Audit Report

OFFICE OF THE INSPECTOR GENERAL

PROJECTS UNDERTAKEN BY THE DEFENSE EVALUATION SUPPORT ACTIVITY AND ASSOCIATED CONTRACTOR SUPPORT

Report No. 96-217

August 30, 1996

Department of Defense

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Acronyms

CACO	Corporate Administrative Contracting Officer
DESA	Defense Evaluation Support Activity
DTSE&E	Director, Test, Systems Engineering, and Evaluation
ETS	Engineering and Technical Service
FASA	Federal Acquisition Streamlining Act
FMS	Financial Management System
IGCE	Independent Government Cost Estimate
MRTFB	Major Range and Test Facility Base
MIPR	Military Interdepartmental Purchase Requests
OMB	Office of Management and Budget
SAIC	Systems Applications International Corporation
SETA	Systems Engineering and Technical Analysis

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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August 30, 1996

MEMORANDUM FOR DIRECTOR, TEST, SYSTEMS ENGINEERING, AND EVALUATION
EXECUTIVE DIRECTOR, DEFENSE EVALUATION SUPPORT ACTIVITY

SUBJECT: Audit Report on Projects Undertaken by the Defense Evaluation Support Activity and Associated Contractor Support (Report No. 96-217)

We are providing this audit report for review and comment. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that audit recommendations be resolved promptly. We request the Director, Defense Evaluation Support Activity, to reconsider the position taken on the report's recommendation and provide final comments by September 30, 1996. Recommendations are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Robert K. West, Audit Program Director, at (703) 604-8983 (DSN 664-8983) or Mrs. Yvonne M. Speight, Audit Project Manager, at (703) 604-8990 (DSN 664-8990). See Appendix F for the report distribution. Audit team members who contributed to this report are listed on the inside back cover.

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Assistant Inspector General
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Office of the Inspector General, DoD

Report No. 96-217
(Project No. 6AD-0023)

August 30, 1996

Projects Undertaken by the Defense Evaluation Support Activity and Associated Contractor Support

Executive Summary

Introduction. The Defense Evaluation Support Activity is a DoD organization under the authority, direction, and control of the Director, Test, Systems Engineering, and Evaluation. As an independent test and evaluation organization, the Defense Evaluation Support Activity is separate and distinct from testing organizations within the Military Departments. It provides quick turnaround, specialized technology, and procedural evaluations to both DoD and non-DoD customers such as the Drug Enforcement Administration, Department of State, Federal Emergency Management Agency, and U.S. Customs Service. The Defense Evaluation Support Activity had eight primary contracts to help it meet its clients' test and evaluation requirements. The FY 1995 institutional funding for the Defense Evaluation Support Activity was $15 million and client funding was about $106 million.

A previous Inspector General, DoD, evaluation concluded that the Defense Evaluation Support Activity was well managed, although several recommendations were made for improvements. The contracting area was set aside for subsequent in-depth audit coverage.

Audit Objectives. Our primary audit objective was to evaluate the appropriateness of projects the Defense Evaluation Support Activity undertook and the associated contractor support to accomplish those projects. We also evaluated the adequacy of the management control program as it related to the primary objective.

Audit Results. The Defense Evaluation Support Activity undertook projects that were within the scope of its mission and capabilities. Also, contractors' efforts in support of those projects were within the scope of the statements of work in the contracts and the subtask statements. However, we identified one condition that warranted management attention. Fragmented data bases to track clients' obligations and contractors' subtask expenditures caused the Defense Evaluation Support Activity to have difficulty in obtaining readily available and timely status information on clients' funds. After we completed this audit, management confirmed its intention to establish a method to record contractors' subtask expenditures in the financial management system, but had not developed an implementation plan or milestone schedule. See Part I for details.

The audit identified several deficiencies for which management took immediate corrective action and other matters of interest. See Appendix C for specific details. Appendix D discusses additional areas reviewed in which we identified no deficiencies.

The management controls we reviewed that applied to the primary audit objectives were adequate.

Summary of Recommendations. We recommend that the Executive Director, Defense Evaluation Support Activity, develop an implementation plan, to include milestones, to integrate contractor subtask obligations and expenditures into the financial management system.

Management Comments. The Executive Director, Defense Evaluation Support Activity, concurred in principle with the recommendation. However, he nonconcurred that clients funds and contractor expenditures by subtask were required to be integrated in the Defense Evaluation Support Activity Financial Management System to comply with Office of Management and Budget Circular A-127. Part I contains a summary of management comments and Part III contains the complete text of management comments.

