

Audit



Report



CONTRACTS FOR PROFESSIONAL, ADMINISTRATIVE,
AND MANAGEMENT SUPPORT SERVICES

Report No. D-2000-100

March 10, 2000

Office of the Inspector General
Department of Defense

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Acronyms

AFB	Air Force Base
DCAA	Defense Contract Audit Agency
DFAS	Defense Finance and Accounting Service
DISA	Defense Information Systems Agency
FAR	Federal Acquisition Regulation



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March 10, 2000

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

SUBJECT: Audit Report on Contracts for Professional, Administrative, and
Management Support Services (Report No. D-2000-100)

We are providing this report for review and comment. The audit was initiated because of problems recently identified by previous audits and the increasing significance of contracts for services in the DoD. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Deputy Under Secretary of Defense (Acquisition Reform) and the Air Force did not comment on the draft report. Army comments to the draft report were generally responsive but did not address each specific recommendation. Likewise, Navy comments were generally responsive, but did not specifically address Recommendations 2.d.2., 2.d.3., and 2.d.4. We request that the Under Secretary of Defense (Acquisition Reform) and the Air Force provide comments to the final report. We also request the Army and Navy provide additional comments specifically addressing each applicable recommendation. All comments should include estimated completion dates for agreed-upon corrective actions and are requested by May 10, 2000.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Terry L. McKinney at (703) 604-9288 (DSN 664-9288) (tmckinney@dodig.osd.mil) or Mr. Bruce A. Burton at (703) 604-9282 (DSN 664-9282) (bburton@dodig.osd.mil). See Appendix D for the report distribution. Audit team members are listed on the inside back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2000-100
(Project No. 9CF-0073)

March 10, 2000

Contracts for Professional, Administrative, and Management Support Services

Executive Summary

Introduction. The audit was initiated because of problems recently identified by previous audits and the increasing significance of contracts for services in the DoD.

From 1992 through 1999, DoD procurement of services increased from \$39.9 billion to \$51.8 billion. Procurement of goods during that same time period decreased from \$59.8 billion to \$53.5 billion. The largest sub-category of contracts for services was for professional, administrative, and management support services, valued at \$10.3 billion. Spending in this sub-category increased 54 percent between 1992 and 1999. Our review from this sub-category of 46 contracts valued at \$6.6 billion and 59 task orders (105 actions) valued at \$142 million included anticipated services of more than 104 million labor hours, which equate to 50,230 staff years.

Objectives. The primary objective was to evaluate procurement procedures for professional, administrative, and management support services. We also evaluated the management control programs as they applied to the objective. See Appendix A for a discussion of the audit process and Appendix B for prior coverage related to the audit objective.

Results. The 15 contracting activities and program offices requesting the contracts for services did not adequately manage the award and administration of the 105 contracting actions. Every contract action had one or more of the following problems:

- non-use of prior history to define requirements (58 of 84 or 69 percent),
- inadequate Government cost estimates (81 of 105 or 77 percent),
- cursory technical reviews (60 of 105 or 57 percent),
- inadequate competition (63 of 105 or 60 percent),
- failure to award multiple-award contracts (7 of 38 or 18 percent),
- inadequate price negotiation memorandums (71 of 105 or 68 percent),
- inadequate contract surveillance (56 of 84 or 67 percent), and
- lack of cost control (21 of 84 or 25 percent).

As a result, cost-type contracts that placed a higher risk on the Government continued without question for the same services for inordinate lengths of time—39 years in one extreme case—and there were no performance measures in use to judge efficiency and effectiveness of the services rendered. DoD procurement system controls had material

weaknesses. See Appendix A for details of the review of the management control program.

Summary of Recommendations. We recommend that the Deputy Under Secretary of Defense (Acquisition Reform) develop training on planning and defining requirements for contracts for professional, administrative, and management support services; train contracting and program personnel in the award and administration of contracts for these services; and emphasize, in that training, the need to avoid the kinds of deficiencies noted in this report.

We recommend that Senior Acquisition Executives for the Army, Navy, and Air Force establish centers of excellence with trained and experienced personnel that can be used by acquisition personnel when procuring services, make all acquisition personnel aware of the problems identified in this report, and develop a time-phased plan with goals and performance measures to determine improvements in the acquisition of professional, administrative, and management support services. We also recommend converting repetitive, cost-reimbursable contracts or portions of contracts, to fixed-price; and converting contracts for services that exceed the statutory requirements to multiple-award contracts.

Management Comments. The Deputy Under Secretary of Defense (Acquisition Reform), and the Senior Acquisition Executive for the Air Force did not respond to the draft report issued on February 4, 2000. The Army concurred and stated that a number of improvements must be made in the award and administration of professional, administrative, and management support services. Furthermore, the Army notified its contracting offices of the problems identified in the report. The Navy concurred with the finding and most of the recommendations. Specifically, the Navy stated that it provided copies of the draft audit report to its contracting activities and would publicize the centers of excellence and encourage members of the Navy acquisition community to use them. The Navy also stated that it would evaluate its contracts and where appropriate, convert them to multiple-award contracts. Also, the Navy stated that work measures and guidance should be developed at the DoD level.

Audit Response. Although the Army concurred, it did not comment on each specific recommendation. The Navy also agreed with the report and provided detailed comments for all recommendations except three. The Navy did not specifically address recommendations to establish its own performance goals and measurements; to convert contracts, or parts of contracts to fixed-price over a 3 to 5 year period; and to review the assignment of contract surveillance work for contracts for services and adjust workload levels.

We request the Under Secretary of Defense (Acquisition Reform), and the Air Force provide comments to the final report. We also request that the Army and Navy Senior Acquisition Executives provide specific comments to each applicable recommendation. All comments should be provided by May 10, 2000.

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Background and Scope

The audit was initiated because of the increasing significance of contracts for services and recent issues identified by Defense Inspector General audits. DoD obtains services from 23 Federal Supply Groups.

Recent Trends. Recent trends show that DoD spending for services was near the spending for supplies. The DoD spent \$51.8 billion buying services in 1999. The largest Federal Supply Group for services is Professional, Administrative, and Management Support Services (Federal Supply Group Code R). To provide a perspective on the significance of professional, administrative, and management support services; DoD contracted for \$10.3 billion in the largest Federal Supply Group, compared to only \$7.8 billion contracted for fixed-wing aircraft contracts and about \$5.8 billion for maintenance and repair contracts in 1999. Spending for professional, administrative, and management support services has increased about 54 percent since 1992. Figure 1 compares DoD spending for goods and services from 1992 through 1999. Figure 2 shows the increase in spending for professional, administrative, and management support services from 1992-1999.

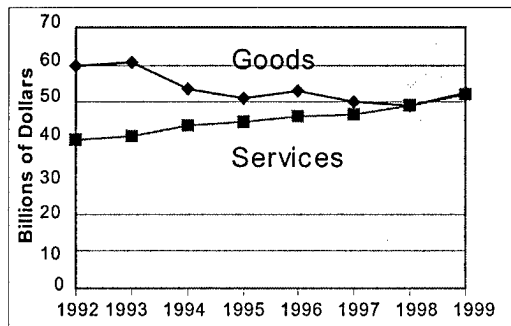


Figure 1. DoD Spending for Goods and Services 1992-1998

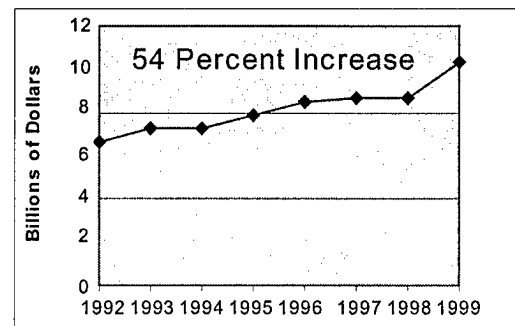


Figure 2. Increase in Spending for professional, administrative, and management support services 1992-1999

Our universe was limited to professional, administrative, and management support services. From these services we analyzed large dollar actions related to three service categories that included high ratios of cost-type actions. Table 1 compares the dollar amount spent in these three categories during 1997 and 1998.

