DEPARTMENT OF DEFENSE

AUDIT REPORT

CONTRACTING PRACTICES OF THE
INSTITUTE FOR DEFENSE ANALYSES

No. 90-041

March 1, 1990

Office of the
Inspector General

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

March 1, 1990

MEMORANDUM FOR DIRECTOR OF DEFENSE RESEARCH AND ENGINEERING
DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR PROCUREMENT, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)

SUBJECT: Report on the Audit of the Contracting Practices of the Institute for Defense Analyses (Report No. 90-041)

This is our final report on the Audit of the Contracting Practices of the Institute for Defense Analyses (the Institute), a Federally Funded Research and Development Center, for your information and use. Comments on a draft of this report were considered in preparing the final report. This audit was made from September 1988 through May 1989 as the result of a DoD Hotline referral. Our objectives were to evaluate how the Institute is selected to receive work from the Government, the adequacy of contract administration surveillance of the Institute during contract performance, and the adequacy of the Institute's procedures in selecting subcontractors. Additionally, we reviewed applicable internal control standards related to the program. We reviewed 35 task orders, valued at $41.2 million, from contract MDA903-84-C-0031, the primary contract between DoD and the Institute. For FY 1987, the contract had a value of $171 million.

The audit showed that the Institute performs a needed service for DoD. However, the review process used to select work for the Institute is not thorough enough to select noncompetitive work suitable for a Federally Funded Research and Development Center. Further, contract administration on the Defense Supply Service - Washington, contract MDA903-84-C-0031 was not adequate to ensure that the Institute complied with contract requirements and that contract payments to the Institute were appropriate. Additionally, the Institute's sole-source justifications for subcontracts were not adequate and may have inappropriately limited competition. The results of the audit are summarized in the following paragraphs, and the details, audit recommendations, and management comments are in Part II of this report.

The review process used to select work for the Institute was not thorough enough to properly select noncompetitive work suitable for a Federally Funded Research and Development Center. Also, the Institute did not have a mission statement that clearly differentiated between work suitable for the Institute and work that a non-Federally Funded Research and

Development Center should perform. As a result, OSD was uncertain whether industry could more effectively or efficiently perform work placed with the Institute and DoD may have paid as much as $9.5 million in excessive costs because of lost opportunities for competition. We recommended that the Director of Defense Research and Engineering require adequate research with sufficient documentation for task order proposals submitted to the Institute and establish a mission statement (sponsoring agreement), as required by Office of Federal Procurement Policy Letter 84-1, April 4, 1984. The mission statement should differentiate between appropriate work for the Institute and work appropriate for non-Federally Funded Research and Development Centers. We also recommended that the heads of offices sponsoring task orders for the Institute review and approve the noncompetitive and unique nature of the work provided to the Institute (page 7).

Contract administration of the Defense Supply Service - Washington, contract MDA903-84-C-0031 was not adequate to ensure that the Institute complied with contract requirements and that contract payments to the Institute were appropriate. As a result, the procurement contracting officer allowed the DoD to pay the Institute $23.8 million for items received late with no adjustments for late delivery or for which there was no documentation in the contract records verifying receipt of the deliverables. Additionally, since 1986, the Institute has been awarded at least $20 million in contract funding without regard to the resource requirements of the actual work to be performed; and between 1986 and 1988, the Institute was awarded $5.7 million in excessive management fees. Between 1984 and 1988, over $20 million in consultant fees were paid without adequate contracting officer review.

We recommended that the Director of Defense Research and Engineering review staffing levels at the DoD/Institute for Defense Analyses Management Office and verify that staffing is sufficient for the contracting officer's representative to adequately perform assigned duties in accordance with the Federal Acquisition Regulation and the contracting officer's representative's warrant. We recommended that the Defense Supply Service - Washington, procurement contracting officer require the contracting officer's representative to formally track the receipt of reports or deliverable items, require the Institute to provide acceptable proof of delivery for deliverables specified in the 12 task orders in our sample or withhold up to 10 percent of the value of the 12 task orders. We also recommended that the procurement contracting officer establish a plan for the Institute to implement recommendations in the Defense Contract Audit Agency Audit Report No. 6121-89H21000001, December 1, 1988; base the amount of the management fee on need; review consulting agreements issued to consultants, and require a sole-source justification memorandum similar to those used for subcontractors. Additionally, we recommended that the

procurement contracting officer establish a time phased plan to implement recommendations in the Defense Contract Administration Services Region, Philadelphia, Contractor Purchasing System Review (page 13).

The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. The failure to ensure that work provided to the Institute was uniquely suited to a Federally Funded Research and Development Center violated the internal control standard on reasonable assurance. Additionally, the failure to resolve actions recommended in the various Defense Contract Audit Agency audit reports violated the internal control standard on audit resolution. All recommendations, if implemented, should correct these internal control deficiencies. We have determined that $1.1 million of potential monetary benefits may be realized through implementing Recommendation B.2.b. We could not determine the monetary benefits to be realized by implementing Recommendations A.1., A.2., A.3., B.1., B.2.a., B.2.c., B.2.d., B.2.e., and B.2.f. The monetary benefits were not readily identifiable because benefits of establishing selection criteria and review procedures were not readily quantifiable.

On November 9, 1989, a draft of this report was provided to the Director of Defense Research and Engineering; the Deputy Assistant Secretary of Defense for Procurement, Office of the Assistant Secretary of Defense (Production and Logistics); and the Assistant Secretary of the Army (Financial Management).

Management comments by the Deputy Director of Defense Research and Engineering (Research and Advanced Technology) did not fully comply with the requirements of DoD Directive 7650.3. The Deputy Director concurred with Recommendations A.1., A.2., A.3., and B.1.; and described corrective action but did not provide the estimated dates of completion of the planned actions for Recommendations A.1., A.3., and B.1. Therefore, we ask that the Deputy Director provide completion dates in responding to the final report.

The Deputy Director nonconcurred with the monetary impact associated with Finding A in Part II of the report. The Deputy Director believed that in manufacturing, 25 percent may be saved by competition for sole-source contracts but not for level-of-effort contracting for research. Further, the Deputy Director did not believe that the savings were almost 25 percent of the sample value, implying that virtually every task order examined could not have been competed. The monetary impact presented is illustrative only of potential savings from use of competitive acquisition procedures.

Management comments by the Department of the Army, Coordinator for Headquarters Services, Washington, responding for

the Assistant Secretary of the Army (Financial Management), did not fully comply with the requirements of DoD Directive 7650.3. The Army concurred with Recommendations B.2.b., B.2.c., B.2.d., B.2.e., and B.2.f.; and described corrective action but did not provide the estimated dates of completion of the planned actions for Recommendations B.2.b., B.2.d., B.2.e., and B.2.f. Therefore, we ask that the Army provide completion dates in responding to the final report.

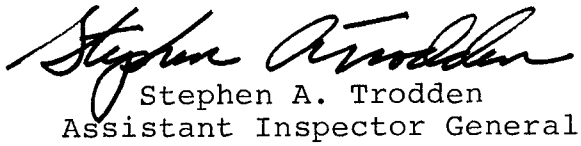
The Army nonconcurred in Recommendation B.2.a, which addressed the establishment of procedures to formally track the receipt of task order reports or deliverable items. The Army stated that the procurement contracting officer has already incorporated provisions in the contract which cause the Institute for Defense Analyses to furnish the needed information to the contracting officer's representative. The Army was implementing a system to notify the contracting officer's representative of every deliverable item under the contract. Even though the Army nonconcurred with the recommendation, we believe that the planned action meets the intent of our recommendation. However, to fully comply with the requirements of DoD Directive 7650.3, we ask that the Department of the Army, Coordinator for Headquarters Services, Washington, provide the completion date of the planned action in responding to the final report.

The Army did not comment on the potential monetary benefits of $1.1 million, identified in Appendix F, associated with Recommendation B.2.b.; therefore, we ask that the Department of the Army, Coordinator for Headquarters Services, Washington, provide final comments on these estimated monetary benefits. Potential monetary benefits are subject to resolution in the event of nonconcurrence or failure to comment.

