Recommendations B.1., B.2., B.3., B.4., and B.5. The Air Force commands will review the delivery orders, make required accounting adjustments, and implement the required procedures if an over-obligation results from the adjustments. The Air Force also stated that for Recommendation B.5.e. (draft report Recommendation B.6.a.), it is in the purview of the Assistant Secretary of the Air Force (Financial Management and Comptroller), not the Air Force General Counsel, to perform an investigation to determine if funding violations occurred. Accordingly, the Air Force recommended that Recommendation B.5.e. be redirected to the Assistant Secretary of the Air Force (Financial Management and Comptroller), who will determine if funding violations occurred. The Air Force agreed with Recommendation B.6. (draft report Recommendation B.6.b.) and stated that the Office of the Air Force General Counsel has improved the system for tracking suspense items and has instituted formal weekly status reviews of open actions. The complete text of the Air Force comments is in Part IV.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

Air Force comments were considered responsive and meet the intent of the recommendations. We agree with the Air Force concerning the redirection of Recommendation B.5.e. (draft report Recommendation 6.a.), and revised the recommendation accordingly.

PART III - ADDITIONAL INFORMATION

- APPENDIX A - Subcommittee Letter of Request
- APPENDIX B - DoD Red Switch Project
- APPENDIX C - Red Switch Chronology of Events
- APPENDIX D - Red Switch Requirements Fulfilled by the Air Force Communications Command
- APPENDIX E - Costs of Delivery Orders Issued by the Air Force Communications Command
- APPENDIX F - Prior Audits
- APPENDIX G - Air Force General Counsel's Summation of the Red Switch Procurement
- APPENDIX H - Warrant Limits of Contracting Officers at the Air Force Communications Command
- APPENDIX I - Other Purchases Identified as Miscellaneous Parts and Materials
- APPENDIX J - Tasking Orders issued Under Delivery Order RM-12
- APPENDIX K - Actual Funding and Spending by Delivery Order
- APPENDIX L - Operation and Maintenance Funds Obligated in Subsequent Years
- APPENDIX M - Summary of Potential Benefits Resulting from Audit
- APPENDIX N - Activities Visited or Contacted
- APPENDIX O - Report Distribution

APPENDIX A - SUBCOMMITTEE LETTER OF REQUEST

ONE HUNDRED SEVENTY SEVENTH
CONGRESS SECOND SESSION

FORM 2025
CAPITOL HILL OFFICE BUILDING
PHONE (202) 555-4401

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CHIEF COUNSEL/STAFF DIRECTOR

U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, DC 20515

December 17, 1990

Mrs. Susan Crawford
Inspector General
Department of Defense
The Pentagon
Washington, D.C. 20301

Dear Mrs. Crawford:

In accordance with Rules X and XI of the Rules of the House of Representatives, the Subcommittee on Oversight and Investigations has been investigating various contracts awarded by the Air Force to Electrospace Systems, Inc., a Chrysler subsidiary.

One contract of particular interest to the Subcommittee is F33600-C-86-0295, awarded by Air Force Logistics Center's Wright Patterson Contracting Center in December 1985. This contract capped at about \$122 million and, we believe, more than half of that amount (\$50-60 million) constitutes a time and materials arrangement.

The Subcommittee is concerned that much of this contract's time and materials billings to the Air Force are suspect or out of scope. For example, the company performed minor construction, built a kitchen and general's balcony, and purchased golf shirts, basic tools and ladders, computers and multiple copies of Wordperfect and Lotus and other software under the category "miscellaneous installation parts and materials." The company also performed research and development, claimed unverifiable labor hours at very high installation labor rates and provided incompetent labor, including a site supervisor who needed so much guidance over the telephone that she became known facetiously as the "400-mile screwdriver." These examples are just a few of the suspected abuses under this contract's time and materials arrangement.

In the light of these disturbing facts, we ask that your staff check into this matter and report back on (1) how the contract defined the time and material contract line items, especially installation, installation labor, installation

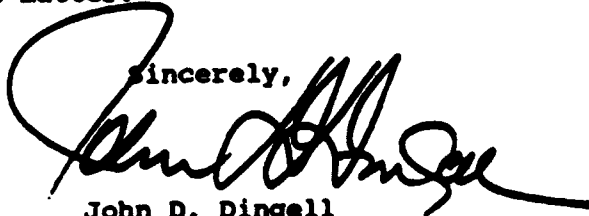
APPENDIX A - SUBCOMMITTEE LETTER OF REQUEST (cont'd)

miscellaneous parts and materials, and engineering technical assistance, (2) how much of the contract constituted time and material, (3) what was purchased under miscellaneous parts and materials that does not appear to meet the contract definition, and (4) improper activities, incompetent labor, and unverifiable labor hours billed under time and material contract line items.

The Subcommittee would like two briefings on your staff's progress, in the second and third weeks of January 1991. Questions about this matter may be directed to Messrs. Michael F. Barrett, Jr., Chief Counsel and Staff Director, or Peter Stockton of the Subcommittee staff, both of whom may be reached on 225-4441.

Thank you for your assistance and cooperation with the Subcommittee in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "John D. Dingell", written in a cursive style.

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

APPENDIX B - DOD RED SWITCH PROJECT

The Air Force Logistics Command awarded contract F33600-86-D-0295 to ESI, on December 17, 1985, for \$12.6 million. The award was based on requirements identified for Headquarters, Logistics Command and the five Air Logistics Centers.

The purpose of the DoD Red Switch Project was to provide for a standard red telephone switching capability for unified and specified command centers. While the Logistics Command worked on satisfying its own Red Switch requirements, Headquarters, U.S. Air Force was working on its responsibilities as the executive agent for the DoD Red Switch Project. On October 11, 1984, the Under Secretary of Defense for Research and Engineering directed the Office of the Joint Chiefs of Staff (OJCS), the Defense Communications Agency (now called the Defense Information Systems Agency) (DISA), the Military Departments, and the National Security Agency to establish the DoD Red Switch Project. At that time, the Air Force was assigned as the executive agent and was made responsible for all associated development, procurement, and life-cycle support. DISA was assigned as the project manager and made responsible for development of Red Switch functional requirements and system/architectural engineering. The Military Departments were responsible for funding equipment and associated installation costs required at the various locations.

On September 10, 1986, the OJCS issued the Multi-Command Required Operational Capability (MROC) for Red Switch systems for the National Military Command Center, Alternate National Military Command Center, and primary command centers of the Unified and Specified Commands (the DoD Red Switch Project). The MROC stated that although some Red Switch systems were installed and operational, there was no overall program for developing, acquiring, or supporting Red Switch systems. According to the MROC, each Military Department or agency had been responsible for its own development, acquisition, and support. The requirements had been handled on a case-by-case basis that had resulted in unique one-of-a-kind switches with limited security and high acquisition and support costs. The MROC further stated that continued treatment of Red Switch requirements on a case-by-case basis would lead to numerous unique switch designs, thereby increasing costs and interoperability problems.

In August 1988, the Engineering Installation Division of the Communications Command, located at Tinker Air Force Base, Oklahoma, awarded a contract to General Telephone and Electronics Corporation (GTE) for the requirements of the DoD Red Switch Project. By this time, equipment and installation requirements for only 6 of the original 12 Commanders in Chief of the Unified and Specified Commands remained unfulfilled. The requirements of the other six Commanders in Chief were fulfilled by the Logistics

APPENDIX B - DOD RED SWITCH PROJECT (cont'd)

Command contract with ESI. However, the GTE contract will also be used to network the Red Switches of the 12 Commanders in Chief. DISA has the responsibility of networking the six unique ESI Red Switches with each other and with the six GTE Red Switches that are yet to be installed and made operational.

Acronyms Used

DISA - Defense Information Systems Agency
GTE - General Telephone and Electronics Corporation
MROC - Multi-Command Required Operations Capability
OJCS - Office of the Joint Chiefs of Staff

APPENDIX C - RED SWITCH CHRONOLOGY OF EVENTS

May 20, 1985 Purchase request (funded in the amount of \$500,000) was submitted by the 2750th Air Base Wing, Wright-Patterson Air Force Base, on behalf of the Logistics Operations Center.

May 25, 1985 Synopsis in the Commerce Business Daily: "Furnish, install, and maintain command and control system...at Headquarters, Air Force Logistics Command...and 5 other Air Logistics Centers...Request for Proposal to be issued May 29, 1985."

June 3, 1985 Solicitation F33600-85-R-0399 was issued.

July 2, 1985 One proposal was received by the closing date.

July 12, 1985 Audit of proposal was requested from the Defense Contract Audit Agency.

July 19, 1985 The Deputy Commander, 2750th Air Base Wing, who was the Chairman of the Technical Review Board, issued "strong recommendation" to accept proposal of ESI.

August 29, 1985 Purchase request for additional funding of \$419,000 was submitted by the 2750th Air Base Wing on behalf of the Logistics Operations Center.