Table 1. Universe of Contract Actions

Categories of Services

- Program Management/Support Services (R-408)
- Systems Engineering Services (R-414)
- Engineering Technical Services (R-425)

Categories of Contracts

• Fixed-Price	3,701 actions	\$ 2,078,049,107
• Cost-Reimbursable	21,455 actions	\$ 8,520,152,565
Total	25,156 actions	\$10,598,201,672

Occurrence of Competition

• Occurred	18,926 actions	\$ 6,649,804,239
• Did not occur	3,588 actions	\$ 2,985,088,899
• Other*	2,642 actions	\$ 963,308,534
Total	25,156 actions	\$10,598,201,672

*were either follow-on actions or not eligible for competition

Related Audits. Inspector General, DoD, Report No. D-2000-088, "DoD Acquisition Workforce Reduction Trends and Impacts," "Audit of Time-and-Materials Contracts at the Defense Information Systems Agency (DISA)," Report No. 96-032; "Contracting for Defense Finance and Accounting Service (DFAS)," Report No. 99-002; and the "Audit of DoD Use of Multiple Award Task Order Contracts," Report No. 99-116; discussed problems with contracts for services. The DoD Acquisition Workforce Reduction Trends and Impacts audit determined that DoD reduced its acquisition workforce from 460,516 to 230,556 personnel, about 50 percent, from the end of FY 1990 to the end of FY 1999; however, the workload had not been reduced proportionately. The audit at DISA determined that several contracts for services were improperly awarded, routine contract administration functions were not performed, and sufficient surveillance of the contractor was not performed. In some cases, we identified questionable deliverables and benefits from the contract actions. The audit at DFAS determined that program officials improperly planned and managed contracts for services. The multiple-award audit identified noncompliances in contracts for services and determined that contractors were not provided a "fair opportunity to be considered." Findings in those audits were a factor in the decision to review this area in more depth with this audit. In addition, a small sampling of DoD intelligence community services contracts are being audited separately.

Commercial Business Environment Report. On November 23, 1999, the Under Secretary of Defense for Acquisition, Technology, and Logistics directed the Deputy Under Secretary of Defense (Acquisition Reform) to take immediate

action on the key recommendations of the Section 912 (c) Commercial Business Environment Report. The report recommended implementing a strategy for adopting commercial business practices to achieve the "Revolution in Business Affairs." Two of the recommendations requiring immediate action were:

- the establishment of a Change Management Center (CMC) to take the lead in accelerating acquisition and logistics reform initiatives, and
- the use of the CMC to assist the Defense Acquisition University in using a corporate approach to providing education and training for the acquisition, technology, and logistics workforce.

On December 23, 1999, the CMC was established. In addition to the existing DoD education and training infrastructure, the Commercial Business Environment study group initiated two education pilot programs. The first is an online course titled "Integrating Commercial Practices with Government Business Practices, Program I: Managing Suppliers." The second is a traditional classroom course titled "Competing in a New Business Environment: A Program for Defense Acquisition Executives."

Objectives

The primary objective was to evaluate procurement procedures for professional, administrative, and management support services. We also evaluated the management control programs as they applied to the objective. See Appendix A for a discussion of the audit process and Appendix B for prior coverage related to the audit objective.

Award and Administration of Contracts for Professional, Administrative, and Management Support Services

Contracting activities and supported program offices did not adequately contract and manage 105 contract actions for services. Every contract action in the audit sample had one or more of the following problems:

- non-use of prior history to define requirements (58 of 84 or 69 percent),
- inadequate Government cost estimates (81 of 105 or 77 percent),
- cursory technical reviews (60 of 105 or 57 percent),
- inadequate competition (63 of 105 or 60 percent),
- failure to award multiple-award contracts (7 of 38 or 18 percent),
- inadequate price negotiation memorandums (71 of 105 or 68 percent),
- inadequate contract surveillance (56 of 84 or 67 percent), and
- lack of cost control (21 of 84 or 25 percent).

This occurred because acquisition officials lacked training, familiarity, and time to fulfill their duties. As a result, cost-type contracts that placed a higher risk on the Government continued for the same services for inordinate timespans, and there were no performance measures to judge efficiency and effectiveness of the services rendered.

Background and Scope of Contracts for Services

Our sample consisted of 105 contract actions consisting of 46 contracts valued at \$6.6 billion and 59 task orders valued at \$142 million. The contract actions were for FY 1997 and FY 1998, and included 21 fixed-price actions and 84 cost-reimbursable actions. We examined basic contracts, deliverables, statements of work, negotiation memorandums, independent Government cost estimates, technical evaluations, source selection decisions, cost analyses, and miscellaneous correspondence. We interviewed contract and program personnel at 15 audit sites.

The services on the 46 contracts and 59 actions reviewed included anticipated labor of over 104 million hours. This is equivalent to 50,230 full-time positions

for one year and represents only a portion of the services being purchased. Many of the tasks being performed on these contracts were for services previously performed by Government employees for which DoD no longer had in-house capabilities.

Functions now being contracted out include preparing strategic plans, participating in the preparation of acquisition plans, source selection plans and other pre-proposal source selection documentation, and performing contract administration and quality assurance on other contractors' operations.

Defining Requirements

The Federal Acquisition Regulation (FAR) Part 37 holds program officials responsible for accurately describing requirements before contracting for services. The specific need or problems to be resolved must be defined in a manner that ensures full understanding and responsive performance by contractors. Part 37 also requires agencies to use performance-based contracting methods to the maximum extent practicable for the acquisition of services. However, in the contracts we reviewed, defined work statements were the exception rather than the rule. Statements of work stipulated services on an as-needed basis and included "support for functions and programs" when there was no idea of what the actual needs might be. Program offices did not use performance measures to develop their service requirements or measure the effectiveness and efficiency of performance for any of the contract actions reviewed. The lack of defined statements of work was troubling on basic contracts, but even more so on task orders that were supposed to be the more precise work segments covered by the overall contract. Task orders described work in the same general terms to include support for programs and functions. It was often impossible to determine how the work scope on one task differed from the work scope on another task. Under Contract N68936-97-D-0297, the contracting official simply restated portions of the overall contract statement of work in task order number 1. Program officials expressed their requirements in terms of "quality of service received" rather than "achievement of a specific objective." For example, documentation relating to sole-source Contract N00024-97-C-5173, valued at \$183 million, stated:

The Program Office decision was to obtain more deliverable man-hours in lieu of reducing the cost and fee of the contract. This resulted in an increase of 8,745 man-hours ...

The Air Force sole-source action when using Army Contract DAAB07-96-C-A760 was to use all of the money available instead of realizing a savings. When Army contracting officials could only identify \$5,792,397 of fixed-price costs against \$8 million in funding, the Air Force program office instructed the contracting office to:

Expend all of the funding available/provided for the basic FFS efforts, therefore, the Army shall increase the T&M effort by any difference between total funding provided and firm fixed priced efforts realized through negotiations.

In this case, the contracting specialist admitted the time-and-materials service portion of the contract was a "plug-in" figure. There was nothing in the file to show rates, hours or even labor categories.

On several occasions a National Guard Bureau procurement analyst expressed concerns related to the identification of requirements under Contract DAHA90-94-D-0016, a competitive fixed-price contract with an estimated value of \$13.3 million. She stated:

Are we getting what we want or are we accepting the contractor's proposal based on the fact that it is lower than the estimate? Suggest that the activity do a thorough analysis of what the requirement really is and based on past years how long it will take to accomplish the mission required.