Audit Response. The proposed actions of the Defense Evaluation Support Activity were not fully responsive to the recommendation. We ask the Defense Evaluation Support Activity to reconsider its position and provide additional comments by October 30, 1996.

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Part I - Audit Results

Audit Background

The Defense Evaluation Support Activity (DESA) is an independent field organization, chartered July 5, 1990, by the Deputy Secretary of Defense to provide specialized, non-traditional, field tests and quick-reaction evaluation support to DoD and non-DoD agencies. The DESA non-DoD clients have included the Department of Transportation, National Guard, State and Justice Departments, Drug Enforcement Administration, Federal Emergency Management Agency, and U.S. Customs Service. The DESA is under the authority, direction, and control of the Director, Test, Systems Engineering, and Evaluation, Office of the Principal Deputy Under Secretary of Defense for Acquisition and Technology.

The DESA had an authorized strength of 127 employees, an annual institutional budget of about $15 million, and client funding of about $106 million in FY 1995.

The DESA client requirements were met by both in-house effort and contractor support. The DESA employees provided support for about 56 percent of the workload; contractor support comprised about 44 percent of the workload. The DESA used eight primary contracts to support clients' requirements: two omnibus contracts, one each with Systems Applications International Corporation (SAIC) and Thompson, Ramo and Woolridge, Incorporated (TRW); two engineering and technical service (ETS) contracts, one each with BDM International Incorporated (BDM) and SAIC; two Small Business Administration contracts with Southwest Engineering Association; and two systems engineering and technical analysis (SETA) contracts, one each with Ball Corporation and The Analytic Sciences Corporation.

The type of work the contractors performed under the various contracts is broadly described in the contracts' statements of work. The omnibus contracts provide planning, test support, evaluation, and rapid assessment capability to organizations specifically under the Director, Test, Systems Engineering, and Evaluation Office. The ETS contracts provide quick-reaction, technical, and analytical support for all aspects of test and evaluation to a broad base of DESA clients. One of the two Southwest Engineering Association contracts provides infrastructure support and logistic and resource management support for field operations, and the other contract provides unmanned aerial vehicle support. The Ball Corporation SETA contract provides internal assistance and program management to support the DESA test and evaluation and technical applications. The Analytic Sciences Corporation SETA contract provides analysis, testing, demonstration, management, and evaluation tasks to support the Defense Airborne Reconnaissance Office.

To document and approve clients' requirements, DESA used the Project Identification Document and the subtask statement. DESA established the

Project Identification Document and the subtask statement with the client and the contractor, respectively, to document cost, performance, and schedule for a specific project.

Audit Objectives

The primary audit objective was to evaluate the appropriateness of projects DESA and the associated contractor support undertook to accomplish those projects. We also evaluated the adequacy of the management control program as it related to the primary objective. See Appendix A for the audit scope and methodology and for the results of the review of the management control program. See Appendix B for a summary of prior coverage related to the audit objectives.

Accountability of Defense Evaluation Support Activity Clients' Project Costs

The DESA data bases for tracking its clients' obligations and contractor subtask expenditures were fragmented. This condition occurred because tracking contractors' expenditures for subtasks was not considered a requirement in the DESA financial management system. As a result, DESA did not have readily available and timely information on its clients' financial status.

Policies Pertaining to Interagency Acquisitions

Federal Acquisition Regulation. Federal Acquisition Regulation, Subpart 17.5, "Interagency Acquisitions Under the Economy Act," prescribes policies and procedures applicable to interagency acquisitions under the Economy Act (United States Code, title 31, section 1535). The Federal Acquisition Regulation defines interagency acquisition as a procedure by which an agency needing supplies or services (the requesting agency) obtains them from another agency (the servicing agency).

DoD Instruction 4000.19. In a February 8, 1994, memorandum, "Use of Orders Under the Economy Act," the Secretary of Defense directed the Under Secretary of Defense for Acquisition and Technology to reissue DoD Instruction 4000.19, "Interservice, Interdepartmental, and Interagency Support," to incorporate the policy statement and approval requirements delineated in the February 8, 1994, memorandum. The DoD Instruction 4000.19 states that support costs (reimbursable costs) that are charged to a support receiver (the requesting agency) must be measurable and directly attributable to the receiver.