Neither the Deputy Director of Defense Research and Engineering (Research and Advanced Technology) nor the Army specifically commented on internal control weaknesses identified in the draft report. However, their concurrence with the findings and recommendations in the draft report will result in the needed changes to internal controls. Therefore, additional management comments are not needed on the internal control weaknesses. However, for situations noted above that require additional management comments, DoD Directive 7650.3 requires that audit recommendations be resolved within 6 months of the date of the final report. Accordingly, final comments must be provided within 60 days of the date of this memorandum.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Mike Welborn at (202) 693-0402 (AUTOVON 223-0402) or Mr. David Steensma at (202) 694-1681 (AUTOVON 224-1681). A list of the

Audit Team Members is in Appendix J. Copies of this report are being provided to the activities listed in Appendix K.



Stephen A. Trodden
Assistant Inspector General
for Auditing

cc:
Secretary of the Army
Comptroller of the Department of Defense

REPORT ON THE AUDIT OF THE CONTRACTING PRACTICES OF THE INSTITUTE FOR DEFENSE ANALYSES

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REPORT ON THE AUDIT OF THE CONTRACTING PRACTICES OF THE INSTITUTE FOR DEFENSE ANALYSES

PART I - INTRODUCTION

Background

The Institute for Defense Analyses (the Institute), a Federally Funded Research and Development Center established in 1960, is a privately operated not-for-profit corporation financed by the Federal Government on a long-term basis. The Institute's principal function is to assist in problem solving for OSD, the Organization of the Joint Chiefs of Staff, and Defense agencies by providing studies, analyses, computer software, prototype analytical models, and other technical and analytical support for policy, program planning, and management. The Director of Defense Research and Engineering is the sponsor for the Institute. As of September 30, 1987, DoD sponsored 10 Federally Funded Research and Development Centers.

OSD is responsible for broad oversight of the Institute, and the Under Secretary of Defense for Acquisition establishes priorities for the Institute based on fiscal criteria, urgency, and importance of issues to be studied. The contract between the DoD and the Institute is managed through the Defense Supply Service - Washington, with the Director, DoD/Institute for Defense Analyses Management Office serving as the contracting officer's representative and the point of contact for work undertaken at the Institute.

The Office of Federal Procurement Policy established policy for using, reviewing, and terminating the sponsorship of Federally Funded Research and Development Centers in the Office of Federal Procurement Policy Letter 84-1, April 4, 1984. Under the policy letter, there is a mandatory requirement that sponsoring agreements must include a statement of purpose, mission, and general scope of effort that:

> . . . will be sufficiently descriptive so that work to be performed by the Federally Funded Research and Development Center can be determined to be within the purpose, mission and general scope of effort for which the Federally Funded Research and Development Center was established and differentiated from work which should be performed by a non-Federally Funded Research and Development Center.

Objectives and Scope

The objectives of the audit were to evaluate how the Institute is selected to receive work from the Government, the adequacy of contract administration surveillance of the Institute during

contract performance, and the adequacy of the Institute's procedures in selecting subcontractors.

We also reviewed internal control program documentation and implementation. We found that internal controls were inadequate to comply with the internal control standards of reasonable assurance and audit resolution. There was not reasonable assurance that work provided to the Institute was uniquely suited to the Institute, and actions recommended by the Defense Contract Audit Agency (DCAA) had not been resolved. The recommendations in this report, if implemented, will correct these internal control deficiencies.

To accomplish our objectives, we reviewed contract MDA903-84-C-0031 between DoD and the Institute. From the FY 1987 universe of 298 task orders totaling about $171 million, we randomly selected 35 task orders totaling $41.2 million. The 35 task orders are summarized in Appendix A. Of the 35 task orders reviewed, 16 had one or more subcontractors or consultants. From those 16 task orders with subcontractors or consultants, we randomly selected 1 subcontractor or consultant agreement from each task order. The value of the 16 subcontractor or consulting agreements reviewed was about $5 million.

Because the Defense Contract Administration Services Region, Philadelphia, performed a special contractor purchasing system review during our audit, we limited our review of subcontractor procedures. The purchasing system review was conducted from September 26 through October 7, 1988, and involved 161 purchase orders valued at about $10 million.

We examined the FY 1987 OSD Federally Funded Research and Development Center study plan and task orders on contract MDA903-84-C-0031, task order delivery records, and subcontracts, as well as the Institute and DoD/Institute for Defense Analyses Management Office contract administration procedures. We also interviewed personnel with OSD offices sponsoring work at the Institute; the DoD/Institute for Defense Analyses Management Office; the Defense Supply Service - Washington, procurement office; the Defense Contract Administration Services Region, Philadelphia, Pennsylvania; Defense Contract Administration Services Management Area, Baltimore, Maryland; and the Institute. Activities visited during the audit are listed in Appendix I. We conducted this economy and efficiency audit from September 1988 through May 1989 in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD.

Prior Audit Coverage

The General Accounting Office and DoD Inspector General have conducted audits that addressed Federally Funded Research and Development Centers. Additionally, the Defense Contract Audit

Agency (DCAA) has prepared audit reports on the Institute in support of requests made by the procurement contracting officer and the administrative contracting officer.

The General Accounting Office Audit Report No. GAO/NSIAD-88-22 (OSD Case No. 7551), "Competition: Issues on Establishing and Using Federally Funded Research and Development Centers," March 7, 1988, found that the special relationship that exists between Federally Funded Research and Development Centers and their sponsors meant that Federally Funded Research and Development Centers do not have to compete for the work that they receive from the Government. The lack of competition limited the Government's ability to determine if a non-Federally Funded Research and Development Center could do the work better or at less cost. The General Accounting Office recommended that DoD implement a test program to determine if the use of broad agency announcements would improve DoD's ability to determine if non-Federally Funded Research and Development Centers could collaborate meaningfully with Federally Funded Research and Development Centers to pursue the DoD research goals. DoD nonconcurred with the General Accounting Office recommendation and stated that a thorough review process is conducted to select work not conducive to competition and that can best be performed by Federally Funded Research and Development Centers. DoD further stated that the selection process adequately addressed concerns raised by the General Accounting Office regarding placement of specific projects at Federally Funded Research and Development Centers.

The General Accounting Office Audit Report No. GAO/PLRD-82-54 (OSD Case No. 5830), "Fee Guidelines Still Needed For Government-Sponsored Nonprofit Organizations," July 7, 1982, stated that a variety of procedures, used to determine and pay fees to Government-sponsored nonprofit organizations, continued to reflect a lack of uniformity in Federal policy. The report recommended that the Office of Management and Budget develop uniform fee guidelines for Government-sponsored nonprofit entities; recommendations were not made to DoD.

At the request of the procurement contracting officer, DCAA performed a review and issued Report No. 6121-5A210048, "Audit Report on Evaluation of Price Proposal Submitted by [the] Institute for Defense Analyses, Alexandria, Virginia," April 23, 1985. The audit evaluated the proposal representing the total funds available from various offices for the 15 projects listed in the FY 1985 Institute study plan sponsored by the Defense Advanced Research Projects Agency. The audit concluded that the Institute proposal simply allocated the total funds to management fees and various elements of cost and computed the probable level of effort based on historical cost factors. The report stated that no consideration was given to the respective scope of work of the projects included in the FY 1985 study plan. Additionally, no consideration was given to estimates for the levels of effort that the Institute's prospective project managers made when the FY 1985 plan was under development.

DCAA recommended that the Defense Supply Service - Washington, and the project offices issue contract modifications for the total fiscal year funding on a not-to-exceed basis thus establishing an upper limit to the price of the contract. DCAA also recommended negotiating task orders on the basis of individual statements of work, proposals setting out the Institute's price elements of labor, other resource requirements, price analysis reports, and a technical evaluation of the proposal. DCAA suggested that the Institute might have to establish a professional staff classification system to equitably estimate price and evaluate labor requirements for individual task orders. These conditions were also reported in the DCAA Report No. 6121-7A210043, November 26, 1986, and again in DCAA Report No. 6121-8C210018, February 25, 1988. Our review showed that the DCAA recommendations were not implemented.