September 5, 1985 Decision was made to write two contracts: one for the Command Post of the Logistics Command (FY 1985 funds), and one for the requirements of the Air Logistics Centers because the funds for the 1985 contract were near expiration.

September 20, 1985 Purchase request (for additional funding of \$134,000) was submitted by the 2750th Air Base Wing on behalf of the Logistics Operations Center.

APPENDIX C - RED SWITCH CHRONOLOGY OF EVENTS (cont'd)

September 25, 1985 Message was sent from Headquarters, Communications Command, to Headquarters, Logistics Command and the Wright-Patterson Contracting Center to confirm that a meeting was held on September 10, 1985, between representatives of the Communications Command and the Contracting Center.

The Communications Command stated that the Logistics Command overstated its needs: "...the requirements contract is estimated at \$13 million...potential AFLC orders are estimated to be only \$1.8 million." Four other major commands had requirements that could be satisfied by using the excess quantities of the Logistics Command contract. The Communications Command stated there would be "...[No] prejudice [to the contracting process] by what is essentially a change in delivery point of the approximate equipment quantities in the existing bid schedule."

September 26, 1985 Negotiations were held at the Contracting Center with ESI. Contract F33600-85-C-0621 was negotiated at a price of \$1,053,000.

October 29, 1985 The Contracting Center circulated a Staff Summary Sheet advising of the Communications Command request for permission to order against the "requirements contract currently in negotiation." No upper limits on orders were contemplated by the message.

November 2, 1985 The Logistics Command sent a message authorizing the Communications Command to order against the Contracting Center's contract stating "Be prepared to issue delivery orders prior to December 31, 1985, to lock in 1985 prices."

November 21, 1985 Contracting Center price negotiation memorandum discussed the Logistics Command and Communications Command "desires to purchase all requirements as soon as possible." Estimated price was negotiated at \$12,602,681.

APPENDIX C - RED SWITCH CHRONOLOGY OF EVENTS (cont'd)

- December 2, 1985 The Contracting Center reached an agreement with ESI that this was an "indefinite delivery contract" for the Communications Command since the Command did not define who the users were.
- December 3, 1985 Headquarters, Air Force, sent message to the Logistics Command with information copies to the Contracting Center, the Communications Command and four other major commands, requesting that the Logistics Command permit only MAC to fulfill Red Switch requirements that had been validated by Headquarters, Air Force. Further, no other Red Switch requirements of any major commands were to be fulfilled until Headquarters, Air Force, had validated and approved the requirements.
- December 17, 1985 Contract was approved by the Logistics Command and awarded by the Contracting Center for an estimated amount of \$12,602,681. Effective date of the contract was December 2, 1985.
- December 19, 1985 The Logistics Command sent message to Headquarters, Air Force, advising that the Logistics Command contract was an indefinite-quantity contract for the Communications Command users, and that the Communications Command would place the delivery order for the MAC requirement validated by Headquarters, Air Force. The Communications Command would not issue any delivery orders for any other requirement until it was validated and approved by Headquarters, Air Force.
- December 31, 1985 Contract award synopsis in the Commerce Business Daily stating that the requirements of the Logistics Command, the Air Logistics Centers, and the Communications Command were valued at \$12,602,681.

APPENDIX C - RED SWITCH CHRONOLOGY OF EVENTS (cont'd)

- September 23, 1986 Staff Judge Advocate of the Communications Command reviewed the Communications Command use of the Logistics Command contract and concluded that the Logistics Command should have resynopsized the solicitation to include the Communications Command requirements. However, in the event of protest or audit, the only perceived risk to the Communications Command for ordering off of the contract was the possibility of being told to stop ordering. Therefore, the Staff Judge Advocate recommended that the Communications Command continue to use the contract.
- May 18, 1987^{*/} Headquarters, Air Force, Assistant Chief of Staff, Systems for Command, Control, Communications and Computers, Mission Systems Division, said that the Air Force General Counsel would review the Red Switch contract because an AFAA finding recommended Air Force stop using the contract and issue a new contract.
- August 11, 1987^{*/} Headquarters, Air Force, on behalf of the Air Force General Counsel, asked the Contracting Center for the price negotiation memorandum, the contract F33600-85-C-0621, and the statement of work from contract F33600-86-D-0295.
- August 31, 1987 Air Force General Counsel issued a summation of the Red Switch procurement as part of a draft letter addressed to Air Force Commands (See Appendix G).
- October 27, 1987 Headquarters, Air Force, Director of Contracting and Manufacturing Policy issued a message to Headquarters, Communications Command "strongly advising" it not to use the Logistics Command contract any further as orders had "greatly exceeded the scope of the contract."

^{*/} The source for this information was the "Red Switch Chronology," which was obtained from the Wright-Patterson Contracting Center.

APPENDIX C - RED SWITCH CHRONOLOGY OF EVENTS (cont'd)

January 27, 1988 Headquarters, Air Force Director of Contracting and Manufacturing Policy issued a message stating that TAC had done a "Justification and Approval," and asked the Contracting Center to modify the contract to add the 4400th Contracting Squadron (4400 CONS) as an ordering office.

January 29, 1988^{*/} The Logistics Command stated that the Contracting Center should not place orders; that placing orders was the responsibility of the TAC 4400 CONS.

February 25, 1988 The GAO started its defective pricing audit of Contract F33600-86-D-0295.

June 8, 1988^{*/} TAC asked the Logistics Command for permission to directly order maintenance from contract F33600-86-D-0295.

July 5, 1988^{*/} The Logistics Command stated that the Communications Command was responsible for obtaining maintenance.

August 26, 1988 Air Force Engineering Installation Division, Tinker Air Force Base, awarded a contract for DoD-wide use to GTE, in the amount of \$79.5 million for Red Telephone Switching Subsystems for Command Centers.

October 13, 1988 AFAA requested in a memorandum that the Air Force General Counsel determine if violations occurred on contract F33600-86-D-0295 relating to funding and approvals for facility construction, acquisition of major equipment items, and out-of-scope taskings of the contractor by noncontracting personnel.

October 14, 1988 AFAA issued an audit report on Project No. 7215211, "Management of the Red Switch Program."

^{*/} The source for this information was the "Red Switch Chronology," which was obtained from the Wright-Patterson Contracting Center.

APPENDIX C - RED SWITCH CHRONOLOGY OF EVENTS (cont'd)

- June 7, 1989 The GAO issued Audit Report No. NSIAD-89-124, (OSD Case No. 8025), "Contract Pricing, Overpricing of Secure Voice Communications Systems."
- September 7, 1989 The Contracting Center sent a letter to the Defense Contract Management Area Operations-Dallas stating that no other orders should be written by any other activity.
- November 3, 1989 The Communications Command sent a message to the Logistics Command asking for limited use of the contract to complete installation, activation, and maintenance of existing systems.
- November 17, 1989 The Contracting Center sent a letter to the Defense Contract Management Area Operations-Dallas stating that use of the contract was limited to existing systems. Parts could be ordered through December 31, 1989, and maintenance and installations could be ordered through September 30, 1990.