There is difficulty in just accepting the contractor's proposal without discussion as to the number of hours. The hours for the Assistant Project Leader were approximately 2½ times the government estimate. Either the Government estimate is totally off or the contractor's proposal is.

The following figure shows how a lack of defined requirements had a trickle-down effect on pre-award and post-award actions.

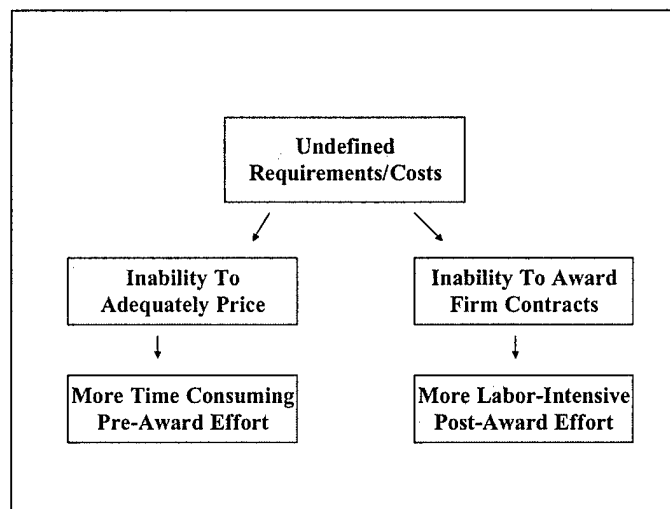


Figure 3. Effects of Not Initially Defining Requirements

The Military Departments and the Defense Supply Service – Washington need to develop and implement work measures on contracts for professional, administrative, and management support services; and measure improvements.

Issues Identified

The audit identified problems in each of the 105 contract actions examined. These problems covered every phase of purchasing services and consisted of non-use of prior history to define requirements, inadequate Government estimates, cursory technical reviews, inadequate competition, failure to award multiple-award contracts, inadequate price negotiation memorandums, inadequate surveillance, and lack of cost control. Each of the contract actions included at least one of these problems but most exhibited several problems. Appendix C includes a detailed list of the specific problems identified. The following table summarizes the problems identified during the audit.

Table 2. Summary of Problems Related To Contracts for Professional, Administrative, and Management Support Services

Problem Areas	Number of Occurrences/ Universe	Percent
Pre-Award Problems		
Non-use of Prior History to Define Requirements	58/84	69
Inadequate Government Cost Estimates	81/105	77
Cursory Technical Reviews	60/105	57
Inadequate Competition	63/105	60
Failure to Award Multiple-Award Contracts	7/38	18
Inadequate Price Negotiation Memorandums	71/105	68
Post-Award Problems		
Inadequate Contract Surveillance	56/84	67
Lack of Cost Control	21/84	25

Pre-award Actions

Non-Use of Prior History to Define Requirements. In addition to leaving services requirements undefined, contracting officials did not use available history from prior contracts to help define costs and reduce risk by awarding firm-fixed-price contracts. In 58 of 84 contracts that had prior experience, there

was no evidence in the contracting files that contracting officials considered this experience when deciding on contract type. Two of these contracts involved a single contractor that had been performing the same service under stable conditions for many years (as much as 39 years).

For example, in 1997, Army contracting officials determined that a cost-plus-fixed-fee contract was the most suitable type contract because the uncertainties involved in contract performance did not permit costs to be definitively determined in advance—although it had 39 years of history with this same contractor. The Army issued sole-source Contract DAAH01-97-C-0002, valued at \$36.2 million, to Raytheon Corporation for engineering services related to the HAWK missile system. Documentation in the contract files stated that engineering services for this missile system had been obtained from this same contractor since the inception of the missile system, initially fielded by the Army in 1958. The documentation defined technical, cost, and schedule risks as low, since these were follow-on requirements.

In another example, documentation in a Navy contract identified existence of 25 years of historical information, which could have been used to fix-price at least a portion of sole-source Contract N00024-94-C-6429, valued at \$73.4 million. Nevertheless, the contract was awarded as cost-plus-fixed-fee. The documentation stated:

In addition to being the incumbent for the current PMS425 Consulting Services (CS) contract, EG&G has provided continuous support to PMS425 programs for every functional area of the SOW (except Safety) since 1969. EG&G provides comprehensive experience across all programs and functional areas. There were no major deficiencies identified.

However, other documentation in the contract files described contracting officials' justification for the use of a cost-plus-fixed-fee contract by stating:

The cost of performing the work under the proposed contract could not be accurately forecasted so as to permit the undertaking of such work for a fixed price. The intent was to utilize the same contract type as the original effort.

This rationale was not convincing with 25 years of historical data. The contracting officials should have been able to identify at least portions of the current requirement that could have been fixed-price. Not only was no attempt made to consider historical information, the decision was made to use the same contract type as the original effort.

On the other hand, three program offices used innovative techniques and prior experience to develop more precise requirements and fix-price portions of their contracts. In cases in which historical data did not initially exist, cost-type task orders were used, and later converted to fixed-price task orders once cost data was available. For example, Air Force contracting personnel at Hill Air Force Base (AFB) used historical data to fix-price a portion of sole-source Contract F42620-97-D-0010, an engineering and technical contract for services valued at

\$823 million, awarded for post-production support for the F-16 fighter aircraft. Contracting officials also included steps to fix-price orders initially awarded as time-and-materials after actual cost data became available. Documentation in the files stated:

Our original strategy, approved in both the Acquisition Strategy Panel and the Class Justification and Approval for sole source contracts included a Fixed Price Award Fee Core Support effort for both contractors. We also anticipated various other contract-type CLINs for the non-Core Support and other efforts. Cost Plus contracting was also considered but was determined to be inappropriate since the companies had both demonstrated more than 15 years of satisfactory performance on similar efforts. Much of the effort can be quantified and Cost Plus contracting places maximum risk on the Government.

Air Force contracting officials at Tinker AFB used historical data and fixed-price a part of Contract F34601-95-C-0538, a competitive contract valued at \$196 million for logistics support for the C-20 aircraft, after determining technical risk to be low. U.S. Army Corps of Engineers contracting officials at Huntsville, Alabama, also identified costs that could be fixed-price when awarding Contract DACA87-97-D-0029, an operation and maintenance multiple-award contract valued at \$26.5 million.

Although the types of services differed in these contracts, we believe the three positive examples demonstrated that innovation and effort on the front end of the contracting process would be beneficial on a variety of contracts for services, and training would allow contracts to be priced on a fixed-price basis. This effective planning and effort on the front end of the contract allowed for better data to price the contracts, and reduced the burdensome and labor-intensive surveillance requirements during the term of the contracts. We believe a tracking system of cost-type contracts should be developed that would aid in the use of historical data to convert contracts to fixed-price. Management also should establish goals for increasing the use of fixed-price contracts.

Since requirements were not precisely defined, cost considerations in contract awards were problematic and the importance of independent cost estimates, technical evaluations, source considerations, and price negotiation memorandums was magnified. However, in 97 of 105 contract actions, these documents lacked detail and contained errors. In addition, personnel turnover resulted in the work often being shifted to staff that were unfamiliar with the awards. Inexperienced and unqualified staff performed both program and contracting officer functions in one case.

Inadequate Government Cost Estimates. The development of accurate independent cost estimates took on a greater significance for award decisions with very broadly scoped contracts and cost-type contracts that placed a higher risk on the Government. However, in 81 of 105 contract actions, contracting officers either failed to prepare estimates or developed estimates that were inadequate or lacked detail. Deficiencies in estimating clearly left the Government vulnerable—and sometimes at the mercy of the contractor to define the cost.