The DCAA reviewed the Institute's initial proposal totaling $10 million for FY 1990 work at the request of the procurement contracting officer, and published Report No. 6121-89H21000001, "Report on Review of Proposal for Initial Pricing Under Contract No. MDA903-89-C-0003 Institute for Defense Analyses, Alexandria, Virginia," December 1, 1988. The audit was also critical of the Institute's use of total overall cost to price task orders. In addition, DCAA questioned the appropriateness of the 4.25 percent management fee awarded to the Institute for over 16 years.

DCAA recommended that:

> . . . IDA [Institute for Defense Analyses] establish logical labor categories thus reducing the range of variance in labor cost estimates and actual costs incurred. Agreed to labor category bid rates could then be established for pricings based on the number of labor hours (not man years) required per category to fulfill the task order requirements. Estimates thus proposed would require more technical pre-planning resulting in a better proposal. Such a proposal would provide a basis for a meaningful technical analysis and a price analysis or audit. This technical pre-planning would benefit IDA's task order manager in developing the technical performance plan to control the performance and cost of the task order. Using this method of pricing, IDA could then realistically be held accountable for the cost ceilings established for each task order.

DCAA also recommended a review of the management fee percentage of 4.25 percent to determine if the fee was still appropriate.

We found no evidence that the DCAA recommendations were implemented.

At the request of the administrative contracting officer, DCAA performed a review and issued Report No. 6121-8C179014, "Contractor Purchase System Review Institute for Defense Analyses, Alexandria, Virginia," October 4, 1988. The audit concluded that the Institute had inadequate policies and procedures relating to sole-source or single-source procurements and make-or-buy analyses involving subcontractors and consultants. DCAA recommended that a sole-source justification for consultants be required that is similar to, although in less detail than the justification required for sole-source subcontractors. DCAA also recommended that a make-or-buy analysis be performed for any consultant incurring a minimum of 1000 hours, or more than $25,000 in fees, excluding travel and subsistence cost. We found no evidence that the DCAA recommendations had been implemented.

The DoD Inspector General Report No. 86-062, "Federal Contract Research Centers and Not-for-Profit Corporations," February 4, 1986, evaluated whether policy on the levels and uses of reserves accumulated from fees and investments were adequate and if DoD's rights to assets were protected. The audit found that there was no DoD written policy on control of levels and uses of reserves. Additionally, the DoD sponsors' right to assets did not ensure that the Government would have any rights if the firms were dissolved. The report recommended that OSD require basing fees on need, that OSD issue policy on protecting the DoD's rights to the assets of existing Federally Funded Research and Development Centers and not-for-profit contractors and any that are established in the future. OSD concurred with the recommendations to develop appropriate coverage on contracting with Federally Funded Research and Development Centers in the Federal Acquisition Regulation. The requirements to have management fees based on need were incorporated into the DoD Federal Acquisition Regulation Supplement on August 1, 1987.

PART II - FINDINGS AND RECOMMENDATIONS

A. Institute for Defense Analyses Oversight

FINDING

The Institute for Defense Analyses (the Institute) did not have a mission statement or sponsoring agreement that clearly defined its scope of work as unique to a Federally Funded Research and Development Center. Also, the review process used to select work for the Institute was not thorough enough to only select noncompetitive work suitable for a Federally Funded Research and Development Center. These conditions occurred because OSD did not comply with Office of Federal Procurement Policy Letter 84-1, dated April 1984, and had inadequate procedures to determine that work placed with the Institute was noncompetitive and uniquely suited to the Institute. As a result, as much as $9.5 million in excess procurement costs may have been incurred because OSD was uncertain whether industry could more effectively or efficiently perform work placed with the Institute.

DISCUSSION OF DETAILS

Background. DoD regulations do not address the issue of how to channel work to Federally Funded Research and Development Centers. OSD has placed Federally Funded Research and Development Centers under the broad heading of DoD Contracted Advisory and Assistance Services. DoD Directive 4205.2, "DoD Contracted Advisory and Assistance Services (CAAS)," January 27, 1986, provides that annually, DoD Components submit a list of proposed and ongoing projects for the Institute and other Federally Funded Research and Development Centers to OSD. OSD, in turn, circulates the project list to other DoD Components to advise the Components of planned work and to prevent duplication of the projects. The DoD Directive requires a determination that the Government cannot do the work in-house. There is no distinction in the DoD Directive for determining the appropriateness of assigning the work to a Federally Funded Research and Development Center or a non-Federally Funded Research and Development Center (commercial vendor).

Scope of Work for the Institute. The Under Secretary of Defense for Acquisition establishes priorities for the Institute's projects. A decision to place work with the Institute is based on whether the projects fall within the Institute's mission statement and whether funds are available.

As of May 15, 1989, the Institute did not have a mission statement or sponsoring agreement that differentiated between work that only the Institute can perform and work that a non-Federally Funded Research and Development Center can perform. The October 1, 1983 contract, MDA903-84-C-0031, under which the Institute was operating, has limited information on the purpose, mission, and general scope of work for the Institute. The

contract between the Institute and the Government defines scope of work as "studies and analyses" that have a direct relationship to specific military functions. Such a broad scope of work effectively allows the Institute to perform almost any type of work that a sponsor requests.

The other primary requirement to initiate work at the Institute is the availability of funds. If the funds are available, then almost any work OSD requires is suitable for the Institute. This point was brought out in the General Accounting Office Fact Sheet GAO/NSIAD-88-116FS, "Competition: Information on Federally Funded Research and Development Centers," May 24, 1988, which stated, in part:

> According to the Director of DOD/IDA [Institute for Defense Analyses] Management Office, because the IDA's mission statement is quite broad, a project is nearly always related to its mission if the project is of a character that is appropriate for assignment to the IDA. Thus, the Director noted, the essential criteria for starting a job at IDA are the anticipated availability of funds and if the work is appropriate for IDA.

This response to the General Accounting Office inquiry is in contrast to the official OSD response to the General Accounting Office's Report No. GAO/NSIAD-88-22, "Competition: Issues on Establishing and Using Federally Funded Research and Development Centers," March 7, 1988, in which the Director of Defense Research and Engineering stated that a thorough review process is conducted to select work not conducive to competition and that Federally Funded Research and Development Centers can best perform. The Director of Defense Research and Engineering further stated that a draft DoD regulation on Federally Funded Research and Development Centers would be issued in July 1989 and would address General Accounting Office concerns. As of November 1989, the DoD regulation was not prepared.

Review of Work Assigned to the Institute. The Director of Defense Research and Engineering did not have controls in place to ensure that work placed with the Institute could not be competed and could be done only by the Institute. Further, the Defense Supply Service - Washington, procurement contracting officer does not review the decision process for any task orders placed with the Institute. The procurement contracting officer delegated the review function to the contracting officer's representative, who is the Director of the DoD/Institute for Defense Analyses Management Office. The contracting officer's representative has the option to question task proposals if the scope of the Institute's work does not cover sponsors' task requirements. However, the contracting officer's representative relies on each sponsoring office to determine whether to place a task with the Institute.

We examined 35 task orders, valued at $41.2 million, and found that 34 of the 35 task orders did not have adequate documented evidence that the work was noncompetitive and uniquely suited for the Institute. For example, the Office of the Director, Operational Test and Evaluation sponsored 3 of the 16 task orders valued at $7.7 million (Task Order Nos. T-P9-396, T-P9-432 and T-P9-543 at Appendix A). However, the Office of the Director, Operational Test and Evaluation could not document how the Institute was selected to do these tasks and could not provide evidence that non-Federally Funded Research and Development Center sources were considered. A program official from the Office of the Director, Operational Test and Evaluation stated that "almost all" of the Office of the Director, Operational Test and Evaluation's tasks can be competed, but are not because the competition process is complex and time-consuming. Another official from the Office of the Director, Operational Test and Evaluation stated that the cognizant personnel's recommendations to have the Institute do the work are always accepted because the cognizant personnel are in the best position to know who has the expertise to do the work.