APPENDIX D - RED SWITCH SYSTEM REQUIREMENTS FULFILLED BY THE AIR FORCE COMMUNICATIONS COMMAND

Delivery Order Number	Date Issued	Supporting Activity	Receiving Unit	Location	Secure Switch		Nonsecure Switch	
					Quantity	Type	Quantity	Type
RH-01	85 Dec 31	PACAF	7th Air Force	Otan Air Base, Korea	2	SDS 1/	0	
RH-02	86 Aug 04	PACAF	432nd Tactical Fighter Wing	Misawa Air Base, Japan	1	RSU 2/	1	RSU
RH-03	85 Dec 31	TAC	Headquarters, TAC	Langley Air Force Base, VA	2	RSU	0	
RH-04	85 Dec 24	MAC	21st Air Force	McGuire Air Force Base, NJ	1	RSU	1	RSU
RH-05	85 Dec 24	MAC	22nd Air Force	Travis Air Force Base, CA	1	RSU	1	RSU
RH-06	85 Dec 24	MAC	Transportation Command	Scott Air Force Base, IL	1	RSU	0	
RH-07	85 Dec 24	MAC	834th Airlift Division	Hickam Air Force Base, HI	1	RSU	1	RSU
RH-08	85 Dec 24	USAFE 3/	USAFE	Ramstein Air Base, Germany 5/	1	SDS	1	SDS
RH-09	85 Dec 24	USAFE	322nd Operations Support Center	Ramstein Air Base, Germany 5/	0		0	
RH-10	85 Dec 24	MAC	Headquarters, MAC	Scott Air Force Base, IL	1	SDS	1	SDS
RH-11	86 May 15	WHCA 5/	WHCA	White House, Washington, DC	3	RSU 9/	0	
RH-11	86 May 15	WHCA	WHCA	White House, Washington, DC	14	SPS 9/	0	
RH-12	86 May 19	AFCC 7/	Unknown 9/	Scott Air Force Base, IL	0		0	
RH-13	86 Jun 26	TAC	1st Air Force	Langley Air Force Base, VA	1	RSU	0	
RH-14	86 Aug 28	AFSC 9/	MASA 10/	Goddard Space Center, MD	1	SDS	0	
RH-15	86 Sep 17	MAC	AFSOC 11/	Hurlburt Field, FL	1	RSU	1	RSU
RH-16	86 Sep 02	TAC	37th Tactical Fighter Wing	George Air Force Base, CA	1	ICS 12/	0	
RH-17	86 Sep 09	PACAF	7th Air Force	Otan Air Base, Korea	0		1	RSU
RH-18	86 Sep 16	AFSPACECOM	USSPACECOM 13/	Peterson Air Force Base, CO	1	SDS	1	RSU
RH-18	86 Sep 16	AFSPACECOM	USSPACECOM	Peterson Air Force Base, CO	1	SPS	0	
RH-19	86 Sep 25	AFSPACECOM	AFSPACECOM	Peterson Air Force Base, CO	1	RSU	0	
RH-20	86 Nov 20	TAC	Headquarters, TAC	Langley Air Force Base, VA...Maintenance FY 1987	0		0	
RH-21	86 Dec 03	MAC	Unknown 9/	Scott Air Force Base, IL...Maintenance FY 1987	0		0	
RH-22	86 Dec 30	OJCS	OJCS	Pentagon, Washington, DC	1	RSU	0	
RH-23	86 Dec 30	SAC 14/	Headquarters, SAC	Offutt Air Force Base, NE	2	SDS	1	SDS
RH-24	87 Mar 10	AFSC	MASA 15/	Kennedy Space Center, FL	1	RSU	0	
RH-25	87 Mar 11	AFSC	ESMC 15/	Cape Canaveral Air Force Station, FL	1	SDS	0	
RH-26	87 May 05	USAFE	ATOC 16/	Sambach Air Station, Germany	1	RSU	1	SDS
RH-27	87 May 11	AFSPACECOM	USSPACECOM	Peterson Air Force Base, CO...Maintenance FY 1987	0		0	
RH-28	87 Jun 26	WHCA	WHCA	White House, Washington, DC 17/	0		0	
RH-29	87 Jun 25	TAC	12th Air Force	Bergstrom Air Force Base, TX	1	ICS	0	
RH-30	87 Jun 30	PACAF	8th Tactical Fighter Wing	Kunsan Air Base, Korea	1	ICS	0	
RH-31	87 Jul 15	SOUTHCOM 18/	Unknown 9/	Quarry Heights, Panama	1	SDS	1	RSU
RH-31	87 Jul 15	SOUTHCOM	Unknown 9/	Fort Amador, Panama	1	ICS	0	

See footnotes at end of table.

APPENDIX D - RED SWITCH SYSTEM REQUIREMENTS FULFILLED BY THE AIR FORCE COMMUNICATIONS COMMAND (cont'd)

Delivery Order Number	Date Issued	Supporting Activity	Receiving Unit	Location	Secure		Nonsecure	
					Switch	Quantity	Switch	Quantity
RM-32	87 Aug 17	MAC	Various 19/ 20/	Various 20/ ...Maintenance FY 1988	0	0	0	0
RM-33	87 Aug 31	AFSPACECOM	NORAD 20/	Cheyenne Mountain Air Force Station, CO	1	1	SDS	SDS
RM-34	87 Sep 04	TAC	37th Tactical Fighter Wing	George Air Force Base, CA...Maintenance FY 1988	0	0	0	0
RM-35	87 Dec 11	SOCOM 21/	SOCOM	MacDill Air Force Base, FL...Maintenance FY 1988	1	1	SDS	SDS
RM-36	87 Sep 21	TAC	Unknown 8/	Langley Air Force Base, VA...Maintenance FY 1988	0	0	0	0
RM-37	87 Sep 24	USAFE	Unknown 9/	Ramstein Air Base, Germany 4/	0	0	0	0
RM-38	87 Sep 30	AFSPACECOM	USSPACECOM	Peterson Air Force Base, CO...Maintenance FY 1988	0	0	0	0
RM-39	87 Dec 21	AFSPACECOM	NORAD	Cheyenne Mountain Air Force Station, CO...Maintenance FY 1988	0	0	0	0
RM-40	87 Dec 31	WHCA	WHCA	White House, Washington, DC...Maintenance FY 1988	0	0	0	0
X-401	88 Apr 19	TAC	24th Composite Wing	Howard Air Force Base, Panama	1	1	ICS	0
X-402	88 Apr 22/							
X-403	88 Aug 04	TAC	Unknown 8/	Langley Air Force Base, VA...Maintenance FY 1989	0	0	0	0
X-404	88 Aug 04	TAC	12th Air Force	Bergstrom Air Force Base, TX...Maintenance FY 1989	0	0	0	0
X-405	88 Aug 04	TAC	37th Tactical Fighter Wing	George Air Force Base, CA...Maintenance FY 1989	0	0	0	0
X-406	88 Aug 04	USAFE	ATOC	Sembach Air Station, Germany...Maintenance FY 1989	0	0	0	0
X-407	88 Aug 31	USSPACECOM	Unknown 8/	Peterson Air Force Base, CO...Maintenance FY 1989	0	0	0	0
X-408	88 Aug 31	AFSPACECOM	NORAD	Cheyenne Mountain Air Force Station, CO...Maintenance FY 1989	0	0	0	0
X-409	88 Sep 20	MAC	Unknown 8/	Scott Air Force Base, IL...Maintenance FY 1989	0	0	0	0
X-410	88 Sep 28	WHCA	WHCA	White House, Washington, DC...Maintenance FY 1989	0	0	0	0
X-411	88 Oct 05	SOCOM	SOCOM	MacDill Air Force Base, FL...Maintenance FY 1989	0	0	0	0
X-412	88 Oct 04	MAC	Headquarters, MAC	Scott Air Force Base, IL...Maintenance FY 1989	0	0	0	0
X-413	88 Nov 01	TAC	9th Air Force	Shaw Air Force Base, SC...Maintenance FY 1989	0	0	0	0
X-414	89 Feb 02	SOUTHCOM	Unknown 8/	Panama...Maintenance FY 1989	0	0	0	0
X-415	89 May 01	AFSPACECOM	NORAD	Cheyenne Mountain Air Force Station, CO...Maintenance FY 1990	0	0	0	0
X-416	89 Jun 09	PACAF	7th Air Force	Osan Air Base, Korea...Maintenance FY 1990	0	0	0	0
X-417	90 Jul 23	TAC	24th Composite Wing	Howard Air Base, Panama...Maintenance FY 1990	0	0	0	0
X-418	89 Sep 15	TAC	9th Air Force	Shaw Air Force Base, SC...Maintenance FY 1990	0	0	0	0
X-419	89 Sep 15	TAC	USCENTCOM 23/	MacDill Air Force Base, FL...Maintenance FY 1990	0	0	0	0
X-420	89 Sep 15	TAC	12th Air Force	Bergstrom Air Force Base, TX...Maintenance FY 1990	0	0	0	0
X-421	89 Sep 15	AFSPACECOM	NORAD	Cheyenne Mountain Air Force Station, CO...Maintenance FY 1990	0	0	0	0
X-422	89 Sep 15	USAFE	ATOC	Sembach Air Station, Germany...Maintenance FY 1990	0	0	0	0
X-423	89 Sep 15	WHCA	WHCA	White House, Washington, DC...Maintenance FY 1990	0	0	0	0
X-424	89 Sep 15	MAC	21st Air Force	McGuire Air Force Base, NJ...Maintenance FY 1990	0	0	0	0
X-425	89 Sep 15	MAC	22nd Air Force	Travis Air Force Base, CA...Maintenance FY 1990	0	0	0	0

See footnotes at end of table.

APPENDIX D - RED SWITCH SYSTEM REQUIREMENTS FULFILLED BY THE AIR FORCE COMMUNICATIONS COMMAND (cont'd)

Delivery Order Number	Date Issued	Supporting Activity	Receiving Unit	Location	Secure Switch		Nonsecure Switch	
					Quantity	Type	Quantity	Type
X-426	89 Sep 15	MAC	834th Airlift Division	Hickam Air Force Base, HI...Maintenance rY 1990	0		0	
X-427	89 Sep 15	MAC	AFSOC	Hurlburt Field, FL...Maintenance FY 1990	0		0	
X-428	89 Sep 15	MAC	Unknown g/	Scott Air Force Base, IL...Maintenance FY 1990	0		0	
X-429	89 Sep 15	SAC	Headquarters, SAC	Offutt Air Force Base, NE...Maintenance FY 1990	0		0	
X-430	89 Sep 15	SOCOM	SOCOM	MacDill Air Force Base, FL...Maintenance FY 1990	0		0	
X-431	89 Sep 28	USAFE	USAFE	Ramstein Air Base, Germany...Maintenance FY 1990	0		0	
X-432	89 Oct 11	PACAF	7th Air Force	Osan Air Base, Korea...Maintenance FY1990	0		0	
X-433	89 Nov 02	TAC	37th Tactical Fighter Wing	George Air Force Base, CA...Maintenance FY 1990	0		0	
X-434	89 Nov 02	TAC	Unknown g/	Langley Air Force Base, VA...Maintenance FY 1990	0		0	
X-435	89 Nov 30	TAC	Unknown g/	Panama...Maintenance FY 1990	0		0	
Totals					48		14	

See footnotes at end of table.