Office of Management and Budget Circular A-127. Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems," July 30, 1993, defines a financial system as an information system comprised of one or more applications that is used to collect, process, maintain, transmit, and report data about financial events and to accumulate and report cost information. In addition, OMB Circular A-127 establishes the following requirements for financial management:

> Financial management in the Federal government requires accountability of financial and program managers for financial results of actions taken, control over the Federal government's financial resources and protection of Federal assets. To enable these requirements to be met, financial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public. . . . The term "financial event" means any occurrence having financial consequences to the Federal

> government related to the receipt of appropriations or other financial resources; acquisition of goods or services; payments or collections; . . . or other reportable financial activities.

The DESA Financial Management Functions

As a servicing activity, DESA performed client support services for DoD and non-DoD agencies (receiving agencies). DESA DoD clients funded their projects by forwarding Military Interdepartmental Purchase Requests (MIPRs) to DESA. Non-DoD clients used their agencies' funding document to transfer funds to DESA. DESA used information in the MIPRs and funding documents to set up accounts for clients at the Defense Finance Accounting Service center to pay contractor invoices. DESA adequately recorded its client's funding documents and properly notified the client when excess funds were available for withdrawal. Our evaluation of the financial applications performed by the DESA Financial Management System (FMS) showed that the DESA FMS meets the criteria of a financial management system as defined in OMB Circular A-127. Therefore, the DESA FMS should maintain full accounting of clients' financial events.

Fragmentation of Financial Data Received. The accounting of clients' funding and the tracking of contractors' subtask expenditures were recorded in fragmented data bases at DESA. DESA finance office maintained records to report the availability of clients' funds planned for use on their projects but did not identify contractors' subtask billings. The DESA contract office received contractors' expenditure data but did not integrate the cost information with the finance records. Likewise, the contracting officer technical representatives received contractors' monthly expenditure reports by subtask but did not integrate this data into the DESA overall financial management tracking system. As a result, DESA did not have readily available or timely accountability of its clients' financial status.

DESA Financial Management System. The fragmentation of data bases containing DESA clients' funding and contractors' expenditures occurred because tracking contractor subtask expenditures were not initially considered a necessary function of the DESA FMS. The DESA FMS tracked the obligations of clients' funds for use on their subtasks and the DESA planned costs in support of those projects. However, the DESA FMS did not track actual expenditures incurred for clients' projects at the subtask level.

To meet OMB Circular A-127 requirements, a FMS must be in place to process and record financial events effectively and efficiently and to provide complete, timely, reliable, and consistent information. The DESA FMS provided information on the obligations against clients' funds but not on actual costs incurred at the subtask level.

Management Actions. To maintain more timely and readily available information on contractor subtask costs, DESA management was developing a

contractor expenditure module to compare planned obligations against actual costs at the subtask level. The contractor expenditure module would have required contractors to submit their billings in a standardized format. DESA shelved the use of the contractor expenditure module as a standardized contractor expenditure reporting method because the potential cost to contractors to reformat their billing statements to provide the information needed in the contractor expenditure module was too high.

After our inquiries regarding the current status of tracking contractor expenditures at the subtask level, DESA financial and contract officials confirmed their intention to integrate contractor expenditures into the DESA FMS. Developing an integrated system would enhance the DESA ability to provide clients' cost status in a timely manner and would also provide an additional check for clients' available funds. An integrated system of clients' funding and contractors' expenditures will provide timely reporting of clients' financial status.

Conclusion

DESA did not maintain within one system a complete accounting of clients' financial status for use. The separation of financial accounting of clients' funds and expenditures on a specific project did not allow for readily available and timely financial status reporting. The ability to track MIPRs, obligations, and subtask expenditures in one system would serve as a useful management tool. Although DESA has initiated an effort to eventually record subtask expenditures in the financial management system, a plan or schedule has not been developed or approved.

Recommendation, Management Comments, and Audit Response

We recommend that the Executive Director, Defense Evaluation Support Activity, develop an implementation plan, to include milestones, to integrate contractor subtask obligations and expenditures into the Defense Evaluation Support Activity's Financial Management System.

DESA Comments. The Executive Director, DESA, concurred in principle with the recommendation to integrate contractor subtask obligations and expenditures into the DESA FMS. He stated that having contractor expenditure data (by subtask and acronym) available is a useful tool to improve the DESA ability to manage contracts. He nonconcurred with the finding's assertion that applications performed by the DESA FMS should meet the criteria defined in OMB Circular A-127. The DESA did not believe it was required to comply with OMB Circular A-127 concerning the need to track contractor expenditures

in its FMS. DESA asserts that OMB Circular A-127 is only applicable to an agency-wide FMS such as the Defense Finance and Accounting Service FMS. The complete text of management comments is in Part III.