Cost estimates that were prepared were often unsigned, undated, and included no explanations supporting the estimate, even when these estimates included hundreds of thousands of dollars of material costs. Documentation in the files referred to "historical data," but provided no depth or detail to explain what this data was or what it meant. Even when cost estimates approximated the amounts in contractors' proposals, little assurance of reasonable price was obtained when requirements were not adequately established. A National Guard Bureau cost estimate of \$2,158,854 for task order number 17 under competitive Contract DAHA90-94-D-0016 was close to the contractor task order proposal of \$2,117,268. Yet a subsequent Defense Contract Audit Agency (DCAA) review determined actual costs were only \$1,190,010. A cost estimate of \$2,005,762 for task order number 18 of the same contract was close to the contractor proposal of \$1,930,496; however, the same DCAA review determined actual costs of only \$986,549. Proper documentation of cost estimates is an essential management control.

The Army, Navy, and Air Force need to ensure that contract files include signed and dated independent Government cost estimates along with all relevant documentation supporting the estimate.

Cursory Technical Reviews. Technical evaluations were also essential to the acquisition process because contracting officials lacked knowledge of the specific functional areas or programs and relied heavily on technical assessments prepared by program offices to reach determinations on cost reasonableness. Yet, technical reviews lacked specific detail or were not prepared for 60 of 105 contract actions. For example, when prepared, evaluations under competitive Contract DAAB07-98-D-H751, valued at \$141 million, were cursory and included a short statement that labor mixes, labor rates, materials, and subcontract costs were acceptable, but offered no further explanation even when materials or subcontracts were valued in the hundreds of thousands of dollars. In these cases, the technical evaluator prepared pro-forma technical evaluations that consisted of the same wording and the only change was the dollar amount reviewed. Also, another evaluation was hastily prepared and included a few hand-scribbled notes. In one case, the evaluator did not even bother to remove the wording related to materials and subcontracts when these costs were not proposed.

Contracting officials' imposition of unrealistic deadlines contributed to these problems and forced hasty technical assessments. Under sole-source Contract F41608-96-D-1044, valued at \$9 million, an evaluator had less than a day from the time they received the contractor proposal until the evaluation was due back to the contracting staff. We recommend that the Army, Navy, and Air Force ensure that contract files include signed and dated technical evaluations, when required, along with data used to support cost reasonableness and other statements about the acceptability of costs.

Inadequate Competition. Competition would also have provided an opportunity for contractors to help define costs under uncertain requirements. Yet, inadequate competition occurred for 63 of the 105 contract actions. Contracting offices did not allow contractors fair consideration for award in 58 of 63 multiple-award task orders examined, and used faulty justifications for the

sole-source actions on the remaining five non-multiple-award actions examined. Instead of competing task orders among multiple-award contractors, contracting officers selected preferred contractors. On Contract DAAB07-98-D-H751, a contracting officer arbitrarily determined which contractor would get the award for 12 task orders. Another contracting officer awarded 30 task orders under Contracts DACA87-97-D-0029 and DACA87-97-D-0027 to specific contractors as a result of requests from the program office, instead of competing them among the other multiple-award contractors. The abuse of the FAR requirement to give contractors a fair opportunity to be considered was worse than the similar situation reported in DoD Use of Multiple Award Task Order Contracts (Report 99-116).

Failure To Award Multiple-Award Contracts. In addition, contracting offices did not always comply with the FAR criteria to use multiple-award contracts for contract advisory and assistance services. The FAR requires the use of multiple-award contracts for awards that exceed \$10 million and 3 years. These requirements in the FAR for multiple-award contracts were established in section 2304b, title 10, United States Code. However, 7 competitive contracts of 38 contracts reviewed were not issued as multiple-award contracts. The following table identifies these contracts.

Table 3. Contracts That Should Have Been Awarded as Multiple-Award Contracts

F34601-95-C-0538	\$195,886,329
N00024-97-C-6411	\$106,567,354
N00024-96-C-6409	\$ 29,999,445
N68936-98-D-0038	\$ 48,416,923
N00024-96-C-6301	\$ 32,435,598
N00024-95-C-6360	\$ 12,848,428
N00024-97-C-5182	\$ 21,269,021

We recommend that the Army, Navy, and Air Force evaluate the seven contracts that should have been awarded as multiple-award contracts and, if feasible, terminate or convert them upon completion to multiple-award contracts.

Inadequate Price Negotiation Memorandums. Contracting officers developed inadequate price negotiation memorandums for 71 of 105 contract actions, which left many unanswered questions related to the contract or task order award. Negotiation memorandums we reviewed lacked detail or contained errors. The negotiation memorandum for sole-source task order number 3,

valued at \$225,000 under Contract F41608-96-D-1044, did not even address the fact that 97 percent of the costs had been incurred prior to the award of the task order. The acceptance of pre-contract costs was not addressed in the task order, and DoD may have paid for costs that it was not contractually bound to pay. Other negotiation memorandums contained incorrect statements and data, and did not describe why contractor-proposed cost had been accepted as submitted, and explained that the Government relied on the technical evaluation as the basis for accepting cost without identifying any of the documentation supporting the technical evaluation.

Complete price negotiation memorandums are another essential internal control in DoD contracting. The Army, Navy, and Air Force need to ensure that price negotiation memorandums contain the level of detail required to justify the acceptance of contractor costs. Contracts for services were primarily labor related and labor pricing was usually developed at the time of basic contract award. However, large amounts of materials costs were added or included in these contracts for services without being adequately addressed.

Materials and Other Direct Costs. Materials and other direct costs of \$535 million were incurred under 22 of 46 contracts reviewed, however, contract files did not contain documentation supporting purchases of the equipment and materials or evidence that material costs had been reviewed and were reasonable. Contract actions included material costs when it was not readily apparent that the material was necessary for performance of the service. This was especially true when task orders were issued that consisted of more than 90 percent material with only a token number of service hours for administration.

The Army purchased materials under task order number 23 of multiple-award Contract DAAB07-94-D-M503 that were outside the scope of the contract. The purpose of this non-competitive task order was to obtain assistance to manage its property control system. However, the contract was modified to purchase \$413,598 worth of materials including \$169,930 of office furniture with no explanation of why it was purchased and outside the scope of the task order. Under task order number 40 of the same contract, the Army paid 15 percent more than the contractor's proposal with no explanation for paying the higher price. Under this task order the Army was entitled to 4 free laptop computers resulting from the purchase of large quantities. Instead of keeping these laptop computers the Army gave them to the contractor. The Military Departments need to evaluate the circumstances for including material costs on these contracts for services and determine if it was appropriate for their inclusion.

Post-Award Actions

The lack of planned requirements and award of higher-risk contracts placed more emphasis on administration and required more personnel for surveillance. However, contracting offices did not perform adequate contract administration

and surveillance. Instead of a coordinated surveillance program between contracting and program offices, administration and surveillance were given low priority and were lacking. Further, contracting positions were vacant and contracting duties were not reassigned.

Inadequate Contract Surveillance. Inadequate surveillance was performed in 56 of 84 cost-reimbursable contract actions examined. Military Departments' contracting officers' representatives did not maintain up-to-date surveillance folders, or prepare surveillance reports, and were unable to show that reviews of contractors' actual work was performed. Instead, contracting officers essentially used contractor-prepared status reports as evidence of surveillance to determine how well the contractor was performing.

During several interviews, Military Departments' contracting officers' representatives were unable to describe specific surveillance steps performed, identify specific examples of problems identified during surveillance, or provide any evidence that surveillance was performed. Some of the Military Departments' contracting officers' representatives did not have copies of the contract available or, in other instances, did not know the name of the contracting officer.