**APPENDIX D - RED SWITCH SYSTEM REQUIREMENTS FULFILLED BY THE AIR FORCE COMMUNICATIONS
COMMAND (cont'd)**

Footnotes

- 1/ SDS - Secure Digital Switch.
- 2/ RSU - Remote Switching Unit.
- 3/ USAFE - United States Air Forces in Europe.
- 4/ Switch count is included in delivery order RM-08.
- 5/ WHCA - White House Communications Agency.
- 6/ SPS - Secure Portable Switch.
- 7/ AFCC - Air Force Communications Command.
- 8/ Unknown - Receiving unit was not identified in the delivery order.
- 9/ AFSC - Air Force Systems Command.
- 10/ NASA - National Aeronautics and Space Administration.
- 11/ AFSOC - Air Force Special Operations Command.
- 12/ ICS - Integrated Control Switch.
- 13/ USSPACECOM - United States Space Command.
- 14/ SAC - Strategic Air Command.
- 15/ ESMC - Eastern Space and Missile Center.
- 16/ ATOC - Allied Tactical Operations Center.
- 17/ Switch count is included in delivery order RM-11.
- 18/ SOUTHCOM - Southern Command.
- 19/ Various - Six different units received maintenance under this delivery order.
- 20/ NORAD - North American Aerospace Defense Command.
- 21/ SOCOM - Special Operations Command.
- 22/ Delivery order was cancelled.
- 23/ USCENTCOM - United States Central Command.

APPENDIX E - COSTS OF DELIVERY ORDERS ISSUED BY THE AIR FORCE COMMUNICATIONS COMMAND

Systems Procured	Number of Delivery Orders	Total Dollars Billed as of March 31, 1991	
		FFP ^{1/}	T&M
RM ^{2/} Delivery Orders	31	\$56,437,405.60	\$48,126,775.88
X ^{3/} Delivery Orders	<u>1</u>	<u>1,071,579.00</u>	<u>564,176.51</u>
Total Systems	32	<u>\$57,508,984.60</u>	<u>\$48,690,952.39</u>
<u>Maintenance Procured</u>			
RM Delivery Orders	9	\$2,474,897.43	\$6,509.06
X Delivery Orders	<u>33</u>	<u>9,484,320.23</u>	<u>319,907.07</u>
Total Maintenance	42	<u>\$11,959,217.66</u>	<u>\$326,416.13</u>
Total Amount Billed for Systems and Maintenance			<u>\$118,485,570.78</u>

See footnotes at end of table.

APPENDIX B - COSTS OF DELIVERY ORDERS ISSUED BY THE AIR FORCE COMMUNICATIONS COMMAND (cont'd)

Delivery Order Number	Date Issued	Supporting Activity	Total Dollars Billed as of March 31, 1991								
			Systems		Maintenance						
			FFP	TAM	FFP	TAM					
RM-01	85 Dec 31	PACAF	\$2,498,004.00	\$2,009,536.26	\$4,507,540.26						
RM-02	86 Aug 04	PACAF	1,170,871.40	587,555.95	1,758,427.35						
RM-03	85 Dec 31	TAC	1,228,179.00	1,000,169.90	2,228,348.90						
RM-04	85 Dec 24	MAC	1,086,468.65	1,113,307.14	2,199,775.79						
RM-05	85 Dec 24	MAC	1,036,613.00	1,324,037.54	2,360,650.54						
RM-06	85 Dec 24	MAC	769,142.65	547,251.40	1,316,394.05						
RM-07	85 Dec 24	MAC	625,780.00	834,729.36	1,460,509.36						
RM-08	85 Dec 24	USAFE	939,975.00	1,262,419.15	2,202,394.15						
RM-09	85 Dec 24	USAFE	858,587.00	403,142.00	1,261,729.00						
RM-10	85 Dec 24	MAC	2,424,669.00	3,847,795.30	6,272,464.30						
RM-11	86 May 15	WHCA	2,459,950.20	1,802,017.78	4,261,967.98						
RM-12	86 May 19	AFCC	874,600.10	3,828,265.83	4,702,865.93						
RM-13	86 Jun 26	TAC	1,043,352.05	629,020.49	1,672,372.54						
RM-14	86 Aug 28	AFSC	1,954,882.00	619,889.32	2,574,771.32						
RM-15	86 Sep 17	MAC	1,632,704.80	1,290,679.75	2,923,384.55						
RM-16	86 Sep 02	TAC	780,200.00	402,120.70	1,182,320.70						
RM-17	86 Sep 09	PACAF	825,172.00	881,517.02	1,706,689.02						
RM-18	86 Sep 16	AFSPACECOM	8,463,808.95	6,665,666.31	15,129,475.26						
RM-19	86 Sep 25	AFSPACECOM	1,062,290.70	1,026,430.00	2,088,720.70						
RM-20	86 Nov 20	TAC									
RM-21	86 Dec 03	MAC									
RM-22	86 Dec 30	OJCS	903,316.00	1,741,213.00	2,644,529.00						
RM-23	86 Dec 30	SAC	5,373,383.00	3,385,190.85	8,758,573.85						
RM-24	87 Mar 10	AFSC	1,201,381.00	267,553.65	1,468,934.65						
RM-25	87 Mar 11	AFSC	1,912,379.00	427,204.14	2,339,583.14						
RM-26	87 May 05	USAFE	1,873,608.00	1,152,504.94	3,026,112.94						
RM-27	87 May 11	AFSPACECOM									
RM-28	87 Jun 26	WHCA	2,946,402.00	1,973,615.76	4,920,017.76						
RM-29	87 Jun 25	TAC	1,063,990.00	360,080.97	1,424,070.97						
RM-30	87 Jun 30	PACAF	1,596,701.10	1,267,081.06	2,863,782.16						
RM-31	87 Jul 15	SOUTHCOM	3,594,066.00	4,653,238.50	8,247,304.50						
						\$173,880.21	\$0	\$173,880.21			
						492,859.00	0	492,859.00			
									101,661.50	0	101,661.50

See footnotes at end of table.

APPENDIX E - COSTS OF DELIVERY ORDERS ISSUED BY THE AIR FORCE COMMUNICATIONS COMMAND (cont'd)

Delivery Order Number	Date Issued	Supporting Activity	Total Dollars Billed as of March 31, 1991				
			Systems		Maintenance		
			FFP	TEM	FFP	TEM	
			Total		Total		
RM-32	87 Aug 17	MAC			\$824,976.00	\$0	\$824,976.00
RM-33	87 Aug 31	AFSPACECOM	\$0	\$4,839.63			\$4,839.63
RM-34	87 Sep 04	TAC			117,635.00	0	117,635.00
RM-35	87 Dec 11	SOCOM	1,927,915.00	1,362,406.22			3,290,321.22
RM-36	87 Sep 21	TAC			22,368.00	6,509.06	28,877.06
RM-37	87 Sep 24	USAFE	2,309,014.00	1,436,295.96			3,745,309.96
RM-38	87 Sep 30	AFSPACECOM			385,632.00	0	385,632.00
RM-39	87 Dec 21	AFSPACECOM			226,481.72	0	226,481.72
RM-40	87 Dec 31	WHCA			129,404.00	0	129,404.00
X-401	88 Apr 19	TAC	1,071,579.00	564,176.51			1,635,755.51
X-402							
X-403	88 Aug 04	TAC			40,587.00	778.43	41,365.43
X-404	88 Aug 04	TAC			238,832.00	0	238,832.00
X-405	88 Aug 04	TAC			6,846.00	550.26	7,396.26
X-406	88 Aug 04	USAFE			144,372.00	0	144,372.00
X-407	88 Aug 31	USSPACECOM			404,916.00	0	404,916.00
X-408	88 Aug 31	AFSPACECOM			483,571.16	0	483,571.16
X-409	88 Sep 20	MAC			953,361.00	0	953,361.00
X-410	88 Sep 28	WHCA			313,356.00	718.03	314,074.03
X-411	88 Oct 05	SOCOM			162,116.27	0	162,116.27
X-412	88 Oct 04	MAC			171,955.00	0	171,955.00
X-413	88 Nov 01	TAC			123,560.40	44,176.43	167,736.83
X-414	89 Feb 02	SOUTHCOM			76,167.00	0	76,167.00
X-415	89 May 01	AFSPACECOM			433,385.00	0	433,385.00
X-416	89 Jun 09	PACAF			0	58,787.34	58,787.34
X-417	90 Jul 23	TAC			79,254.00	0	79,254.00
X-418	89 Sep 15	TAC			276,180.00	0	276,180.00
X-419	89 Sep 15	TAC			392,808.20	32,699.88	425,508.08
X-420	89 Sep 15	TAC			62,430.00	0	62,430.00
X-421	89 Sep 15	AFSPACECOM			1,531,728.00	0	1,531,728.00
X-422	89 Sep 15	USAFE			153,036.00	0	153,036.00
X-423	89 Sep 15	WHCA			710,149.20	0	710,149.20
X-424	89 Sep 15	MAC			276,180.00	0	276,180.00
X-425	89 Sep 15	MAC			276,180.00	0	276,180.00

See footnotes at end of table.