Audit Response. The comments by DESA were partially responsive. DESA did not state when it anticipates completing the loading of financial and contractual data in its FMS. We also disagree with the DESA statement that it is not required to comply with OMB A-127 and that contractors do not have a "fiduciary" responsibility to track and report Federal funds spent on subtasks. We discussed the relevance of OMB Circular A-127 on service-type organizations such as DESA with a senior policy analyst at OMB. We were told that OMB Circular A-127 applies to any organization that maintains an FMS and tracks financial events as defined in the circular. Since the DESA FMS did record and report receipt of clients' funds and the acquisition of goods and services, the DESA FMS should also record and report contractors' expenditures incurred on subtasks.

We had subsequent discussions with DESA management after receipt of its comments to obtain a better understanding of its position. DESA management believes that, if it concurred with the finding in this report, it would be required to comply with all reporting requirements of OMB Circular A-127. We suggest that DESA work with the Office of the Under Secretary of Defense (Comptroller) on the overall ramifications of Circular A-127 on DESA. As far as the finding in this report is concerned, the central issue is good financial status reporting for clients' funds. We found that not all contractors' billings provided detailed information at the subtask level. However, we did find that contractors assigned subtasks did provide monthly status reports that showed subtask expenditures. Those subtask cost reports were tracked by project leaders and contracting officer technical representatives. However, the reports were not forwarded and the data compiled into the client's overall financial record maintained in the DESA FMS. In addition, incorporating contractors' subtask expenditures in the DESA FMS would improve management controls over clients' financial activity.

In its response to the draft report, DESA indicated that its FMS was presently complete, although not all data have been loaded. The DESA response did not state that contractors' subtask expenditures would be loaded as part of the financial and contractual data. In its response to the final report, we request that DESA specifically state what additional data it will load in the FMS and when it anticipates the completion of that process.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

We reviewed the DESA charter, strategic plan, clients' requirements, contracts, and subtask statements to understand the organization's mission, responsibilities, and capabilities. We reviewed 18 contracts (including the 8 primary contracts) to support DESA needs and clients' projects, the related statements of work for each contract, 68 of 176 subtask statements assigned to those contractors, and 122 monthly performance status reports from October 1994 through February 1996. Specifically, we:

o reviewed and compared the DESA mission statement to the basic contract and each subtask statement of work to determine whether DESA was providing support in accordance with its stated mission,

o reviewed contractors' monthly performance status reports to determine whether the contractors' performed inherently governmental functions,

o evaluated the restructuring of the omnibus contract,

o reviewed the source-selection process for the ETS contracts,

o reviewed the Government's independent cost estimate for eight major contracts,

o reviewed the costs to prepare a technical and management approach for each ETS subtask,

o reviewed MIPRs received for 56 active Product Identification Documents to determine whether clients' funds were adequately accounted for, and

o evaluated the DESA ability to track clients' charges on contractor subtask costs.

Methodology

Use of Computer-Processed Data. To achieve the audit objectives, we relied extensively on computer-processed data in the DESA Financial Management System. We assessed the reliability of this data, including relevant general controls, and found them to be adequate. We assessed the reliability of applications controls established within the system and found them to be

adequate. As a result of the tests and limited assessments, we concluded that the computer-processed data were sufficiently reliable to use to meet the audit objectives.

Statistical Sampling Methodology. We did not use a statistical sampling procedure.

Audit Period, Standards, and Locations. We performed this program audit from November 1995 through May 1996 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary. Appendix E lists the organizations we visited or contacted.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls. We evaluated the adequacy of the management control program as it related to the primary objective.

Scope of Review of the Management Control Program. We performed a limited review of management controls for contract management based on prior coverage reported by the Director, Defense Procurement, in the "DoD Procurement Management Review of the Defense Evaluation Support Activity (DESA)," January 19, 1993, and the Office of Inspector General, DoD, Report No. 91-095, "Survey of Contracting Operations at the Defense Evaluation Support Activity," June 14, 1991. We also reviewed the DESA draft Operating Instruction 65-1, "Internal Management Control Program," to evaluate the revised internal management control practices and procedures to be implemented to ensure compliance with Public Law 97-255 and adequacy to safeguard assets and resources against fraud, waste, abuse, or mismanagement. We also reviewed the corrective actions management took in response to the Defense Logistics Agency Program Management Review report recommendations. We could not review management's self-evaluation applicable to those controls because the revised vulnerability assessments will not be implemented until October 1996.