Task Orders not in the OSD Study Plan. Of the 35 task orders, we found that 19, valued at $25 million, were not in the FY 1987 study plan (Appendix B). Eighteen task orders, valued at $23.7 million, had no documented support for noncompetitive actions. For example, the World-Wide Military Command and Control System Information System, Program Management Office sponsored three of the task orders valued at $6.9 million (Task Order Nos. T-W5-206, T-W5-260, and T-W5-259 in Appendix A). Also, the Ada Joint Program Office, Deputy Director of Defense Research and Engineering (Research and Advanced Technology) sponsored three of the task orders valued at about $3 million (Task Order Nos. T-D5-263, T-D5-305, and T-D5-306 in Appendix A). In addition to not submitting study plans, these two organizations did not document why they selected the Institute to perform these tasks instead of having them done in-house or commercially.

Sponsoring officials for 7 task orders, valued at $9 million, that were not in the plan had no idea what study plans were; and they did not document why the Institute was uniquely suited for these tasks. For instance, the Strategic Defense Initiative Organization, which sponsored six task orders, valued at $7.4 million, (Task Order Nos. T-R2-424, T-R2-332, T-R2-351, T-R2-422, T-R2-404 and T-R2-462 in Appendix A) said either that the closest thing to study plans that they prepared were the task orders and statements of work or that they were not familiar with study plans. Similarly, the Defense Communications Agency, which sponsored the seventh task order, valued at $1.3 million, did not prepare and submit a study plan, or document how the sponsor determined that only the Institute could perform this work (Task Order No. T-56-280 at Appendix A).

Contracting Out by the Institute. Of the 35 task orders, 11 task orders valued at $12.3 million had 50 to 100 percent of the value of the work contracted out. For example, 95 percent of Task Order T-W5-260 valued at $1.2 million, 88 percent of Task Order T-W5-259 valued at $482,000, and 75 percent of Task Order T-L2-511 valued at $1.3 million were contracted out. For the task order sponsored by the Office of the Assistant Secretary of Defense (Force Management and Personnel) (Task Order T-L2-511 at Appendix A), 100 percent ($41,000) of the work at the time of the audit was contracted out.

Although it is not possible to absolutely quantify the excess procurement cost associated with lost competitive opportunities, we estimated that DoD may have paid as much as $9.5 million in excess procurement costs. The DoD Federal Acquisition Regulation Supplement S6-303.5 states that there may be as much as a 25-percent differential between competitive and noncompetitive procurement. Therefore, $38.1 million of our $41.2 million sample did not have adequate documented support. Multiplying $38.1 million by a 25-percent differential factor results in $9.5 million of estimated excess procurement costs. We acknowledge that the DoD Federal Acquisition Regulation Supplement S6-303.5 deals with hardware type items and not studies and analyses; therefore, the resulting figure of $9.5 million may be overstated or understated. However, the $9.5 million in estimated excess procurement cost does provide a reasonable basis for estimating lost opportunity costs and illustrates the possible adverse impact of not adequately reviewing work assigned to the Institute.

Conclusion. There is a need for strong and clear guidance on how work is provided to Federally Funded Research and Development Centers. The procurement contracting officer should be able to review the documentation of the selection process for work provided to Federally Funded Research and Development Centers. Answers to questions such as those in Appendix B should be readily available.

To assist procurement personnel in the review of procurement requests, the proposed DoD Directive on Federally Funded Research and Development Centers should require adequate documentation from originating activities to answer questions on competition, market research, in-house capability, and levels of review. The proposed DoD Directive should emphasize the need for a mission statement for Federally Funded Research and Development Centers that satisfies the criteria set forth in the Office of Federal Procurement Policy Letter 84-1. There is also a need for the heads of sponsoring agencies or offices to approve work for the Institute, and to document why only the Institute can perform the work and what action will be taken to ensure that follow-on work is competed to the maximum extent possible.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Director of Defense Research and Engineering:

1. Establish procedures in the proposed DoD Directive on Federally Funded Research and Development Centers requiring that task order proposals submitted to the Institute for Defense Analyses be adequately researched with sufficient documentation to show that the work cannot be done by the Government, is noncompetitive, cannot be performed as effectively or efficiently by industry, and is appropriate for the Institute for Defense Analyses.

2. Establish a mission statement (sponsoring agreement) for the Institute for Defense Analyses that differentiates between work for the Institute for Defense Analyses and work for other studies and analysis organizations, in accordance with the Office of Federal Procurement Policy Letter 84-1.

3. Establish procedures for the heads of the agencies or offices sponsoring work for the Institute for Defense Analyses to approve the proposed tasks for the Institute for Defense Analyses. The sponsor approval documentation should justify and document the unique and noncompetitive contract actions that result in the assignment of work to the Institute for Defense Analyses.

MANAGEMENT COMMENTS

The Deputy Director of Defense Research and Engineering (Research and Advanced Technology) comments are in Appendix G. The Deputy Director concurred with Recommendations A.1., A.2., and A.3.; and stated that Recommendations A.1. and A.3. are viewed as parallel and require similar management actions to ensure that work especially appropriate for a Federally Funded Research and Development Center is submitted to the Institute. A DoD directive is presently in draft form and will address these recommendations. Sponsor certification is the method presently under consideration to resolve the problem.

For Recommendation A.2., the Deputy Director stated that a sponsoring agreement for the Institute has been completed and attached a copy of the agreement to the comments (see Appendix G).

The Deputy Director did not concur with the monetary impact in Finding A. concerning a 25-percent differential between competitive and noncompetitive procurement. The objective in contracting for studies and analyses is to obtain the best value, not the lowest price.

> In manufacturing, 25% may be saved when competition is introduced in a sole-source environment. But, to presume this savings might have been realized under level-of-effort contracting, for research, and that the product would be equally acceptable, is not logical. Additionally, the figure presented is almost 25% of the value of the sample, which implies the presumption that virtually every task order examined could have been competed. This is not the case.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

We believe that the monetary impact is illustrative of potential overpricing and is still valid. We agree that the 25-percent savings figure of $9.5 million may be overstated or understated, as we concluded in the report. However, we believe that it is inappropriate for management to assume that the introduction of competition into the procurement process would not result in some cost savings to the Government. Additionally, while it is probably true that some task orders in our sample were uniquely suited to placement with the Institute, the task orders could not be identified due to the absence of a control process and documented support for the placement decision.

The Deputy Director did not provide the estimated date of completion for Recommendations A.1. and A.3.; therefore, we request that the Director of Defense Research and Engineering provide estimated completion dates for Recommendations A.1. and A.3.

B. Contract Administration

FINDING

Contract administration of the Defense Supply Service - Washington, contract MDA903-84-C-0031 needed improvement. Contract payments to the Institute were not always appropriate and did not always comply with contract requirements. This occurred because the Defense Supply Service - Washington, procurement contracting officer did not require the Institute to implement the Defense Contract Audit Agency audit recommendations concerning the Institute's contract proposals and negotiation management fees. In addition, the procurement contracting officer did not effectively monitor the use of consultants or require periodic feedback from the contracting officer's representative concerning performance of and payments to the Institute. The contracting officer's representative permitted the Institute to deviate from contract requirements, and the administrative contracting officer did not perform adequate surveillance of the Institute's subcontract awards. As a result, the Institute was awarded at least $20 million in contract funding without adequate regard to resource requirements, since 1986; received $5.7 million in excessive management fees, between 1986 and 1988; and paid $20 million in consultant fees without adequate justification, between 1984 and 1988. In addition, the procurement contracting officer allowed DoD to pay the Institute $23.8 million either for reports, studies and analyses delivered without receiving consideration for late delivery, or for reports, studies and analyses that may not have been received.