APPENDIX E - COSTS OF DELIVERY ORDERS ISSUED BY THE AIR FORCE COMMUNICATIONS COMMAND (cont'd)

Delivery Order Number	Date Issued	Supporting Activity	Total Dollars Billed as of March 31, 1991			
			Systems		Maintenance	
			FFP	T&M	FFP	T&M
			Total		Total	
X-426	89 Sep 15	MAC	\$276,180.00		\$0	\$276,180.00
X-427	89 Sep 15	MAC	276,180.00		0	276,180.00
X-428	89 Sep 15	MAC	153,036.00		0	153,036.00
X-429	89 Sep 15	SAC	264,180.00		0	264,180.00
X-430	89 Sep 15	SOCOM	276,180.00		0	276,180.00
X-431	89 Sep 28	USAFE	217,870.00		0	217,870.00
X-432	89 OCT 11	PACAF	0		182,155.20	182,155.20
X-433	89 Nov 02	TAC	23,874.00		41.50	23,915.50
X-434	89 Nov 02	TAC	26,469.00		0	26,469.00
X-435	89 Nov 30	TAC	659,381.00		0	659,381.00
			<u>\$57,508,984.60</u>	<u>\$48,690,952.39</u>	<u>\$326,616.13</u>	<u>\$12,205,633.79</u>
				<u>\$106,199,936.99</u>		<u>\$118,485,570.78</u>

Total Amount Billed for Systems and Maintenance

Footnotes

- 1/ FFP - Firm-Fixed Price.
- 2/ RM - Indicates delivery orders issued by the Air Force Communications Command primarily for systems.
- 3/ X - Indicates delivery orders issued by the Air Force Communications Command primarily for maintenance.
- 4/ Delivery order was cancelled.

APPENDIX F - PRIOR AUDITS

General Accounting Office

GAO Audit Report No. NSIAD-89-124 (OSD Case No. 8025) "Contract Pricing, Overpricing of Secure Voice Communication Systems," June 7, 1989, addressed the accuracy of cost or pricing data provided by ESI on contract F33600-86-D-0295 at the date of price agreement. The audit found that ESI:

- o did not disclose accurate, complete, and current cost or pricing data supporting proposed material and labor costs, which caused the contract price to be overstated by about \$2.03 million;

- o could not provide supporting cost or pricing data for material costs valued at about \$4.96 million; and

- o overbilled the Air Force \$876,382 for cable assembly labor not included in the installation billing rate negotiation.

The completion date of the defective pricing negotiation to recover \$2,029,642 from ESI for defective pricing is estimated as September 1993.

Air Force Audit Agency

AFAA Project No. 7215211, "Management of the Red Switch Program," October 14, 1988, addressed whether the Air Force had effectively and efficiently managed the Red Switch Program. The audit concluded that the Air Force had not effectively and efficiently managed the Red Switch Program.

AFCC [the Air Force Communications Command] had established a Red Switch Program Office to manage acquisition; however, Red Switch systems were being acquired outside the established Red Switch Program. Also, basic program management functions were not accomplished, procurements were not adequately competed, items were procured outside the scope of the contract, and the contract did not include adequate economic price adjustment provisions.

The AFAA audit report recommended that the Communications Command direct contracting personnel to take only the acquisition actions authorized by FAR provisions and approved by the procuring contracting officer.

APPENDIX F - PRIOR AUDITS (cont'd)

Headquarters, U.S. Air Force, Assistant Chief of Staff, Systems for Command, Control, Communications and Computers concurred with the recommendation. Headquarters, Communications Command issued policy guidance to all Communications Command buying activities that will preclude recurrences of this nature when using contracts awarded by other commands or agencies.

The AFAA also reported that on April 28, 1987, it briefed the Assistant Chief of Staff on the noncompetitive use of Logistics Command contract F33600-86-D-0295. As a result of the briefing, the Assistant Chief of Staff immediately requested that the Air Force General Counsel evaluate the AFAA contention that the acquisition of the Communications Command's unadvertised requirements using the Logistics Command contract violated the Competition in Contracting Act.

On August 31, 1987, the Air Force General Counsel reported the results of its analysis. The report recited and summarized relevant facts concerning the Red Switch procurement on contract F33600-86-D-0295. However, the Office of General Counsel did not report any opinions, conclusions, or recommendations about the acquisition.

The AFAA reported that the Headquarters, Air Force, Director of Contracting and Manufacturing Policy issued a message in September 1987 directing that no more Communications Command orders be placed against the Logistics Command contract unless sole-source procurement was properly documented and approved. The message was issued based on the initial comments from the Air Force General Counsel on August 31, 1987. As of December 1987, the Air Force General Counsel had no plans to issue a formal opinion since the Communications Command had agreed to discontinue use of the Logistics Command Red Switch contract and initiate its own contract. Because of the actions of the Director of Contracting and Manufacturing Policy and the Communications Command, the AFAA had no recommendations regarding this issue.

APPENDIX G - AIR FORCE GENERAL COUNSEL'S SUMMATION OF THE RED SWITCH PROCUREMENT

What follows is an abridged version of the Air Force General Counsel's summation of the Red Switch procurement. The Assistant General Counsel for Procurement signed the original letter on August 31, 1987. The letter was addressed to the Associate Auditor General of the Air Force; the Director of Mission Systems, Office of the Deputy Chief of Staff, Command, Control, Communications and Computers; the Judge Advocate, Air Force Logistics Command; and the Judge Advocate, Air Force Communications Command.

1. The Air Force Logistics Command published a synopsis in the Commerce Business Daily for the purchase of a secure and nonsecure command and control communications systems that would be installed at five Air Logistics Centers. The synopsis stated the resulting solicitation would include options for installation, training, and maintenance.

2. Request for Proposal (RFP) F33600-85-R-0399 requested proposals for secure and nonsecure command and control communications systems that would be installed at five Air Logistics Centers. It included 25 contract line item numbers (CLINs).

3. Electrospace Systems, Incorporated, submitted the only proposal in response to the subject RFP. Its final proposed price was \$18,107,316 for 25 CLINs.

4. On September 30, 1985, the Logistics Command awarded contract F33600-85-C-0621 to ESI for \$1,053,087 for communications equipment and services at Headquarters, Logistics Command. The contract included 29 CLINs, four of which had not been included in the RFP or the contractor's proposal.

5. On December 2, 1985, the Logistics Command awarded contract F33600-86-D-0295 to ESI for \$12,602,681 for communications equipment and services at Headquarters, Logistics Command and five Air Logistics Centers. The contract also provided that the Air Force Communications Command could place orders against the contract.

6. There was no synopsis, RFP, or separate contract proposal for contract F33600-86-D-0295.

7. Contract F33600-86-D-0295 stated it was a requirements contract; however, quantities were not stated as estimates or as minimums. It included FAR clause 52.212-9, "Variations in

APPENDIX G - AIR FORCE GENERAL COUNSEL'S SUMMATION OF THE RED SWITCH PROCUREMENT (cont'd)

Quantity," which could have allowed for increases or decreases in quantities of specified items. However, no percentages were stated for allowable increases or decreases.

8. Between February 28, 1986, and August 3, 1987, the Logistics Command had modified contract F33600-86-D-0295 12 times. In those modifications, the Logistics Command had added 67 CLINs and revised 12 sub-CLINs.

9. The Communications Command had placed 32 orders under the subject contract. During the first month of the contract, orders issued by the Communications Command exceeded the negotiated contract price. As of August 17, 1987, orders issued by the Communications Command totaled \$62,776,550.60, or almost 500 percent, of the negotiated contract price.

10. Orders issued by the Communications Command included delivery to DoD and non-DoD Components worldwide. None of the delivery sites listed in the orders issued by the Communications Command were included in either the synopsis or the RFP.