Adequacy of Management Controls. Management controls as they applied to the primary audit objective were adequate.

Appendix B. Prior Audits and Other Reviews

During the past 5 years, the Inspector General, DoD, and the Defense Logistics Agency as executive agent for the Director, Defense Procurement, each issued reports that addressed the DESA operations.

Inspector General, DoD

Inspector General, DoD, Report No. 96-148, "Administration of the Defense Evaluation Support Activity," June 7, 1996, concluded that DESA was well managed, although several recommendations were made for improvements. Further action is required relating to revision of the DESA charter, resource determination and allocation, contracted legal services, financial disclosure process, training policy and guidance, cellular telephone requirements, and the Headquarters' office leasing arrangement. The contracting area was set aside for subsequent, in-depth audit coverage.

Inspector General, DoD, Report No. 91-095, "Report on the Survey of Contracting Operations at the Defense Evaluation Support Activity," June 14, 1991, states that DESA did not adequately control and account for Government property furnished to contractors, did not close completed contracts within the time frames established by the Federal Acquisition Regulations, and had not implemented the DoD Management Control Program. The report recommended that the Director, DESA, establish and implement controls for the accountability and reporting of Government-furnished property to contractors, the close-out of backlogged contracts, and the timely close-out of completed contracts in accordance with the Federal Acquisition Regulations. The report also recommended that the Deputy Director, Defense Research and Engineering (Test and Evaluation) (currently the Director, Test, Systems Engineering, and Evaluation), include DESA in the Internal Management Control Program and train designated Internal Management Control Program managers on the requirements and responsibilities of Federal Managers' Financial Integrity Act. Management concurred with all recommendations and took corrective action.

Defense Logistic Agency

The Director, Defense Procurement, issued the Defense Logistic Agency report, "DoD Procurement Management Review of the Defense Evaluation Support Activity," January 19, 1993. The report states that DESA management improved the accountability of Government-furnished property; automated the small purchase system; and improved the emphasis, management, and accomplishment of contract close-outs. The report recommended that DESA consider terminating the effort added to the two omnibus contracts that occurred

as a result of the organizational restructure because the treatment of the additional hours and increased period of performance was questionable. DESA management concurred with all findings and recommendations, at least in principle. Specifically, concerning the termination of the restructured omnibus contracts, DESA management responded that the DESA had considered the Procurement Management Review recommendations before deciding to restructure the contracts. DESA also stated that the original solicitation informed all offerers that the Government might call for performance of additional hours stated in the contract. DESA management further stated that the General Counsel, DESA, concurred in the restructuring of the contracts as being legally sufficient. DESA management concluded that it had already fulfilled the intent of the recommendation.

Appendix C. Corrective Actions Taken and Other Issues Needing Management Attention

Defense Evaluation Support Activity Paid Contractor Proposal Costs. DESA had inappropriately paid contractor costs to prepare subtask proposals competed on two ETS contracts. DESA paid contractor proposal costs because its clients objected to paying the costs for both the winner and loser, clients knew the contractor who could best accomplish their projects, and the selection process took too long.

The DESA Rationale Under the ETS Contracts. In July 1995, multiple ETS contracts were awarded to BDM and SAIC. DESA funded and paid the program management subtask costs from its institutional funds because of clients' previous complaints. According to Cost Accounting Standard 420, depending on the contract requirements, proposal costs can either be a direct cost to the contract or indirect cost to the contractor. Since the ETS contracts require the contractors to prepare a technical and managerial approach to a proposed subtask, the contractor must charge the proposal costs directly to the subtask.

Determination of Cost to Prepare Subtask Proposals as Bid and Proposal Costs. To determine the proper accounting of costs to prepare subtask proposals, we discussed the issue with Defense Contract Audit Agency officials and Defense Contract Management Command Corporate Administrative Contracting Officers (CACOs) at the BDM and SAIC suboffices. The CACOs at BDM and SAIC stated that the applicable Cost Accounting Standard 420 states that bid and proposal cost "is neither sponsored by a grant, nor required in the performance of a contract." Cost Accounting Standard 420.30(a)(2) explicitly states that if the performance of a contract requires the contractor to prepare a proposal, those costs will not be considered as bid and proposal costs and must, therefore, be charged directly to the client (in the DESA case, the subtask).