Cost-Plus-Award-Fee Contracts. The lack of surveillance was especially problematic on cost-plus-award-fee contracts since performance was the main factor in award fee determination. Contracting organizations justified the payment of award fees to contractors without measurable performance parameters or actual surveillance for effectiveness and efficiency. One contracting organization decided not to use a cost-plus-award-fee type contract stating:

The primary hindrance to the use of a CPAF contract for this effort is the use of judgmental evaluation criteria when the contractor is "teamed" with the government for the ultimate success of the deliverables...

However, other organizations using award fee contracts had no problem using judgmental evaluation criteria. As a result, the payment of award fees to contractors was highly subjective and unsupported. Contracting organizations paid 100 percent award fees to contractors in 377 of 399 (94 percent) award evaluations examined. The degree of documentation supporting the payment of award fees varied, however, none of the documentation clearly supported the payment of one award fee percentage over another award fee percentage. Award ratings of 100 percent were granted even when no narrative was provided to explain why the contractor's performance was better than expected. The contractor under competitive Contract N68936-98-D-0038, valued at \$48.4 million, was guaranteed a 70 percent award fee for even minimally acceptable work. An award fee-determining official approved a 100 percent fee under competitive Contract F04611-92-C-0045, valued at \$612.5 million, even after the award fee board had only recommended a 94 percent fee. The award fee determining official stated:

While the CSC's overall performance was excellent during the reporting period, I will be looking for results on issues identified during this and previous cycles. (The Board's concern over these issues led them to a 94 percent fee recommendation).

Based on this statement, the award fee determining official approved the full 100 percent award fee hoping that the contractor would correct deficiencies identified during the current and past rating periods related to personnel vacancies in key mission support areas, timely problem identification, Government partnering, and problem correction. This re-emphasizes the issue that without specific criteria, it is not possible to evaluate different levels of performance.

Contracting Office Priority. Contracting organizations failed to reassign contracts to new contracting officers and contracting specialists when vacancies occurred. One Army contract examined had no contracting officer assigned to it for the 6-month period prior to our audit visit. A National Guard Bureau contract had no contract specialist currently assigned to it. Contracting officers did not officially designate contracting officers' representatives to perform surveillance on contracts or reappoint contracting officers' representatives when vacancies occurred. Contracts were routinely reassigned to new contracting officers that were unable to answer specific questions related to the contracts stating that they had "inherited" the contract or had been assigned the contract "by default."

Lack of Cost Control. Contracting offices' questionable use of cost-reimbursable contracts (particularly cost-plus-fixed-fee, time-and-materials, and cost-plus-award-fee) and the additional strain on personnel performing surveillance functions offered little protection against cost escalation. For example, 21 of 84 contract actions examined had cost growth of \$80 million. In addition to the increase of funds to exercise options and make administrative corrections, contracting officials issued modifications to increase work, change scope, add external purchases and increase funding of existing work. A DCAA audit identified several problems in sole-source Contract DAAH01-97-C-0002, valued at \$36.2, for technical support and engineering services that can be directly related to inadequate surveillance. The audit report stated:

The contractor has not had a good record of meeting cost goals on certain cost type contracts. Our postaward, progress payment, and cost performance report reviews have disclosed instances of contract cost overruns...

Cost increases occurred in task orders as well as contracts. Task order number 23, a non-competitive task order under multiple-award Contract DAAB07-94-D-M503, increased from \$19,871 to \$642,199 as a result of a change in scope and lack of control that allowed adding furniture and other material to the task.

Training, Familiarity, and Workload of Acquisition Staff

DoD obtains a wide variety of services from contractors, which include program management support services, engineering technical services, systems engineering services, and operations and maintenance. The use of contracts for services has steadily increased. However, contracting organizations have not altered their training to include additional skills needed to award and administer contracts for services. Accordingly, we believe specialized training for contracts for services is necessary. Further problems beyond inadequate training were identified. For example, contracting actions change hands quickly as staff leave or are reassigned, and contracting personnel have become less familiar with contracts assigned to them and are overburdened with work.

Training on Contracts for Services. None of the 25 contracting personnel interviewed had received training related specifically to contracts for services, let alone for professional, administrative, and management support services. We reviewed course catalogs from the Defense Systems Management College and the Defense Acquisition University to determine if courses existed related to contracts for services but found no such courses. The emphasis on "buying hours" together with contracting personnel's failure to use prior history to develop less risky contracting strategies, dictates a need for better training.

Basic Contract Training. Reviews of contracting files indicated that some contracting personnel lacked understanding of basic contracting procedures related to cost-type contracts. Documentation for task order number 1 valued at \$1.3 million under sole-source Contract F41608-98-D-0566 showed that a contracting officer did not understand the Truth in Negotiations Act. In the price negotiation memorandum of a task order the contracting officer stated:

Truth In Negotiations Act (TINA) threshold for mandatory cost and pricing data apply, however because this a Cost Plus Fixed Fee Task Order no cost and pricing data is needed at this time. Subject Order will be audited for TINA related errors by DCAA after contract completion.

The decision to not obtain cost and pricing data when price was negotiated prevented the Government from receiving any reduction in fee because of defective pricing that might have occurred. Data obtained after contract completion would be useful but the contracting officer did not understand the requirement. Other contracting personnel mistakenly placed little emphasis on reasonableness of costs at the time of negotiations since contractors would only be paid actual costs. They did not realize that even though DoD only paid actual costs, the costs might still be too high.

There is a clear need for better training on planning and defining requirements for contracts for services, including specific training in the areas of the development of independent Government cost estimates, technical evaluations, and price negotiation memorandums.

Familiarity. Constant personnel turnover resulted in inexperienced and uninformed contracting personnel awarding and administering contracts for services. The effects of the continuous shuffling of personnel were evident when an engineer was unable to break down contractor subtasks under sole-source Contract F41608-98-D-0566, valued at \$6.1 million. The negotiation memorandum even indicated that this limited the Government ability to analyze the contractor's technical explanation and plans. As a result, the Government had to rely solely on contractor-provided data to determine whether the fee, hours, etc. were fair and reasonable. Transfer and downsizing resulted in newly assigned staff being unable to answer basic questions about these contracts.

In addition to contracting officer personnel, program office personnel were unable to show evidence that they were qualified or possessed the skills to make technical assessments on the adequacy of hours, labor mix, and other costs they deemed acceptable and reasonable. This was especially important since often this process was the responsibility of one individual working under tight constraints. Personnel interviewed were unable to provide evidence that they were knowledgeable of specific functions or had a background that allowed them to assess these areas.

Contracting Personnel Workloads. Even when staff remained in place, downsizing resulted in more work and higher demands on time. Typically, Military Departments' contracting officers' representatives handled numerous contracts and task orders in addition to other duties assigned. For example, a program office technical monitor under Contract DAAH01-97-C-0002 stated that he was responsible to perform surveillance on 43 contracts, valued at approximately \$621 million, which included this contract. However, he added that most of his time was spent working on the upcoming award of 13 additional contracts valued at approximately \$115 million. In another example a service technical monitor under Contract F08626-96-D-0003 described his assignment to perform surveillance on 37 task orders in addition to his regular duties. With the growth in contracts for services, the Military Departments need to review the assignment of contract surveillance workload and make adjustments to ensure adequate oversight is provided.

Acquisition Workforce Reduction. Report No. D-2000-088, "DoD Acquisition Workforce Reduction Trends and Impacts," February 29, 2000, details how the acquisition workforce was reduced from 450,000 in FY 1990 to 230,000 in FY 1999. The workforce report discusses problems at 14 activities resulting from a downsized workforce to include insufficient staff to manage requirements, reduced scrutiny in reviewing acquisition actions, and increased costs resulting from contracting for support versus using in-house support. The problems in this report such as personnel turnover, excessive workload, and poor contracting practices can, in part, be caused by reductions in the workforce.