11. The Communications Command had ordered the construction of three SCIFs -- one each at Peterson Air Force Base, Headquarters, Tactical Air Command (Langley Air Force Base), and Headquarters, Strategic Air Command (Offutt Air Force Base) -- under the subject contract. The contract was not a construction contract and had no contract line items for such facilities. It appeared that portions of the cost of the Peterson Air Force Base SCIF were charged to sub-CLINs 0017AF (Miscellaneous Material) and 0060AB (Engineering Technical Assistance).

12. The Logistics Command had placed an additional six orders under the subject contract. As of June 23, 1987, orders issued by the Logistics Command totaled \$1,472,464.75.

Acronyms Used

CLINs - contract line item numbers
RFP - Request For Proposal

APPENDIX E - WARRANT LIMITS OF CONTRACTING OFFICERS AT THE AIR FORCE COMMUNICATIONS COMMAND

<u>Position Title</u>	<u>Rank or Grade</u>	<u>Warrant Limit</u>	<u>Delivery Order Number</u>	<u>Document</u>	<u>Date Issued</u>	<u>Document Amount</u>
1. Acquisition Contracting Officer	Captain	\$100,000.00	RN-03	Basic Order	December 31, 1985	\$ 715,698.00
			RN-03	Mod 4	March 20, 1986	1,135,340.34
			RN-10	Basic Order	December 24, 1985	1,831,452.00
2. Acquisition Contracting Officer	GS-12	\$100,000.00	RN-10	Mod 2	April 22, 1986	\$ 146,002.21
			RN-10	Mod 3	May 7, 1986	968,100.00
			RN-10	Mod 8	September 26, 1986	650,025.47
			RN-10	Mod 14	March 11, 1987	825,199.88
			RN-12	Mod 4	September 18, 1986	500,000.00
			RN-18	Basic Order	September 16, 1986	4,103,997.95
			RN-18	Mod 1	October 6, 1986	541,000.00
			RN-18	Mod 3	December 30, 1986	6,000,000.00
3. Acquisition Contracting Officer	GS-11	\$100,000.00	RN-10	Mod 6	July 23, 1986	\$ 313,777.02
			RN-12	Basic Order	May 19, 1986	528,585.03
4. Acquisition Contracting Officer	GS-11	*/	RN-10	Mod 25	September 14, 1987	\$ 404,147.00
			RN-10	Mod 28	March 18, 1988	150,000.00
			RN-12	Mod 14	September 30, 1988	400,000.00
			RN-18	Mod 20	July 25, 1988	190,000.00
			RN-18	Mod 22	August 9, 1988	166,005.00
			RN-18	Mod 25	September 7, 1988	100,000.00
			RN-18	Mod 27	September 22, 1988	674,000.00
			RN-18	Mod 28	September 23, 1988	195,759.64
			RN-18	Mod 30	September 29, 1988	209,500.00
			RN-18	Mod 32	December 13, 1988	140,000.00
5. Acquisition Contracting Officer	Captain	\$100,000.00	RN-10	Mod 43	September 28, 1989	\$ 160,000.00
			RN-10	Mod 44	November 1, 1989	150,000.00
			RN-12	Mod 27	August 18, 1989	410,840.00
			RN-12	Mod 30	September 8, 1989	200,000.00
			RN-12	Mod 34	November 30, 1989	130,000.00
			RN-12	Mod 35	December 8, 1989	245,000.00
			RN-12	Mod 39	June 1, 1990	200,000.00
			RN-12	Mod 43	July 18, 1990	150,000.00
			RN-18	Mod 43	April 27, 1989	645,000.00
			RN-18	Mod 50	August 18, 1989	416,000.00
6. Chief, Contract Division	GM-13	\$500,000.00	RN-12	Mod 36	December 29, 1989	\$ 399,437.00

Acronyms Used

Mod - Modification

*/ No dollar amount stated. Warrant limited contracting officer to priced blanket purchase orders, delivery orders, and modifications thereto.

APPENDIX I - OTHER PURCHASES IDENTIFIED AS MISCELLANEOUS PARTS AND MATERIALS

Delivery Order RM-03:

Miscellaneous hand tools	\$ 769.00	
Construction and renovation	<u>94,951.00</u>	
Total		\$ 95,720.00

Delivery Order RM-10:

Computer hardware and software	\$ 7,000.00	
Furniture (typing table)	162.60	
Dual-deck recorders	11,865.00	
Development costs	35,248.00	
Radio paging units	4,310.00	
Air conditioning system	14,972.00	
Construction and renovation	107,000.00	
Asbestos removal	6,579.00	
Chest X-rays and pulmonary tests	1,700.00	
Decals	15.00	
Desk top glass	90.75	
Goggles and lenses	<u>127.40</u>	
Total		189,069.75

Delivery Order RM-18:

Computer hardware and software	\$ 2,412.61	
Miscellaneous hand tools	1,700.64	
Construction and renovation	330,465.00	
6-volt battery	13.14	
Cabinet modifications	1,831.00	
Channel bank	3,600.00	
Dectalk assembly	5,440.00	
Equipment cabinet modifications	5,900.00	
Fiberglass stepladders	1,035.02	
Head set assembly	802.00	
Printer rental	58.00	
Trash container rental	126.00	
Wood box	<u>186.38</u>	
Total		<u>353,569.79</u>

Total Other Purchases of RM-03, RM-10, and RM-18 \$638,359.54

APPENDIX J - TASKING ORDERS ISSUED UNDER DELIVERY ORDER RM-12

<u>Task No.</u>	<u>Task Description</u>	<u>Date Ordered</u>
-01	Video Training Tape (T&M) Was: Hardware (FFP)	August 18, 1986 June 12, 1986
-02	KY-57/58 Interface Nonrecurring Engineering (T&M) Was: KY-40 Interface Nonrecurring Engineering (T&M)	July 17, 1986 June 12, 1986
-03	4-Star Conferencing Nonrecurring Engineering (T&M)	June 12, 1986
-04	Command and Control Communications Pallet Study (T&M)	July 2, 1986
-05	Allied Tactical Operations Center Requirements Survey (T&M)	July 17, 1986
-06	Space Command Requirements Survey (T&M)	July 17, 1986
-07	National Aeronautics and Space Administration Goddard Survey (T&M)	July 17, 1986
-08	AC Power Panel for Air Force Communications Command/ Command and Control Upgrade (Wright-Patterson Air Force Base) Was: 1st Special Operations Survey (T&M)	August 13, 1986 July 17, 1986
-09	Purchase Hardware/Very High Frequency Land Mobile Radios (T&M)	July 17, 1986
-10	Pacific Air Forces Data Base (T&M)	August 18, 1986
-11	Multiline Phone-1 Overlay for Tactical Air Command	November 17, 1986
-12	Defense Intelligence Agency Accreditation Testing	December 8, 1986
-13	Instrument Busy (T&M)	February 5, 1987
-14	Engineering Technical Assistance for Cheyenne Mt. Complex	February 13, 1987
-15	T1 Cryptographic Interface	February 13, 1987
-16	Command and Control Switching Training Course (T&M)	April 14, 1987
-17	AN/TTC-39 Interface (T&M)	April 7, 1987
-18	Secure Conferencing Project (T&M)	June 19, 1987
-19	Secure Telephone Unit-II Announce/Message Enhance/Cable Was: Network Support (T&M) Was: Cables (T&M)	April 19, 1988 February 26, 1988 October 28, 1987
-20	Vinson Subscriber Terminal/Vinson Trunk Terminal Interface (T&M)	November 19, 1987
-21	Software Upgrades (T&M)	February 22, 1988
-22	Secure Access Levels Modification (T&M)	November 30, 1988
-23	Data Base/Software Training Course	December 21, 1988
-24	Off-Line Database Generation Systems Hardware	February 9, 1989
-25	Software Training Course (FFP)	February 9, 1989
-26	Pre-wired Assembly Build (FFP)	April 17, 1989
-27	End Instrument Busy Indicator Software (T&M)	April 17, 1989
-28	DoD Trusted Computer (T&M)	April 17, 1989
-29	T1 Service (T&M)	April 17, 1989
-30	Secure Telephone Unit-III Defense Intelligence Agency Accreditation (T&M)	April 17, 1989
-31	Red Switch Project Network Support (T&M)	May 1, 1989
-32	Secure Telephone Unit-III Training Course (T&M)	May 1, 1989
-33	Erasable Programmable Read Only Memory Programmer (T&M)	May 1, 1989
-34	Secure Access Levels (SAL)	May 19, 1989
-35	Software/Firmware Upgrade/Notification (T&M)	May 19, 1989