Management Actions. We commend the efforts DESA took to correct the problem of paying contractor costs to prepare subtask proposals. We brought this problem to the attention of DESA officials. DESA contract personnel requested ETS contractors to submit a proposal that develops a program management rate to include subtask proposal costs that can be charged directly to the subtask. If the client paid the proposal costs, DESA could put to better use about $600,000 in funds over the life of the contracts. Since corrective actions have been initiated, we are not making recommendations.

However, until the contractors submit their proposals, DESA will not know whether the rate will replace the current subtask for program management in the overall ETS contracts or the individual client subtasks. The cost to prepare subtask proposals should be charged directly to the client at a reasonable program management rate. The experience learned from resolving the treatment of subtask proposal costs should help DESA contracting officials to word future contracts to avoid similar problems.

Reassignment of Omnibus Subtasks. DESA should not assign additional substantial subtasks to omnibus contractors because contractor support provided under those contracts have been replaced or will be replaced soon.

Omnibus Contracts. The two omnibus contracts were initially awarded to SAIC and TRW in FY 1989 for a 5-year period of performance to end in FY 1994. The contracts were restructured in FY 1992 to extend the period of performance into FY 1997. To comply with recommendations in the Defense Logistic Agency 1993 Procurement Management Review report, DESA broke out a portion of the scope of work performed under the omnibus contracts and included those functions in the ETS contracts awarded in July 1995 to BDM and SAIC. The remaining effort under the omnibus contracts supports the Director, Test, Systems Engineering, and Evaluation (DTSE&E). A request for proposals to solicit bids to replace the remaining effort under the omnibus contracts was issued in November 1995 for DTSE&E engineering and technical analysis support.

Audit Concern. Because of the award of the current ETS contracts and pending award of the DTSE&E contract, we were concerned about duplicative contractual effort between those contracts and the omnibus contracts. Therefore, we suggested that DESA officials not place additional subtasks under the omnibus contracts.

Management Action. The DESA officials stated that they agreed in principle with our suggestion. However, the DESA officials advised that DESA needs the flexibility to extend ongoing contractual support to the Major Range and Test Facility Base (MRTFB) clients until those clients obtain contractual support from other sources. The DESA officials explained that the type of effort provided to those clients under the omnibus contracts is not within the scope of the ETS contracts and the pending DTSE&E contract. The DESA officials said that DESA informed the MRTFB clients that they have until March 1997 to obtain contractual support from other sources. We reviewed the statements of work for the ETS contracts and the DTSE&E request for proposal and determined that facility support of the MRTFB is not within the scope of those contracts. The DESA officials assured us that they intend to have the omnibus contractors complete ongoing MRTFB efforts and to start new initiatives only if necessary.

Competition of Subtasks. DESA policy does not require the preparation and documentation of a cost-benefit analysis to compete or award a subtask sole-source contract. DESA awarded multiple ETS contracts to comply with the Federal Acquisition Streamlining Act (FASA). The FASA states that all contractors awarded multiple award contracts shall be provided a fair opportunity to be considered, pursuant to procedures in the contracts, for each task or delivery order of more than $2,500. The DESA included the following statement in the ETS contracts to indicate its intent to compete most subtasks: "It is the Government's preference that each subtask statement be competed, if practical and in the best interest of the Government." During our discussions with DESA contract personnel regarding the requirements of the FASA, we concluded that DESA contract personnel interpreted the FASA language to mean that DESA was required to compete subtasks between BDM and SAIC.

We did not interpret the language in the FASA to mean that competition was mandatory, but each contractor must be given a fair opportunity for consideration.

FASA Intent. To better understand the intent of the FASA language on multiple award contracts, we obtained clarification from personnel in the offices of the Director for Defense Procurement and the Deputy Under Secretary of Defense (Acquisition Reform). The representatives from those offices agreed that the FASA only requires that contractors be given a fair opportunity to be considered for subtasks of more than $2,500. Therefore, if competing a proposed subtask is not cost-effective, the Government should consider a sole-source award of the subtask.