DISCUSSION OF DETAILS

Background. The procurement contracting officer has the right to enter into contracts on behalf of the United States Government. In exercising this right, the procurement contracting officer must determine that a fair and reasonable price is obtained, verify compliance of the terms of the contract, and protect the interests of the Government as required by the Federal Acquisition Regulation 15.805-5 and 1.602-2. The procurement contracting officer may perform these functions, or delegate the functions as provided for in Federal Acquisition Regulation 42.202. Concerning the Institute's contract, the Defense Supply Service - Washington, is the procurement contracting office. The procurement contracting officer delegated the contract administration function to the administrative contracting officer assigned to the Defense Contract Administration Services Management Area, Baltimore, and the contracting officer's representative function to the Director, DoD/Institute for Defense Analyses Management Office.

One of the responsibilities delegated to the administrative contracting officer was to grant approval for the Institute to issue subcontracts. There are Federal Acquisition Regulation criteria that must be met for the contracting officer to be able

to grant approval to subcontract. Two of these criteria were a determination of whether adequate price competition was obtained or in its absence, proper justification for not obtaining adequate competition, and verification that the Institute had a sound basis for selecting and determining the responsibility of the particular subcontractor. Approval to subcontract may be withheld if the Institute does not meet these criteria.

The Defense Supply Service - Washington, procurement contracting officer appointed the Director, DoD/Institute for Defense Analyses Management Office as the contracting officer's representative. The primary responsibility of the contracting officer's representative was to verify that the Institute complied with the requirements of the contract and submitted required reports. If the performance of the Institute was not satisfactory, or if delivery schedules were not complied with, the contracting officer's representative was to notify the procurement contracting officer in writing. Additionally, within 30 days after completion of the contract, the contracting officer's representative was to provide to the procurement contracting officer and the administrative contracting officer an evaluation of the Institute. The evaluation should cover timeliness, quality of performance, compliance with the statement of work and other terms of the contract, and the use made of the services or products and their value to the sponsoring organization.

Contracting Officer Oversight. The Defense Supply Service - Washington, procurement contracting officer did not establish necessary controls to ensure that DoD negotiated a fair and reasonable price for contract work with the Institute in the areas of contract proposals, institute management fees, and use of consultants, and that the Institute's performance and payments were in accordance with contract terms. The procurement contracting officer also did not require the contracting officer's representative to provide periodic reports concerning contractor performance.

Institute Proposals. The Defense Supply Service - Washington, procurement contracting office may have negotiated at least $20 million of work with the Institute since 1985 without reasonable consideration of whether DoD obtained a fair and reasonable price. The Institute proposals were not negotiated based on work to be performed. Instead, the contract represented only an estimate of the effort that the Institute may have provided for a certain amount of money. This condition was first noted in Defense Contract Audit Agency (DCAA) Report No. 6121-5A210048, "Audit Report on Evaluation of Price Proposal Submitted by [the] Institute for Defense Analyses, Alexandria, Virginia" April 23, 1985. The report states in part:

> This proposal represents DARPA's [Defense Advanced Research Projects Agency] list of 15 projects totaling $1,490,000 which was

included in the FY 1985 IDA [Institute for Defense Analyses] Study Program released by the Under Secretary of Defense - Research and Engineering on 6 November 1984. The projects were developed prior to the beginning of FY 1985 by the various Government program offices. The individual project cost estimates (funding levels) were based either on the funds available to the Government program manager for FY 1985 or IDA's prospective project managers' ball park estimates. These ball park estimates were based on discussions between Government's and IDA's managers on the work to be performed. The estimates were then based on the IDA Manager perception of the required level of effort priced at a fully loaded average man-month/ year cost.

The contract proposals are prepared by IDA's Treasurer, as described above, without consideration for (1) the individual projects that may be included and (2) any estimated levels of effort which have previously been made by IDA's project managers. As a result, contract modifications for contract funding are proposed and negotiated without any regard to the resource requirements of the actual work to be performed. Once funds have been placed in the contract, task orders are prepared by the Government program office and/or the management office based on funds available or previous IDA ball park estimated cost. The task orders are sent to IDA management for acceptance. IDA's management review[s] a task order work statement, period of performance, and amount of funding to determine if all is acceptable. Any discrepancies are discussed with the Government representatives. IDA then either accepts or rejects the task order depending on the resolutions of these discrepancies.

The DCAA report concludes by stating:

Nowhere in this procurement process is the contract or the task orders awarded as the result of negotiation of an IDA proposal based on the work to be performed. The contract represents only a ball park estimate by IDA of the amount of effort that may be provided for a fixed amount of money. In our opinion this method of acquiring services is inadequate to promote cost effectiveness and to protect the best interest of the Government.

This condition was also reported by DCAA in Report No. 6121-7A210042, "Report on Review of Proposal for Incremental Funding Under Contract No. MDA903-84-C-0031 Institute for Defense Analyses, Alexandria, Virginia," November 26, 1986; Report No. 6121-8C210018, "Report on Review of Proposal for Incremental Funding Under Contract No. MDA903-84-C-0031 Institute for Defense Analyses, Alexandria, Virginia," February 25, 1988; and Report No. 6121-89H21000001, "Report on Review of Proposal for Initial Pricing Under Contract MDA903-89-C-0003 Institute for Defense Analyses, Alexandria, Virginia," December 1, 1988. In all three cases DCAA made recommendations for corrective action, but we found no evidence from our review of the contract files that the procurement contracting officer required the Institute to implement the recommendations (see prior audit coverage page 2.)

Management Fee. For the last 20 years, the Institute's management fee to cover non-reimbursable expenses, such as contract administration costs, was not based on demonstrated expenses but instead was 4.25 percent of cost. As a result, our review of the FY 1985 through FY 1987 management fee requirements showed that the procurement contracting officer allowed unnecessary expenditures of approximately $5.7 million in management fees and interest expense.

To evaluate the Institute's management fee payments, we reviewed the adequacy of the Institute's working capital, using the operating cycle approach as outlined in the General Accounting Office Report No. GAO/PLRD-82-54, "Fee Guidelines Still Needed For Government-Sponsored Nonprofit Organizations," July 7, 1982. The operating cycle approach involves comparing the liquid assets necessary to meet ordinary operating expenses for a complete operating cycle to the Institute's working capital. Working capital is defined as current assets less current liabilities. For FY's 1985 through 1987, we found that the Institute accumulated more than adequate working capital to cover operating expenses (see Appendix C). The accumulation of more than adequate working capital to cover operating expenses resulted in unnecessary Government expenditures. The unneeded expenditures included management fee overpayment and the cost to the Government for interest to borrow the money totaling $1.9 million in FY 1985, $469,000 in FY 1986, and $3.3 million in FY 1987. Over the 3-year period, the unneeded expenditures totaled about $5.7 million. Details of unneeded expenditures are in Appendix D.

During the annual negotiation of the management fee, the Defense Supply Service - Washington, procurement contracting officer did not base the fee on need even though in a March 23, 1984, letter to the Institute, the procurement contracting officer stated that in the future, management fees would be based on need. The procurement contracting officer used only the modified weighted guidelines method to determine the upper end of the management fee percentage. The procurement contracting officer always negotiated a management fee of 4.25 percent of cost, which was

lower than the weighted guidelines percentage. A discussion with the Institute's treasurer indicated that he was unaware of what the real management fee should be. The treasurer was content with the 4.25 percent for the fee because the Institute's reserves were increasing. On August 1, 1987, the DoD Federal Acquisition Regulation Supplement (DFARS) 215.972-1 (formerly 15.972-1) was revised to state that need will be used in computing management fees for Federally Funded Research and Development Centers.