Further, the growth in contracting for professional, administrative and management support services can be attributed, in part, to reductions in the workforce.

Centers For Excellence

We learned at two industry roundtables that industry accumulates knowledge about suppliers and develops specialists who are extensively trained in the market in which they buy and are thoroughly knowledgeable about the suppliers. For example, two multi-national companies explained how they learned to buy consulting services, which are similar to professional, administrative, and management support services in DoD. They reviewed contracts and determined that labor rates and travel were the cost drivers. They learned they were paying many different labor rates for the same category of labor in a city, depending on which subsidiary negotiated the contract. They established several people to become experts in buying consulting services and the people performed research and became experts in the field. The companies now require any subsidiary purchasing consulting services to go through their experts. Labor rates and travel costs have decreased, overall contract costs have been reduced 30 percent to 50 percent annually, and the level of service has remained constant or improved. Rather than rely on every contracting officer to be an expert on multiple market sectors or even multiple suppliers within one sector, DoD needs to establish centers of excellence with knowledgeable buyers for professional, administrative, and management support services.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Deputy Under Secretary of Defense (Acquisition Reform):

a. Develop a training course on planning and defining requirements and using historical contract for services data.

b. Train contracting and program personnel on the award and administration of professional, administrative, and management support services emphasizing future prevention of the types of deficiencies noted in this report.

2. We recommend that Acquisition Executives for the Army, Navy, and Air Force:

a. Make all acquisition personnel aware of the problems found in independent Government cost estimates, technical evaluations, and price negotiation memorandums.

b. Evaluate the seven contracts identified that should have been awarded as multiple-award contracts in accordance with the FAR and if feasible, terminate or convert them to multiple-award contracts upon completion.

c. Establish centers of excellence with personnel that have performed research and received training to become expert buyers of professional, administrative, and management support services.

d. Require personnel acquiring the professional, administrative, and management support services to:

1. Use the centers of excellence.

2. Establish a time-phased plan with goals and performance measures that require the review of all professional, administrative, and management support services contracts.

3. Convert, over 3 to 5 years, those repetitive cost-reimbursable contracts, or portions of contracts to fixed-price.

4. Review the assignment of contract surveillance work for contracts for services and adjust assigned workload and staffing to resolve imbalances.

e. Develop and implement work measures on contracts for professional, administrative, and management support services, and measure improvements through the options, modifications for additional work, and future contracts.

Army Comments. The Army agreed and stated that a number of improvements must be made in the award and administration of professional, administrative, and management support services contracts. Specifically, the Army agreed to encourage the migration of cost-type contracts to firm-fixed-price contracts and the use of centers of excellence to improve processes for professional, administrative, and management support services. The Army also distributed a memorandum to its contracting activities identifying problems in the report. The Army disagreed that its contract which was included in the report should have been awarded under multiple-award procedures. The Army stated that the contract was awarded before the law was passed mandating that it be a multiple-award contract.

Audit Response. Although the Army concurred with the finding and took commendable actions, its comments did not specifically address each recommendation providing detailed actions planned or ongoing. We request the Army address each recommendation in additional comments to the final report. Regarding the Army's comments that one of its contracts was not a candidate for multiple-award procedures, we agree. Our final report was revised to delete reference to the contract.

Navy Comments. The Navy concurred with the finding and recommendations. Specifically, the Navy stated that it provided copies of the draft audit report to its contracting activities and would publicize the centers of excellence and encourage members of the Navy acquisition community to use them. The Navy also stated that it would evaluate the contracts mentioned in the report and convert the appropriate ones to multiple-award contracts. The Navy also stated that work measures and guidance should be developed at the DoD level.

Audit Response. The Navy's comments were generally responsive and its actions were commendable; however, the Navy did not specifically comment on establishing its own goals and performance measures; converting contracts, or parts of contracts to fixed-price over a 3 to 5 year period, and reviewing the assignment of contract surveillance work for contracts for services and adjust workload levels. We request that the Navy specifically address recommendations 2.d.2., 2.d.3., and 2.d.4. in additional comments to the final report.

Management Comments Required. The Deputy Under Secretary of Defense (Acquisition Reform) and the Air Force did not comment on the draft report. We request that the Deputy Under Secretary of Defense (Acquisition Reform) and the Senior Acquisition Executive for the Air Force comment on the final report by May 10, 2000.

Appendix A. Audit Process

Scope and Methodology

Our initial sample selected contracts for services valued at more than \$20 million. Contracts were clustered in six service codes. Initial results showed a tendency to award contracts on a cost-reimbursable basis with some innovative use of firm-fixed-pricing. One contract was included based on an anonymous telephone call about underemployed staff. As a result, we refocused our audit to include contracting philosophies of various large dollar contracts for services at major contracting activities. We included large dollar contracting activities primarily focusing on 3 major services categories, Program Management/Support Services (R-408), Systems Engineering Services (R-414), and Engineering Technical Services (R-425), which account for approximately \$8 billion annually. The contracts selected for review were located at five Army, five Navy and five Air Force activities. We are planning additional separate future audits at selected Defense agencies.

We reviewed 105 contract actions, which included 46 contracts valued at \$6.6 billion and 59 task orders valued at \$142 million. The contract actions reviewed were dated from FY 1997 through FY 1998. We examined basic contracts, deliverables, statements of work, negotiation memorandums, independent Government cost estimates, technical evaluations, source selection decisions, cost analyses, and miscellaneous correspondence. We interviewed contract and program personnel at the audit sites.

DoD-Wide Corporate Level Government Performance and Results Act (GPRA) Coverage. In response to the GPRA, the Secretary of Defense annually establishes DoD-wide corporate level goals, and performance measures. This report pertains to achievement of the following goal (s), subordinate performance goal(s), and performance measure(s):

FY 2000 DoD Corporate Level Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(00-DoD-2) FY 2000 Subordinate Performance Goal 2.3:** Streamline the DoD infrastructure by redesigning the Department's support structure and pursuing business practice reforms. **FY 2000 Performance Measure 2.3.1:** Percentage of the DoD Budget Spent on Infrastructure. **(00-DoD-2.3.1)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

Acquisition Functional Area. Objective: Internal reinvention. Goal: Eliminate layers of management by streamlining processes while reducing DoD acquisition-related workforce by 15 percent. (ACQ-3.1)

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Contract Management high-risk area.

Audit Period, Standards and Locations. We performed this economy and efficiency audit from October 1998 through December 1999 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary. We did not evaluate the general and application controls of the DD-350 system that processes contract action data, although we relied on data produced by that system to conduct the audit. We did not evaluate the controls because it did not affect the results of the audit.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available upon request.

Management Control Program

DoD Directive 5010.38 "Management Control Program," as revised August 26, 1996 requires DoD organizations to implement a comprehensive system of management controls that provide reasonable assurance that programs are operating as intended, and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed management control procedures related to procurement of services in DoD.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Directive 5010.38. Procurement and administration controls were inadequate on contracts for services. Controls did not ensure that tasks were properly planned to allow for requirements to be adequately determined and important documentation was lacking in contract files. In addition, controls were not adequate to ensure that surveillance was performed on contracts. Recommendations 1 and 2 will help correct the management control weaknesses. A copy of the report will be provided to the senior official responsible for management control within the Office of the Under Secretary of Defense Acquisition, Technology, and Logistics and the Military Departments.

Adequacy of Management's Self-Evaluation. DoD contracting organizations did not specifically identify contracts for services as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the audit.

Appendix B. Prior Coverage

Inspector General, DoD, Report No. D-2000-088, "DoD Acquisition Workforce Reduction Trends and Impacts," February 29, 2000.