Subtask Competition. We reviewed the ETS contract files to determine the type of award made for the proposed subtasks, to determine whether the two ETS contractors were given a fair opportunity for consideration, and to evaluate the adequacy of documentation justifying sole-source awards. The ETS contract files showed that DESA made nine competed awards and eight sole-source awards for proposed subtasks. Of the nine competed awards, the total value of the subtasks awarded to both BDM and SAIC was comparable. Although justification was documented in the contract files for sole-source awards of subtasks, the justification did not provide sufficient detail to explain the Government's benefits to make a sole-source award. We also noted that both ETS contractors incurred a total cost of $2,770 to compete one subtask valued at $11,500, about 24 percent of the value of the subtask. In this instance, we concluded that it was not cost-effective to compete the subtask. DESA should ensure that decisions to compete subtasks are cost-effective. The documentation should explain how each contractor received a fair opportunity for competition and why, in the case of sole-source awards, awarding a subtask sole-source was cost-effective.

Accountability of Classified Material. We received improperly documented classified material from DESA and concluded that DESA did not have proper management controls to account for classified documents. Specifically, the SD Form 120, "OSD Receipt for Classified Material," accompanying the classified documents did not adequately describe the documents that were transferred to the Office of the Inspector General, DoD. As a result, we were unable to reconcile documents received until a later trip to the DESA field office. The DESA management acknowledged the deficiency and has established a training program for all employees on the proper accountability of classified documents. The training program will include a segment on accounting for classified documents sent to another organization or person.

Workload Model. DESA is developing a prototype Workload Model as a resource estimation tool to support manpower planning activities. The model provides Government and contractor manpower estimates of the workforce based on projected client requirements. We commend the DESA initiative to develop the Workload Model to meet requirements of the National Performance Review. The Workload Model narrative, however, did not reveal any basis for determining the allocation of DESA employees' time on specific projects. To obtain that data, DESA should require its employees to maintain weekly time

sheets to reflect time worked on specific projects. The use of employee time sheets will also provide an accurate basis to determine resource requirements for authorized and assigned strengths, as required under DoD Instruction 5010.37, "Efficiency Review, Position Management, and Resource Requirements Determination." DESA should strive to implement the Workload Model as soon as possible.

Operating Instructions Status. At the time of audit, DESA had 30 operating instructions in draft or planned revision. After our inquiry during the audit, DESA established a timetable to complete the revision of those operating instructions. DESA should finalize those draft operating instructions within the established time frame.

Appendix D. Other Matters of Interest

We identified no deficiencies relating to our review of DESA clients' requirements and associated contractor support, the source-selection process, and the independent Government cost estimates for the overall contracts and related subtasks. The results of our review of these areas are discussed below.

DESA Mission and Associated Contractor Support. DESA undertook projects that were within the scope of its mission, responsibilities, and capabilities; associated contractor support was within the scope of statements of work in the contracts and subtask statements. We reviewed 67 active memorandums of agreement to identify the DESA current client base and briefed 54 active Project Identification Documents to determine customer requirements and 68 of the 176 subtasks issued from October through December 1995. The subtask statements were reviewed to understand specifically what the clients' requirements were and what was required of the contractor to meet those requirements. We also reviewed the subtask statements to ensure that contractors were providing support within the scope of their contracts and the DESA mission. We reviewed 122 monthly performance status reports to ensure actual work the contractor performed was within the scope of the contracts and DESA mission.

Source-Selection Process. The source-selection process for the ETS contract was conducted in accordance with Federal Acquisition Regulations and the FASA. To streamline the source-selection process, DESA used an innovative process to evaluate the technical proposal and the best and final offers for the ETS multiple-awarded contracts. Each offerer was requested to present an oral technical proposal and best and final offer. All offerers' oral presentations were videotaped. We commend DESA management in the use of an innovative technique to streamline the acquisition process. We suggest DESA management send a memorandum to the Acquisition Reform Office describing in detail the attributes of using oral presentations for a source-selection process.

Independent Government Cost Estimates. We reviewed the independent Government cost estimates (IGCE) for eight contracts to determine whether the IGCEs were used in negotiating the contracts and whether variances between the IGCE and the contractors' proposed costs were evaluated. Of the eight IGCEs, four IGCEs were significantly higher than the contractors' proposed costs. Our discussion of the variances with the contracting officers revealed that the IGCEs included a 40-hour work week rather than a 60-hour work week, of which 20 hours were uncompensated. Uncompensated hours lower the contractor's hourly labor rate. Also, the IGCE used different indirect rates and fees than those the contractor proposed and negotiated. In addition, the IGCEs were based on historical data that included all functions performed under the omnibus contract rather than just the portion that supported ETS functions. The contracting officers provided sufficient basis for the variances.