In addition, the procurement contracting officer did not request input from DCAA even though the Institute's management fee percentage had been questioned in several DCAA reports dating from 1985 through 1988. For example, Defense Contract Audit Agency Report No. 6121-89H21000001, "Report on Review of Proposal for Initial Pricing Under Contract No. MDA903-89-C-0003 Institute for Defense Analyses, Alexandria, Virginia," December 1, 1988, stated:

> The contractor has proposed a management fee of $628,000 representing 4.25 percent of proposed costs. Although IDA [Institute for Defense Analyses] is a Federal Contract Research Center (non-profit organization), IDA has proposed and been awarded a management fee of 4.25 percent of costs for over 16 years. We recommend that this fee be reviewed to determine if 4.25 percent is still appropriate.

Our review determined that the procurement contracting officer did not implement this DCAA recommendation.

Consultants. Between FY's 1984 and 1988, the procurement contracting officer allowed the Institute to incur approximately $20.6 million in consulting costs without effective contracting officer review. The contract permits incurring costs for consultants provided the contractor submits monthly reports to the contracting officer. The Defense Supply Service - Washington, contract file contained these monthly reports. However, the reports provided to the procurement contracting officer were so general in nature that they were of limited value in evaluating the use of consultants. There was no documented evidence that the procurement contracting officer or his staff had reviewed the reports. Additionally, there was no evidence that either the administrative contracting officer or the contracting officer's representative monitored the use of consultants hired by the Institute.

Individuals hired as consultants were not always treated as subcontractors by the Institute but were often issued consulting agreements that did not require administrative contracting officer consent. Between 1984 and 1988, the consulting agreements that did not require administrative contracting officer consent outnumbered subcontracts with consultants that

did require administrative contracting officer consent. In 1984, only 39 percent of the labor that the Institute contracted to work on task orders was expended on consultants and 61 percent went to subcontractors. In 1988, the situation was reversed and 62 percent of contracted labor went for consultants while only 38 percent went for subcontractors. (Details on the increased use of consultants are in Appendix E.)

The procedure at the time of the audit allowed the Institute to use any consultant of its choosing without Government review. When the Institute used consulting agreements, the Institute did not provide advance notification to the administrative contracting officer, conduct a meaningful contracting officer review, or document competition procedures. At the request of the administrative contracting officer, DCAA reviewed the Institute's written policies regarding purchasing, and issued Report No. 6121-8C-179014, "Contractor Purchasing System Review, Institute for Defense Analyses, Alexandria, Virginia," October 4, 1988. The report stated in part:

> Based on our evaluation of IDA [Institute for Defense Analyses] Practice No. 2-60, we believe that the contractor's written policies and procedures are inadequate in some respects. The contractor does not require a justification memorandum, including certification by the requesting division director, for each project upon which a consultant works. The procedures and documentation of the negotiated rates are not specified in sufficient detail, and no specific formal written guidelines have been established by the Board of Trustees. We recommend that for each project that a justification memorandum, similar in format (although less detailed) to that required for sole source subcontracts, be required for the use of a particular consultant.

We found no evidence that the DCAA recommendation was implemented.

Contracting Officer's Representative Performance. The contracting officer's representative did not perform adequate contract administration to ensure compliance with contract requirements and appropriateness of payments. We found that 25 task orders, valued at about $23.8 million, either were delivered late or may not have been delivered at all (see Appendix A, pg. 27). The contracting officer's representative did not maintain a formal tracking system to monitor progress or completion of the task order schedule of deliveries. Additionally, the contracting officer's representative relied on the sponsor to contact him if the contractor's performance was not satisfactory. Contract administration was inadequate, in part, because the contracting officer's representative had too many duties. In addition to serving as the Director for the DoD/

Institute for Defense Analyses Management Office, he served as the contracting officer's representative for the Rand Corporation, another Federally Funded Research and Development Center; Acting Director, Contracting Advisory and Assistance Services; Acting OSD Federally Funded Research and Development Center Study Coordinator; and Director of all Federally Funded Research and Development Center Programs. Performance of all these duties was required with the assistance of a staff of one secretary. A contract administrator was hired February 27, 1989, to assist in completion of the duties. With all the required duties, we believe the contracting officer's representative could not effectively monitor approximately 200 task orders.

DoD Federal Acquisition Regulation Supplement (DFARS) 252.227-7030, "Procedures for Establishing Fee Objectives," provides that up to 10 percent of the total contract price may be withheld from payment until proof of delivery and acceptance is provided. Of the 35 task order files, valued at $41.2 million, that we reviewed, 12 task orders, valued at $10.5 million, did not contain delivery documentation. For example, the schedule for task order T-S6-280, amendment 6, valued at $1.4 million required submission of two interim reports in March 1988 and two reports in June 1988. When we reviewed the file on March 10, 1989, there was no documentation showing that the Institute completed the task and forwarded the reports to the contracting officer's representative for delivery to the sponsor. There was no evidence that the contracting officer's representative notified the contracting officer concerning the nondelivery status of the interim reports, in accordance with the contract terms. In addition, there was no documentation for deliveries on task orders T-B2-119, T-L-167/407, T-N9-225, T-D5-305, T-R2-332, T-P9-396, T-R2-404, T-J1-414, T-P9-432, T-F1-468 and T-L2-511. Details are in Appendix A.

We also identified 13 task orders, valued at $13.3 million, that had deliverables provided by the Institute 5 days to 15 months late, according to the dates in the task order files. Neither the correspondence file nor the task order file contained correspondence from the contracting officer's representative to the contracting officer notifying him of the delinquent status for any of the 13 task orders. For example, the schedule for task order T-W5-260, effective September 4, 1984, was "task 4a shall result in delivery, 20 months after work start, of a fully developed and tested prototype set of translator tools for one dialect of FORTRAN and one dialect of COBOL." The due date, computed 20 months from the effective date of September 4, 1984, was June 4, 1986; the final report was forwarded to the sponsor on April 24, 1987, 10 months late. There was no documentation in the file extending the delivery date or evidence that the contracting officer held up payments or received consideration from the contractor for late or nondelivery of items.

Administrative Contracting Officer Performance. The administrative contracting officer had not taken steps to ensure

compliance with contract requirements or the appropriateness of payments in the awarding of subcontracts. We reviewed 16 subcontracts or consultant efforts, valued at about $5 million, and found that 10 of the subcontracts, valued at about $1.3 million, did not have adequate support for the sole-source justification.

The Institute does not have an approved purchasing system. Therefore, the administrative contracting officer should review each request to ensure that price competition is adequate, sole-source procurements are properly documented and justified, and the Institute has a sound basis for selection and determination of responsible subcontractors. The Institute was not providing sufficient supporting data to the administrative contracting officer for evaluation to grant approval to subcontract.

For the 10 subcontractors, there was no documented evidence that the Institute had attempted to find other firms that could satisfy the requirements. In talking with the Institute's project leaders who determine which subcontractors are used, we learned that subcontractors and consultants were selected based on the project leaders' knowledge of the individual or the company. These project leaders did not prepare performance reports for inclusion in a historical subcontractor data base. If a project leader needed a reference on a subcontractor, he would have to rely on the memory of the prior project leaders.

The Defense Contract Administration Services Region, Philadelphia's review of the Institute's contractor purchasing system supports our conclusions on use of subcontractors. The review was performed between September 26 and October 7, 1988, at the request of the administrative contracting officer. The review identified inadequate price competition, inadequate control of sole-source and single source purchases, incomplete price and cost analysis methods, inadequate subcontract administration, lack of advance notification and prior consent for use of consultants, and poor file documentation. The Institute responded to the review recommendations in a letter dated October 21, 1988. The letter stated that the Institute was revising and expanding the purchasing section of its staff practices manual and the information contained on purchase order forms. The letter also stated that the Institute would adequately document the purchase order file to reflect the performance of price or cost analysis wherever required and sole-source justification where applicable. However, as of October 1989, the recommendations were not fully implemented.