Inspector General, DoD, Report No. 99-116, "DoD Use of Multiple Award Task Order Contracts," April 2, 1999.

Inspector General, DoD, Report No. 99-002, "Contracting for Defense Finance and Accounting Service Support," October 5, 1998.

Inspector General, DoD, Report No. 96-032, "Time-and-Materials Contracts at the Defense Information Systems Agency," December 1, 1995.

Appendix C. Summary of Acquisition and Administration Problems

<u>Contract Action</u>	<u>Cursory Technical Reviews</u>	<u>Inadequate Government Cost Estimates</u>	<u>Lack of Cost Control</u>	<u>Inadequate Contract Surveillance</u>	<u>Lack of Use of Available Prior History</u>	<u>Inadequate Negotiation Memorandums</u>	<u>Inadequate Competition</u>
DACA87-98-C-0014		X					
F04611-92-C-0045	X	X			X	X	X
Order 02P3R0008	X					X	X
Order 02P3R0002	X					X	X
Order 02P8R0033	X					X	X
Order 02P3R0001	X					X	X
F08626-94-C-0026		X	X	X	X		
Order 5117		X		X	X		
Order 5123		X		X	X		
F08626-94-C-0054			X	X			
F34601-93-C-0989		X					
F34601-95-C-0538		X		X		X	X
F34601-98-C-0125		X				X	X
F41608-98-C-0307					X	X	X
F41608-98-C-0532	X			X		X	
N00024-94-C-5160		X		X			
N00024-94-C-6429		X			X	X	
N00024-96-C-6409		X			X		
N00024-97-C-5173		X			X		X
N00024-97-C-6411		X			X		
N68936-95-C-0094					X		
N68936-98-C-0044		X			X		X
DACA87-97-D-0029		X					

<u>Contract Action</u>	<u>Cursory Technical Reviews</u>	<u>Inadequate Government Cost Estimates</u>	<u>Lack of Cost Control</u>	<u>Inadequate Contract Surveillance</u>	<u>Lack of Use of Available Prior History</u>	<u>Inadequate Negotiation Memorandums</u>	<u>Inadequate Competition</u>
DACA87-97-D-0037 Order 8							X X
DAHA90-94-D-0016 Order 17 Order 18	X X	X X X			X X X	X X	X
F08626-96-D-0003 Order VX-96-1015			X X	X X	X X		
F42620-97-D-0010 Order 24 Order 38 Order 39 Order 112		X	X	X X X X	X X X X	X	
N00140-97-D-1636		X		X	X		
DACA87-97-D-0038 Order 17		X			X		X X
DACA87-97-D-0040 Order 20							X X
DACA87-97-D-0039 Order 39							X X
DACA87-95-D-0021		X					
N65236-98-D-7706 Order 2 Order 4 Order 5	X X X X	X X X X	X X X	X X X X	X X X X	X X X X	X X X X
N65236-98-D-7707 Order 2 Order 16 Order 17	X X X X	X X X X	X	X X X X	X X X X	X X X X	X X X
N65236-96-D-3700 Order 28	X X	X	X	X X	X X	X X	
N65236-97-A-7906				X			

<u>Contract Action</u>	<u>Cursory Technical Reviews</u>	<u>Inadequate Government Cost Estimates</u>	<u>Lack of Cost Control</u>	<u>Inadequate Contract Surveillance</u>	<u>Lack of Use of Available Prior History</u>	<u>Inadequate Negotiation Memorandums</u>	<u>Inadequate Competition</u>
N65236-97-D-3810		X			X		
N68936-98-D-0038		X		X	X	X	
Order 3	X	X		X	X	X	
Order 4	X	X		X	X	X	
N68936-97-D-0297		X		X	X	X	
Order 1	X	X		X	X	X	
F41608-98-D-0566		X		X	X	X	
Order 1	X	X	X	X	X	X	
Order 2	X	X		X	X	X	
F41608-98-D-1044		X	X	X	X	X	X
Order 2	X	X		X	X	X	
Order 3	X	X		X	X	X	
Order 4	X	X		X	X	X	
Order 5	X	X		X	X	X	
Order 7	X	X	X	X	X	X	
Order 16	X	X	X	X	X	X	
Order 24	X	X	X	X	X	X	
Order 0902	X	X		X	X	X	
DAAB07-94-D-M503		X		X		X	
Order 23	X	X				X	
Order 27	X	X				X	
Order 40		X		X		X	
DASW01-95-D-0025		X		X	X	X	X
Order 67	X	X	X	X	X	X	X
Order 139		X		X		X	
DAAB07-96-C-A760		X		X	X	X	
DAAB07-96-D-F308		X		X	X	X	
Order 5	X	X	X	X	X	X	
Order 8	X	X	X	X	X	X	
DAAH01-97-C-0002		X		X	X	X	
DAAH01-97-C-0125		X		X	X	X	
DAAH01-97-D-0049				X		X	

<u>Contract Action</u>	<u>Cursory Technical Reviews</u>	<u>Inadequate Government Cost Estimates</u>	<u>Lack of Cost Control</u>	<u>Inadequate Contract Surveillance</u>	<u>Lack of Use of Available Prior History</u>	<u>Inadequate Negotiation Memorandums</u>	<u>Inadequate Competition</u>
Order 2			X	X		X	
DAAB07-97-C-C605	X	X			X	X	
Order 16	X	X			X	X	
Order 25	X	X			X		
DAAH01-98-C-0157		X			X		
DAAH01-98-C-0201		X				X	
DAAB07-98-D-H751	X	X			X	X	X
Order 2	X	X	X		X	X	X
Order 3	X	X			X	X	X
Order 4	X	X			X	X	X
Order 6	X	X			X	X	X
Order 7	X	X	X			X	X
Order 9	X	X				X	X
Order 10	X	X				X	X
Order 13	X	X			X	X	X
Order 14	X	X				X	X
Order 16	X	X			X	X	X
Order 17	X	X			X	X	X
Order 18	X	X			X	X	X
Totals:	60	81	21	56	58	71	33*

* We examined 30 task orders in addition to the 33 task orders identified here to determine if contractors had a fair opportunity to be considered for multiple-awards.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Deputy Under Secretary of Defense (Acquisition Reform)
Director, Acquisition Education, Training and Career Development
Director, Defense Procurement
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Information Systems Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Office of Federal Procurement Policy
General Accounting Office
National Security and International Affairs Division
Technical Information Center

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
Relations, Committee on Government Reform

Department of the Army Comments

Final Report
Reference



REPLY TO
ATTENTION OF

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

28 FEB 2000

SAAL-PS

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE (AUDITING), 400 ARMY NAVY DRIVE,
ARLINGTON, VA 22202-2884

SUBJECT: Audit Report on Award and Administration of Contracts for
Professional, Administrative and Management Support Services
(Project No. 8CF-0073)

Thank you for the opportunity to respond to the subject audit. We have thoroughly reviewed the audit findings and recommendations and have taken positive steps to address them. The Army agrees that a number of improvements must be made in the award and administration of professional, administrative, and management support contracts.

Understanding that the audit points out some valid problems, the Army disagrees with a number of the draft audit report findings (see enclosure). One specific finding identified that Army contract DACA87-95-D-0021 should have been awarded under multiple-award contract procedures as the value exceeded \$10 million and three years. In that the contract was awarded May 11, 1995, this is prior to the effective date (October 1, 1995) of the FAR (18.508) provision. Therefore, this contract was not subject to FAR 52.216-27 or 52.216-28 at time of award. Shortly, this contract will expire and the follow-on solicitation for this requirement will be made as a multiple-award.