Appendix E. Organizations Visited or Contacted

Office of the Secretary of Defense

Deputy Under Secretary of Defense (Acquisition Reform), Arlington, VA
Director of Defense Procurement (Deputy Director Cost Pricing and Finance), Arlington, VA
Director, Test, System Engineering, and Evaluation, Arlington, VA
Headquarters, Defense Evaluation Support Activity, Falls Church, VA
  Defense Evaluation Support Activity Field Operating Activity, Kirtland Air Force Base, NM

Other Defense Organizations

Headquarters, Defense Contract Audit Agency, Fort Belvoir, VA
  Defense Contract Audit Agency, Reston Branch Office, Defense Contract Audit Agency Mid-Atlantic Region, Philadelphia, PA
  Defense Contract Audit Agency, North County Branch Office, Defense Contract Audit Agency Western Region, La Mirada, CA
Defense Finance and Accounting Service Center, Kirtland Air Force Base, NM
Headquarters, Defense Logistics Agency, Fort Belvoir, VA
  Defense Logistics Agency, Defense Contract Management Command, Mid-Atlantic District, Towson, MD
  Defense Logistics Agency, Defense Contract Management Command, Western District, San Diego, CA

Non-Government Organizations

BDM International Incorporated, Albuquerque, NM
Systems Applications International Corporation, Albuquerque, NM

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Director, Test, Systems Engineering, and Evaluation
  Director, Defense Evaluation Support Activity
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant to the Secretary of Defense (Intelligence Oversight)
Assistant to the Secretary of Defense (Public Affairs)

Department of Army

Auditor General, Department of Army

Department of Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
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
Office of the Administrative Assistant to the Secretary of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, General Accounting Office
Chairman and ranking minority members of each of the following congressional committees and subcommittees:
- 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 National Security, Committee on Appropriations
- House Committee on Government Reform and Oversight
- House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
- House Committee on National Security

Part III - Management Comments

Defense Evaluation Support Activity Comments

DEPARTMENT OF DEFENSE
DEFENSE EVALUATION SUPPORT ACTIVITY
2251 WYOMING BLVD SE, KIRTLAND AFB, NM 87117-5609

July 17, 1996

MEMORANDUM FOR THE DoD INSPECTOR GENERAL

THROUGH: DIRECTOR, TEST, SYSTEMS ENGINEERING AND EVALUATION 7/18/96

SUBJECT: Draft Audit Report, Projects Undertaken by the Defense Evaluation Support Activity, Project No. 6AD-0023.00 - Management Comments

In response to your memorandum dated June 18, 1996, we have the following comments for your consideration in preparation of the final Audit Report:

We concur in principle with the recommendation to integrate contractor subtask obligations and expenditures into the Defense Evaluation Support Activity (DESA) Financial Management System (FMS). It is useful to have contractor expenditure data (by subtask and ACRN) available, as a tool to improve DESA's ability to manage contracts. However, there are no requirements in the Federal Acquisition Regulations or DoD accounting regulations requiring contractors to provide fiduciary information detailed to subtask/ACRN. Tracking expenditures is not related to the monitoring and internal management of client funds status by DESA. Mandating this requirement to the contractors would be outside of Defense Contract Audit Agency (DCAA) requirements for contractor accounting systems, and would be charged to DESA by each contractor as an internal report.

The preponderance of the findings in the draft audit are a direct result of the auditors' assumption that the DESA FMS must be developed to comply with OMB Circular A-127. We do not concur with this assertion, since the OMB circular prescribes policies and standards for agency-wide financial management systems and DESA is not a separate Agency. DESA has no financial reporting requirements under the OMB Circular. These are met by the accounting and reporting functions performed by the Defense Finance and Accounting Service for all funds allotted to DESA or provided in accordance with the Economy Act. The FMS was not developed as an official accounting system, but was designed to provide a consolidated database to record detailed management information for internal use by senior DESA management, Program Managers/Project Leaders, Contracting Officer Representatives, and contracting office/inventory management/finance office personnel.

Timeliness and milestones for the FMS are moot; the FMS is presently complete, although not all data have been loaded. We are continuously upgrading the capabilities of our FMS to provide timely and accurate financial and contractual data, and thereby improve our oversight capabilities. We are ever cognizant of our role as good stewards of the taxpayers' dollars.

Please feel free to discuss this further with Colonel Stewart Wyland, Chief of Staff, at (505) 262-4500/4501, or Ms. Deborah Larson, Chief Financial Officer, at (505) 262-4533.

John A. Wiles
Executive Director

Audit Team Members

This report was prepared by the Acquisition Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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