Conclusion. Contract administration should be improved at the Institute to ensure that contract requirements are complied with and that payments to the contractor are reasonable. The ability of the contracting officer's representative to monitor and document the status of deliverables could be significantly enhanced by an adjustment of either the responsibilities or staffing levels assigned to the DoD/Institute for Defense

Analyses Management Office, along with the establishment of formal procedures to track and monitor the status of deliverables. The procurement contracting officer can ensure that payments to the Institute are reasonable by verifying that the Institute actually delivered the data from the 12 task orders in our sample for which there was no documented evidence of delivery in the contract files. Additionally, there is a need for the Institute to strengthen the methodology that is used to develop contract proposals and to determine management fee requirements. The procedures employed by the Institute at the time of the audit made it very difficult for the procurement contracting officer to be assured that payments to the Institute were reasonable. Implementation of the DCAA recommendation on preparing contract proposals and basing the Institute's management fee on demonstrated need would materially increase the procurement contracting officer's assurance that payments to the Institute were reasonable. The problems associated with subcontract awards occurred primarily because the Institute could not provide documented support for the decision to award sole-source subcontracts. Implementation of the recommendation in the contractor purchasing system review performed by the Defense Contract Administration Services Region - Philadelphia, would provide the contracting officer with adequate Institute procedures and records to evaluate subcontract awards.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Director of Defense Research and Engineering review staffing levels at the Department of Defense/Institute for Defense Analyses Management Office and verify that staffing is sufficient for the contracting officer's representative to adequately perform assigned duties in accordance with the Federal Acquisition Regulation 42.202 and the contracting officer's representative's warrant.

2. We recommend that the Defense Supply Service - Washington, procurement contracting officer:

a. Establish procedures for the Institute for Defense Analyses' contracting officer's representative to formally track the receipt of task order reports or deliverable items, and document receipt of the deliverables.

b. Request the Institute for Defense Analyses to provide acceptable proof of delivery for the deliverables specified in the 12 task orders in our sample for which there was no documented evidence of delivery within 60 days of the date of this report or withhold payment of up to 10 percent of the value of the 12 task orders.

c. Establish and monitor a time-phased plan for the Institute for Defense Analyses to implement the recommendation in the Defense Contract Audit Agency audit Report No. 6121-89H21000001, December 1, 1988, to establish logical labor

categories to aid in the preparation of contract proposals or adequately document in the contract files why the recommendation is not feasible.

d. Base the management fee for the Institute for Defense Analyses on need and the modified weighted guidelines for nonprofit organizations, in accordance with the DoD Federal Acquisition Regulation Supplement 215.972-1, "Procedures for Establishing Fee Objectives."

e. Implement the recommendations in the Defense Contract Audit Agency Report No. 6121-8C-179014, "Contractor Purchasing System Review, Institute for Defense Analyses, Alexandria, Virginia," October 4, 1988, by establishing a procedure for the preparation of a sole-source justification memorandum for all consulting agreements and subcontracts issued to consultants by the Institute for Defense Analyses.

f. Establish a time-phased plan for the Institute for Defense Analyses to implement the recommendations in the Defense Contract Administration Services Region, Philadelphia, Contractor Purchasing System Review, and establish procedures to review the progress of implementation.

MANAGEMENT COMMENTS

The Deputy Director of Defense Research and Engineering (Research and Advanced Technology) concurred that contract administration of the Institute for Defense Analyses contract needed improvement. Further, the Deputy Director concurred with Recommendation B.1. for the Director of Defense Research and Engineering to review the staffing level of the DoD/Institute for Defense Analyses Management Office. The Deputy Director stated that the review would be delayed because the position of Director of Defense Research and Engineering was vacant (see Appendix G).

The Department of the Army, Coordinator for Headquarters Services, Washington, management comments are at Appendix H. The Army nonconcurred in Recommendation B.2.a. and indicated that the contract contained provisions to require the Institute for Defense Analyses to furnish information to the contracting officer's representative. Further, a system is being implemented that will notify the contracting officer's representative of every deliverable item under the contract.

The Army concurred with Recommendation B.2.b. and noted that appropriate action, based on the contracting officer's representative's review, will be taken relative to withholding payment on deliverables of the 12 questioned task orders.

The Army concurred with Recommendation B.2.c., and stated that it had initiated action to have the Institute establish logical labor categories.

The Army concurred with Recommendation B.2.d. and stated that the Defense Supply Service - Washington has requested a "needs basis" document from the Institute for Defense Analyses that supports the proposed 4.25 percent fee, and it will reevaluate the current 4.25 percent based on weighted guidelines and the Institute's response supporting its need for the fee.

The Army concurred with Recommendation B.2.e. and noted that even though the recommendation will be implemented by the administrative contracting officer, the Defense Supply Service - Washington will recommend that the Institute for Defense Analyses instruct its project directors to document and justify the rationale for using a consultant.

The Army concurred with Recommendation B.2.f.; however, the Army believed that establishment of a time-phased plan for the Institute for Defense Analyses to implement the recommendations of the Defense Contract Administration Services Region, Philadelphia, Contractor Purchasing System Review and the establishment of procedures to monitor the implementation was not the responsibility of the procurement contracting officer. Further, the recommendation should be tasked to the administrative contracting officer under whose auspices the Contractor Purchasing System Review was conducted.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

We consider the Director of Defense Research and Engineering and the Army's comments to be responsive; however, the estimated completion dates were not provided. Therefore, we request that Director of Defense Research and Engineering provide an estimated completion date for Recommendation B.1. and the Army provide estimated completion dates for Recommendations B.2.b., B.2.d., B.2.e., and B.2.f. Also, the Army did not comment on the potential monetary benefits of $1.1 million associated with Recommendation B.2.b., identified in Appendix F; therefore, we ask that the Army provide final comments on these estimated monetary benefits.

SCHEDULE AND SYNOPSIS OF TASK ORDERS REVIEWED

Task Order Number	Funding Per Task Order	Sponsor	Appendix A Page No.
T-D5-263*	$ 700,000	Ada Joint Program Office, Deputy Director of Defense Research and Engineering (Research and Advanced Technology)	37
T-D5-305*	$ 1,426,000	Ada Joint Program Office, Deputy Director of Defense Research and Engineering (Research and Advanced Technology)	42
T-D5-306	$ 835,000	Ada Joint Program Office, Deputy Director of Defense Research and Engineering (Research and Advanced Technology)	43
T-B2-119*	$ 925,000	Assistant Deputy Under Secretary of Defense (Manufacturing and Industrial Programs)	28
T-J1-246*	$ 3,110,000	Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)	33
T-J1-414*	$ 825,000	Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)	52
T-L2-167/407*	$ 257,474	Assistant Secretary of Defense (Force Management and Personnel)	29
T-L2-511*	$ 214,328	Assistant Secretary of Defense (Force Management and Personnel)	60
T-Q1-413*	$ 600,000	Assistant Secretary of Defense (Program Analysis and Evaluation)	51
T-Q7-299*	$ 801,392	Assistant Secretary of Defense (Program Analysis and Evaluation)	41
T-Q7-438*	$ 410,000	Assistant Secretary of Defense (Program Analysis and Evaluation)	56
T-S6-280*	$ 1,350,000	Defense Communications Agency	40
T-V6-439	$ 27,500	Deputy Assistant to the Secretary of Defense for Chemical Matters	57
T-D2-310*	$ 900,000	Deputy Director of Defense Research and Engineering (Research and Advanced Technology)	44

SCHEDULE AND SYNOPSIS OF TASK ORDERS REVIEWED (Continued)