Regarding your recommendation on conversion to fixed-price contracts, this office strongly encourages the migration of cost-type contracts to firm-fixed price contracts and will re-emphasize this to our field contracting organizations. However, we will not direct this action, as the proper contract type is a judgment call made by the Contracting Officer.

The Army agrees that through use of centers of excellence we can improve many of our processes including those for professional, administrative, and management support services. We have taken positive steps since 1995 to create these centers of excellence by reorganizing the majority of our Army procurement structure under a Centers and Satellites methodology. This action specifically concentrates skills and expertise for the most complex and specialized contract actions. These centers of

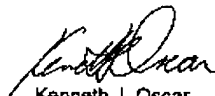
Revised

-2-

excellence have not only significantly improved our ability to award and administer the subject actions, but have reduced cost to purchase, and improved our ability to provide responsive and efficient contract support in the face of significant manpower and budget reductions.

Training is another important part of our efforts to improve our contracting practices. The Army has an aggressive procurement-training program to include our Army Roadshows and Advanced Acquisition Reform II workshops. With the Army's senior leadership actively supporting the Roadshow Program, we have trained more than 18,000 personnel in the last seven years. The Advanced Acquisition Reform Training II (ART II) Program provides contracting and acquisition personnel with on-site continuing education courses and has reached out to teach over 600 of our contracting professionals in the last two years.

Through senior leadership oversight, continuous training, and use of centers of excellence we are confident that the Army will satisfactorily address all valid problems you have pointed out. Thank you again for the opportunity to comment on your audit.



Kenneth J. Oscar
Deputy Assistant Secretary of the Army
(Procurement)

Enclosure



REPLY TO
ATTENTION OF

SAAL-PS

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

28 FEB 2000

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Audit Report on Award and Administration of Contracts for
Professional, Administrative and Management Support Services
(Project No. 9CF-0073)

The Department of Defense Inspector General (DODIG) recently completed the audit of Award and Administration of Contracts for Professional, Administrative and Management Support Services. The findings in this audit revealed some major contract discrepancies. These discrepancies are: (1) Cursory Technical Review, (2) Inadequate Government Cost Estimate, (3) Lack of Cost Control, (4) Inadequate Contract Surveillance, (5) Lack of use of Available Prior History, (6) Inadequate Negotiation Memorandum, and (7) Inadequate Competition. Although not all of the individual contract findings were valid the audit did point out a significant number of problems with our award and administration of these service contracts.

Therefore, I am directing my Procurement Management Assistance (PMA) staff to add, as a special area of emphasis, the review of contracting for Professional, Administrative and Management Support Services. Furthermore, I am requesting all Principal Assistants Responsible for Contracting (PARCs) and the U.S. Army Materiel Command Acquisition Reform Implementation Assessment Team (AMC ARIAT) to do so as well for all reviews they conduct.

The audit also questioned the use of cost-type contracts when years of historical procurement data were available. To remedy this finding I encourage all contracting personnel to thoroughly review all available procurement data prior to contract type decision and use firm-fixed type contracts whenever possible.

The point of contact in my office for this action is Mr. Tim Pugh, SAAL-PS, (703) 681-9318, fax: (703) 681-7580, DSN: 761-7580, email: pught@sarda.army.mil.

Kenneth J. Oscar
Deputy Assistant Secretary of the Army
(Procurement)

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Department of the Navy Comments



DEPARTMENT OF THE NAVY
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March 6, 2000

MEMORANDUM FOR DEPUTY DIRECTOR, CONTRACT MANAGEMENT
DEPARTMENT OF DEFENSE INSPECTOR GENERAL

Subj: DODIG DRAFT AUDIT REPORT: AUDIT REPORT ON AWARD AND
ADMINISTRATION OF CONTRACTS FOR PROFESSIONAL,
ADMINISTRATIVE AND MANAGEMENT SUPPORT SERVICES
(PROJECT NO. 9CF-0073)

Ref: (a) DODIG Draft Audit Report 9CF-0073 dated
February 4, 2000

The Department of the Navy response to the reference (a)
recommendations is provided at enclosure (1).

r/r Paul B. Fair
Paul P. Buonaccorsi
Executive Director
Acquisition & Business Management

Department of the Navy
Response to DODIG Draft Audit Report
Audit Report on Award and Administration of Contracts for
Professional, Administrative and Management Support Contracts
(PROJECT NO. 9CF-0073)

Recommendation 2: We recommend that Acquisition Executives for the Army, Navy and Air Force:

a. Make all acquisition personnel aware of problems found in independent Government cost estimates, technical evaluations and price negotiation memorandums.

DoN Response: Concur. Department of the Navy contracting activities have been provided copies of the draft audit report identifying issues with independent Government cost estimates, technical evaluations and price negotiation memorandums.

b. Evaluate the eight contracts identified that should have been awarded as multiple-award contracts in accordance with the FAR and if feasible, terminate or convert them to multiple award contracts upon completion.

DoN Response: Concur. We will evaluate the 6 DoN contracts identified in the draft audit report and where appropriate, convert them to multiple award contracts.

c. Establish centers of excellence with personnel that have performed research and received training to become expert buyers of professional, administrative and management support services.

DoN Response: Concur in principle.

There are a number of on-going initiatives to improve the acquisition of services within the Department of Defense. Those initiatives include improved cross-functional training for acquisition team members, greater emphasis on acquisition of commercial services and performance based acquisition. OSD is also exploring knowledge management resources which provide easy access to information, fast and efficient delivery of training and on-line collaboration and communication - a virtual Center of Excellence.

Within DoN, we have an initiative to promote regional consortiums for acquisition of common function supplies and

services. By consolidating requirements on a regional basis, consortium buyers will receive training and experience and acquire the knowledge and skill sets necessary for acquisition of services.

d. Require personnel acquiring the professional, administrative and management services to:

1. Use the centers of excellence.
2. Establish a time-phased plan with goals and performance measures that require the review of all professional, administrative and management support services contracts.
3. Convert, over 3 to 5 years, those repetitive cost-reimbursable contracts, or portions of contracts, to fixed price.
4. Review the assignments of contract surveillance work for contracts for services and adjust assigned workload and staffing to resolve imbalances.

DoN Response:

1. Concur in principle. We will publicize the centers of excellence and encourage members of the DoN acquisition community to use these resources.
2. Concur that professional, administrative and management support service acquisitions should be reviewed in the context of planning for those acquisitions. The FAR requires us to ensure that legitimate needs are identified and trade-offs are evaluated to best acquire those needs. FAR Part 7 requires agencies to perform acquisition planning and to conduct market research for all acquisitions. Acquisition planning requires review of similar acquisitions and a discussion of the technical and contractual history of the requirement and feasible acquisition alternatives. Market research includes looking at existing contracts to see if they can be used to meet the government's requirement. Acquisition planning and market research are based upon the specific circumstances surrounding an acquisition. Decisions on type-of-contract, terms and conditions, schedule, etc., are made on a case-by-case basis as requirements develop.
3. Concur in principle. Within DoN, acquisitions for supplies or services are reviewed with the intent to select the most appropriate type of contract based upon the specific circumstances of the requirement. Program

managers and contracting officials recognize that fixed price contracts are preferred over cost reimbursement contracts. Requirements should not be split to fit a preferred type of contract.

4. Concur in principle. Within DoN, we constantly review staffing and work assignments to match resources with requirements. DoN has an aggressive program to hire and train acquisition professionals.

E. Develop and implement work measures on contracts for professional, administrative and management support services, and measure improvements through the options, modifications for additional work, and future contracts.

DoN Response: Concur in principle. To ensure consistency throughout DoD, such work measures and guidance should be developed at the DoD level.

Audit Team Members

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

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INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Contracts for Professional, Administrative, and Management Support Services

B. DATE Report Downloaded From the Internet: 03/14/99

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D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 03/14/99

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