**APPENDIX J - TASKING ORDERS ISSUED UNDER DELIVERY ORDER RM-12
(cont'd)**

<u>Task No.</u>	<u>Task Description</u>	<u>Date Ordered</u>
-36	RJO Enterprises Support (T&M)	May 19, 1989
-37	Data System Support (T&M)	July 31, 1989
-38	Transportation Command T1 Configuration (T&M)	July 31, 1989
-39	Strategic Air Command T1 Configuration	August 14, 1989
-40	Special Operations Command T1 Configuration	August 14, 1989
-41	Special Operations Command Support (T&M)	August 18, 1989
-42	Subcontract Labor (T&M)	August 23, 1989
-43	Air Force Logistics Command Automatic Number Identification Upgrade (T&M)	September 15, 1989
-44	T1 Data Enhanced Pre-wired Assemblies (FFP)	September 15, 1989
-45	T1 Input/Output Pre-wired Assemblies	September 15, 1989
-46	Telephone Message Display (T&M)	September 15, 1989
-47	Multiline Phone-1 Faceplate Modification Kit (FFP)	October 10, 1989
-48	Line Extension Pickup (T&M)	October 10, 1989
-49	Secure Telephone Unit-III Calling Enhancement (T&M)	October 10, 1989
-50	DoD Red Switch Project Network T1 Installation (T&M)	October 10, 1989
-51	HNF-81 TEMPEST Testing (T&M)	October 10, 1989
-52	ISDN T1 Modification (T&M)	October 24, 1989
-53	Multiline Phone-1/2 Handset Modifications (T&M)	October 24, 1989
-54	Secretary of Defense Support, Engineering Technical Assistance (T&M)	December 7, 1989
-55	Chief of Staff of the Air Force Conference, Engineering Technical Assistance (T&M)	December 7, 1989
-56	Chief of Staff of the Air Force Conference, Installation Labor (T&M)	December 7, 1989
-57	Chief of Staff of the Air Force Conference, Subcontractor Labor (T&M)	December 7, 1989
-58	T1 Link Support, Engineering Technical Assistance (T&M)	December 7, 1989
-59	Integrated Command Console-1 Kit (T&M)	January 18, 1990
-60	T1 Interface Unit, Engineering Technical Assistance (T&M)	January 30, 1990
-61	Operator On-Hold (ETA)	January 30, 1990
-62	Interactive Conference Status (ETA)	January 30, 1990
-63	Trusted Computer Software (ETA)	January 30, 1990
-64	ISDN T1 (ETA)	January 30, 1990
-65	Maintenance Travel (ETA)	July 30, 1990
-100	Maintenance (FFP)	January 15, 1990

Acronyms Used

(FFP) - Firm-Fixed Price

(ETA) - Engineering Technical Assistance

APPENDIX K - ACTUAL FUNDING AND SPENDING BY DELIVERY ORDER

	Delivery Order <u>RM-03</u>	Delivery Order <u>RM-10</u>	Delivery Order <u>RM-12</u>	Delivery Order <u>RM-18</u>	<u>Total</u>
Actual Funding:					
AF Procurement (3080)	\$ 805,408.56	\$2,920,440.28	\$1,480,217.12	\$ 8,441,431.27	\$13,647,497.23
AF O&M (3400)	1,471,187.61	3,377,358.41	3,262,908.86	6,829,415.76	14,940,870.64
AF Industrial (4992)	.00	300,000.00	50,000.00	.00	350,000.00
DoD R&D (9790400)	.00	.00	2,620.00	.00	2,620.00
DoD Procurement (9780300)	<u>.00</u>	<u>.00</u>	<u>7,050.00</u>	<u>.00</u>	<u>7,050.00</u>
Total Funding	<u>\$2,276,596.17</u>	<u>\$6,597,798.69</u>	<u>\$4,802,795.98</u>	<u>\$15,270,847.03</u>	<u>\$28,948,037.87</u>
Acceptable Spending:					
AF Procurement (3080)	\$ 805,408.56	\$2,920,440.28	\$1,480,217.12	\$ 8,441,431.27	\$13,647,497.23
AF O&M (3400)	416,272.80	1,437,688.43	2,038,128.32	2,340,055.76	6,232,145.31
AF Industrial (4992)	.00	.00	.00	.00	.00
DoD R&D (9790400)	.00	.00	2,620.00	.00	2,620.00
DoD Procurement (9780300)	<u>.00</u>	<u>.00</u>	<u>7,050.00</u>	<u>.00</u>	<u>7,050.00</u>
Total Acceptable Spending	<u>\$1,221,681.36</u>	<u>\$4,358,128.71</u>	<u>\$3,528,015.44</u>	<u>\$10,781,487.03</u>	<u>\$19,889,312.54</u>
Unacceptable Spending:					
AF Procurement (3080)	\$.00	\$.00	\$.00	\$.00	\$.00
AF O&M (3400)	1,054,914.81	1,939,669.98	1,224,780.54	4,489,360.00 ^{2/}	8,708,725.33
AF Industrial (4992)	.00	300,000.00	50,000.00	.00	350,000.00
DoD R&D (9790400)	.00	.00	.00	.00	.00
DoD Procurement (9780300)	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>
Total Unacceptable Spending	<u>\$1,054,914.81</u>	<u>\$2,239,669.98</u>	<u>\$1,274,780.54</u>	<u>\$ 4,489,360.00</u>	<u>\$ 9,058,725.33</u>

Acronyms Used

AF - Air Force

R&D - Research and Development

^{2/} For this amount, the Air Force should have used \$4,158,895.00 of Procurement funds and \$330,465.00 of Military Construction funds.

**APPENDIX L - OPERATION AND MAINTENANCE FUNDS OBLIGATED IN
SUBSEQUENT YEARS**

<u>Delivery Order</u>	<u>Fiscal Year</u>	<u>Modification Number</u>	<u>Date of Modification</u>	<u>Fiscal Year of Modification</u>	<u>Delivery Order Line Item Number</u>	<u>Improperly Obligated O&M Funds</u>	<u>Total Improperly Obligated O&M Funds by Fiscal Year</u>	
RM-10	1986	16	May 1, 1987	1987	0028AB	\$15,823.07	\$ 45,859.57	
		22	September 3, 1987	1987	0031	5,065.90		
		23	September 4, 1987	1987	0009	12,491.80		
		24	September 8, 1987	1987	0009	<u>12,478.80</u>		
	1987	26	December 2, 1987	1988	0009	<u>\$20,048.00</u>	20,048.00	
	1989	44	November 1, 1989	1990	0068	\$ 6,975.00	<u>36,483.00</u>	
		44	November 1, 1989	1990	0069	7,283.00		
		44	November 1, 1989	1990	0070	13,675.00		
		44	November 1, 1989	1990	0071	<u>8,550.00</u>		
	Total Delivery Order RM-10							<u>\$102,390.57</u>
	RM-12	1987	19	December 28, 1988	1988	0060AC	<u>\$ 10,000.00</u>	\$ 10,000.00
		1988	24	June 9, 1989	1989	0060AC	<u>\$ 13,275.00</u>	13,275.00
1989		44	August 10, 1990	1990	0017AW	\$ 39,675.00	<u>103,516.43</u>	
		44	August 10, 1990	1990	0017AX	17,052.00		
		44	August 10, 1990	1990	0017AY	30,000.00		
		44	August 10, 1990	1990	0017ZA	10,000.00		
		44	August 10, 1990	1990	0060AD	6,790.00		
		46	August 23, 1990	1990	0017AW	(.12)		
		46	August 23, 1990	1990	0017AX	<u>(.45)</u>		
		Total Delivery Order RM-12						
RM-18	1987	22	August 9, 1988	1988	0017AP	\$ 48,005.00	<u>\$139,276.20</u>	
		33	December 28, 1988	1989	0017AN	<u>\$ 91,271.20</u>		
Total Delivery Order RM-18							<u>\$139,276.20</u>	
Total O&M Funds Improperly Obligated in Subsequent Years							<u>\$368,458.20</u>	

APPENDIX M - SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefits</u>	<u>Type of Benefit</u>
A.1., A.2., A.3., A.4.	Internal Control. Federal Acquisition Regulation procedures for basic contracting practices in planning, awarding, delegating responsibility for and administering contracts were not followed.	Nonmonetary
B.1.a., B.2.a., B.2.b., B.3.a., B.3.b., B.3.c., B.4.a., B.4.b., B.4.c., B.5.a., B.5.b., B.6.a., B.6.b.	Internal Control. Federal accounting and finance laws and procedures for obligating and expending funds were not followed.	Nonmonetary
B.1.b., B.2.c., B.3.d., B.4.d., B.5.c., B.5.d.	Compliance. Federal laws and procedures for reporting funding violations and recommending disciplinary action were not followed.	Nonmonetary

APPENDIX N - ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Production and Logistics), Washington, DC
Office of the Director of Defense Procurement, Washington, DC
Office of the General Counsel, DoD, Washington, DC

Department of the Air Force

Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller), Washington, DC
Office of the Air Force General Counsel, Washington, DC
Headquarters, Air Force Logistics Command, Wright-Patterson Air Force Base, OH
Sacramento Air Logistics Center, McClellan Air Force Base, CA
San Antonio Air Logistics Center, Kelly Air Force Base, TX
Wright-Patterson Contracting Center, Wright-Patterson Air Force Base, OH

Headquarters, Military Airlift Command, Scott Air Force Base, IL
Headquarters, Air Force Communications Command, Scott Air Force Base, IL
Equipment Installation Division, Tinker Air Force Base, OK
Headquarters, Air Force Tactical Air Command, Langley Air Force Base, VA
Headquarters, Air Force Space Command, Peterson Air Force Base, CO
Air Force Audit Agency, Norton Air Force Base, CA
Air Force Audit Agency, Wright-Patterson Air Force Base, OH

Defense Agencies

Headquarters, Defense Contract Audit Agency, Alexandria, VA
Defense Contract Audit Agency, Richardson, TX
Headquarters, Defense Logistics Agency, Alexandria, VA
Defense Contract Management Area Operations, Dallas, TX
Defense Information Systems Agency, Arlington, VA
Information Systems Management Center, McLean, VA
White House Communications Agency, Washington, DC

Non-DoD

U.S. General Accounting Office, Dallas, TX

Contractor

Electrospace Systems, Incorporated, Richardson, TX

APPENDIX N - ACTIVITIES VISITED OR CONTACTED (cont'd)

Congressional Committee

**U.S. House of Representatives Subcommittee on Oversight and
Investigations of the Committee on Energy and Commerce,
Washington, DC**

APPENDIX O - REPORT DISTRIBUTION

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)
Director of Defense Procurement
Comptroller of the Department of Defense

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Acquisition)
Assistant Secretary of the Air Force (Financial Management and
Comptroller)
Air Force General Counsel
Commander, Air Force Communications Command
Commander, Air Force Logistics Command
Commander, Air Force Space Command
Commander, Military Air Command
Commander, Tactical Air Command
Auditor General, Air Force Audit Agency

Defense Agencies

Defense Information Systems Agency

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office, National Security and
International Affairs Division, Technical Information Center

Chairman and Ranking Minority Member of the following
Congressional Committees and Subcommittees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations
House Subcommittee on Oversight and Investigations,
Committee on Energy and Commerce

PART IV - MANAGEMENT COMMENTS

MANAGEMENT COMMENTS FROM THE DEPARTMENT OF THE AIR FORCE



OFFICE OF THE ASSISTANT SECRETARY

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC



AUG 25 1992

SAF/AQ
The Pentagon, Rm 4E969
Washington DC 20330-1000

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of Time-and-Materials Billings on Air Force
Contract F33600-86-D-0295 (Project No. ICF-5009) - INFORMATION
MEMORANDUM

This is in response to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide Air Force comments on the subject report.

Although we take exception with some of your findings, we agree with the spirit of the report that there were serious deficiencies during performance of the contract. In order not to detract from our acknowledgement of those deficiencies, we only identify major exceptions.

The contract abuses were first discovered during an audit by the Air Force Audit Agency, as documented in its report #7215211, October 14, 1988. The Air Force Office of Special Investigations (OSI) also initiated an investigation which is still in progress. Due to the sensitivity of the investigation, information that may have a bearing on our understanding of the basis for the contract actions cited in the report is not available at this time. We have been advised by OSI that your office is aware of the status of the investigation. Therefore, subject to the concurrence of the Assistant United States Attorney in Dayton, Ohio, the Air Force recommends the following statement (or similar wording) be added to the Audit Report Executive Summary and/or Part I - Introduction:

A criminal investigation of this matter was initiated in 1990. The details of the investigation and the evidence it has produced cannot be revealed at this time. Consequently, there may be pertinent facts which are not contained in this audit report.

MANAGEMENT COMMENTS FROM THE DEPARTMENT OF THE AIR FORCE
(cont'd)

The Air Force responses to your specific recommendations follow:

a. Part II, Section A, Recommendations 1 & 2. That the Commanders Air Force Logistics Command (since subsumed under Air Force Materiel Command) and Air Force Communications Command initiate disciplinary actions against Air Force officials responsible for the approval, award, and administration of contract F33600-86-D-0295.

Response: Given the imminent release of additional information concerning the OSI investigation, the Air Force will defer consideration of disciplinary action until the impact of that information can be assessed. While this action is open, we will provide quarterly status updates on these recommendations commencing with our response to the final version of your report. ECD October 1, 1993.

b. Part II, Section A, Recommendation 3. That the Deputy Assistant Secretary of the Air Force (Contracting) revise AFFARS 1.602-1 to limit a contracting officer's authority to bind the Government only to the extent of the authority delegated to them.

Response: Concur. We will change AFFARS as requested. ECD October 1, 1992.

c. Part II, Section A, Recommendation 4a. & 4b. That the Assistant Secretary of the Air Force review the procurement process at Air Force Logistics Command (now Air Force Materiel Command) and Air Force Communications Command to determine whether the procurement problems encountered on contract F33600-86-D-0295 are unique to the contract or represent systemic problems within the Air Force procurement community. If determined that the problems are systemic, take appropriate corrective action.

Response: Concur with intent. The Air Force acknowledges certain systemic flaws in the administration of ID/IQ contracts that authorize decentralized ordering. The Air Force will process a change to the AFFARS requiring the thorough planning of oversight over all such contracts. Specifically, if decentralized ordering will be authorized, the acquisition plan must address specific internal control procedures to enforce contract terms and prevent abuse by decentralized ordering activities. The change will also clarify that the principal contracting officer is responsible for orders placed against his/her contract and will be held accountable under a 'prudent care' standard. ECD October 1, 1992.

d. Part II, Section B, Recommendations 1-4. That the Assistant Secretary of the Air Force (Financial Management and Comptroller), require that the Commanders, Tactical Air Command, (since subsumed within Air Combat Command), Military Airlift Command (now called Air Mobility Command), Air Force Communications Command, and Space Command make the appropriate accounting adjustments to specific delivery orders to reflect the appropriate appropriation category. That AFR 177-16 procedures be implemented if corrective actions result in antideficiency violations.

MANAGEMENT COMMENTS FROM THE DEPARTMENT OF THE AIR FORCE

(cont'd)

Response: Concur with intent. SAF/FM will direct the commands to review the delivery orders, make required accounting adjustments, and implement AFR 177-16 procedures if required. ECD October 1, 1992.

e. Part II, Section B, Recommendation 5. That the Assistant Secretary of the Air Force (Financial Management and Comptroller) review all delivery orders not subject to the audit to determine if appropriate appropriations were used, make any accounting adjustments as necessary, and to take other appropriate actions to include Congressional notifications and disciplinary action.

Response: Concur. SAF/FM will direct all affected MAJCOMs to review all delivery orders and make required accounting adjustments. If antideficiency violations are found, the procedures identified in AFR 177-16 will be followed. ECD October 1, 1992.

f. Part II, Section B, Recommendation 6a. That the General Counsel of the Air Force respond to the Air Force Audit Agency October 13, 1988, action memorandum and, taking into consideration the additional information provided in this report, determine if violations occurred and recommend actions be taken as required by Air Force Regulation 177-16.

Response: Concur that an investigation should be performed; however, it is the purview of SAF/FM, not SAF/GC. Accordingly, we recommend the comment be revised as follows:

SAF/FM should thoroughly investigate the possible funding violations arising from the Red Switch contract. If after such investigations are conducted, questions remain concerning whether funding violations have occurred, SAF/FM should refer the matter to SAF/GC for a formal opinion in accordance with paragraph 9 of AFR 177-16.

ECD January 1, 1993.

g. Part II, Section B, Recommendation 6b. That the General Counsel of the Air Force review internal controls and initiate appropriate controls to verify that responses are provided for all incoming requests from the Air Force Audit Agency.

Response: Concur. The SAF/GC logging system has been improved and it has instituted formal weekly status reviews to ensure completion of all actions. This item is closed.

In addition to those actions identified in response to your specific recommendations, the Air Force directs your attention to the following corrective actions initiated as a result of the problems encountered on this contract:

a. AF/SC tasked HQ AFCC to consolidate management of all Red Switch system acquisitions under the existing Red Switch program.

3

Final Report Reference

Recommendation 5.e.

Recommendation 6.

MANAGEMENT COMMENTS FROM THE DEPARTMENT OF THE AIR FORCE
(cont'd)

b. Both HQ AFLC and HQ AFCC reinvigorated their respective QAE programs to include updating training materials.

c. In 1990, AFLC identified T&M contracting as a special interest item for their Command Inspector General.

d. In response to the draft audit, AFMC intends to conduct an immediate review of existing T&M policies.

In conclusion, the Air Force acknowledges that there were problems associated with the contract. We have initiated corrective actions on those items that can be corrected, and are in the process of instituting new policies to preclude a recurrence. My point of contact for this action is Major Ron Dabrowski, SAF/AQCO, (703) 614-6105/DSN 224-6105.



DANIEL S. RAK
Deputy Assistant Secretary
(Acquisition)