Task Order Number	Funding Per Task Order	Sponsor	Appendix A Page No.
T-F1-270*	$ 250,000	Deputy Director of Defense Research and Engineering (Tactical Warfare Programs)	38
T-F1-272	$ 250,000	Deputy Director of Defense Research and Engineering (Tactical Warfare Programs)	39
T-F1-468*	$ 300,000	Deputy Director of Defense Research and Engineering (Tactical Warfare Programs)	59
T-F6-219*	$ 2,160,000	Deputy Director of Defense Research and Engineering (Tactical Warfare Programs) and Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)	31
T-N9-225*	$ 1,195,000	Deputy Director of Defense Research and Engineering (Test and Evaluation)	32
T-P9-321/142	$ 6,403,196	Director, Operational Test and Evaluation	45
T-P9-396*	$ 255,000	Director, Operational Test and Evaluation	49
T-P9-432*	$ 1,215,000	Director, Operational Test and Evaluation	55
T-P9-543*	$ 162,000	Director, Operational Test and Evaluation	64
T-Z5-341*	$ 355,000	DoD, Computer Security Center	47
T-A7-513	$ 450,000	Office of the Under Secretary of Defense for Acquisition, Directorate (Program Integration)	62
T-A1-525	$ 1,500,000	Office of the Under Secretary of Defense for Acquisition, Directorate (Program Integration)	63
T-R2-332*	$ 1,625,000	Strategic Defense Initiative Organization	46
T-R2-351	$ 400,000	Strategic Defense Initiative Organization	48
T-R2-404*	$ 871,000	Strategic Defense Initiative Organization	50
T-R2-424	$ 325,000	Strategic Defense Initiative Organization	55

SCHEDULE AND SYNOPSIS OF TASK ORDERS REVIEWED (Continued)

Task Order Number	Funding Per Task Order	Sponsor	Appendix A Page No.
T-R2-462*	$ 125,000	Strategic Defense Initiative Organization	58
T-R5-422	$ 4,100,000	Strategic Defense Initiative Organization	53
T-W5-206	$ 3,156,000	World-Wide Military Command and Control System Information System, Joint Program Manager	30
T-W5-260*	$ 2,700,000	World-Wide Military Command and Control System Information System, Joint Program Manager	35
T-W5-259*	$ 1,044,000	World-Wide Military Command and Control System Information System, Systems Program Manager	34
Total	$41,222,890		

* One of 25 task orders, valued at about $23.8 million, that either were delivered late or may not have been delivered at all.

TASK ORDER NUMBER: T-B2-119

Sponsor: Assistant Deputy Under Secretary of Defense (Manufacturing and Industrial Programs)

Title: Critical Materials Foreign Dependency

Dollar Value: $925,000 Date of Pilot Study: January 1982

DESCRIPTION OF TASK

The task order was for Institute for Defense Analyses (the Institute) to review and update the Priorities Allocation Manual; to examine possible options open to DoD in improving supply and production aspects in selected critical and strategic materials; and to prepare a revised abbreviated version of R-264, "Critical Materials Study," emphasizing materials rather than policy issues. In addition to initial objectives of the study, the Institute explored other critical materials supply and demand issues.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. The task order was traced back to the study plan. The sponsor could provide no documented evidence of how it chose the Institute to perform this task. The sponsor stated that the Institute was recommended for the preliminary and subsequent studies based on personal knowledge of the Federally Funded Research and Development Center's expertise to carry out this task because no ground had been broken and no standards existed when the study was needed. According to the sponsor, the Japanese controlled every aspect of providing composite materials for weapon systems, and felt that after the initial study, the Institute was probably the only resource familiar with this task's requirements. However, there was no documented evidence that effort was made to see if other candidates were available.

Contract Surveillance. The task order schedule of delivery contained various delivery dates, the latest date being a draft paper on task 3a due on September 30, 1986. The task order file contained only one document of delivery, which transmitted a paper on March 27, 1987, 7 months beyond the September 30, 1986, due date. As of November 30, 1987, 71 percent of the work was contracted out for consulting services.

Subcontracting Practices. This task order had no subcontracts issued during FY 1987.

TASK ORDER NUMBER: T-L2-167/407

Sponsor: Assistant Secretary of Defense (Force Management and Personnel)

Title: Methods of Training

Dollar Value: $257,474 Date of Pilot Study: February 1983

DESCRIPTION OF TASK

The pilot study provided for the Institute for Defense Analyses to assist DoD in developing a method that will be used by decisionmakers in selecting and justifying the options for training equipment or systems. The FY 1987 study amended the pilot study, transferred the remaining FY 1985 funds totaling $7,526 to task order T-L2-407, "Macro Level Training," and provided for the examination of the usefulness of a prototype macro level training costs data base to support policy level decisions on the cost-effectiveness of training.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was traced back to the study plan. The sponsor could provide no documented evidence on how the Institute was chosen to perform this task. The sponsor's files contained only the statement of work and the task order. The sponsor said that competing this task was never considered because competing a proposal is very labor intensive, and the effort and time needed to compete this task were not available. Since the study is very specialized in nature, it could not be done in-house. No market research was conducted. Decisions made by sponsors to assign work to the Institute were not reviewed by the Defense Supply Service-Washington.

Contract Surveillance. A Memorandum for the Record, dated February 7, 1986, required submission of a draft report no later than March 15, 1986. There was no documentation in the file verifying delivery of the draft report. Amendment 4 was issued to transfer the ongoing effort of this task order to Task Order T-L2-407. Amendment 4 effective October 1, 1986, was signed by the President of the Institute for Defense Analyses on March 31, 1987, but the date that the Director, DoD Institute for Defense Analyses Management Office signed could not be verified. There was no documentation in the file to determine if the contracting officer's representative verified the contractor's performance or satisfactory completion of the work under this task order. The

file contained no record of correspondence between the contracting officer and his representative. No additional records of surveillance were found in the files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-W5-206

Sponsor: World-Wide Military Command and Control System Information System, Joint Program Manager

Title: WIS Application Software Study

Dollar Value: $3,156,000 Date of Pilot Study: November 1983

DESCRIPTION OF TASK

The task was to develop the initial specification of Ada (programming language) Structured Query Language, and a prototype implementation of the interface. The Institute coordinated the adoption of Ada/Structured Query Language as a standard Ada interface. Additionally, the Institute was to provide the World-Wide Military Command and Control System Information System, Joint Program Office with support in the continued prototyping of Ada/Structured Query Language, the refinement of the Ada/Structured Query Language specification, and the coordination with appropriate standards bodies.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. DoD Directive 4205.2 states that the DoD contracted advisory and assistance services director should receive an annual study plan from each DoD Component for review. No study plan was received from the World-Wide Military Command and Control System Information System, Joint Program Office on this task order. A copy of the study plan was requested from the sponsor; however, the sponsor was unable to provide one. The sponsor provided no documented evidence on how the Institute was selected to do this work. The individual currently responsible for this task did not know whether the work could have been competed. The sponsor did not conduct market research for this work.

Contract Surveillance. This task was completed on time. Evidence of the report submitted to the sponsor was included in the task order file. The task file did not contain data on contractor performance. Seventy-five percent of the work was contracted out to subcontractors and consultants.

Subcontracting Practices. The work was subcontracted to Systems Strategies, Incorporated, a consultant. Administrative contracting officer consent was obtained before the subcontract was awarded. Unlike other subcontractors, consultants generally do not deliver a finished product. Consulting services are in the form of advice or recommendations. The contractor was chosen on a sole-source basis. (See task order T-W5-259 for information on sole-source justifications for this and T-W5-260 task orders.)

TASK ORDER NUMBER: T-F6-219

Sponsors: Deputy Director of Defense Research and Engineering (Tactical Warfare Programs) and Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

Title: Follow-on Force Attack Program

Dollar Value: $2,160,000 Date of Pilot Study: December 1983

DESCRIPTION OF TASK

The pilot study for this task provides for the delivery of an integrated conceptual structure for assessing NATO's defense requirements and the detailed technical, cost, and schedule information necessary for organizing and managing DoD-wide efforts to create an effective follow-on force attack capability. The study is organized around distinct tasks to permit a systemic review of data inputs, assumptions and methodology at each critical step in the overall assessment. This ongoing study in FY 1987 provides for finishing the report of the FY 1984 and 1985 work, reviewing research and development programs (both in the United States and Europe) to allow results of the analyses to become reality, and analyzing the applications for the Army Tactical Missile System with Search and Destroy Armor.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was traced back to the study plan. The sponsor could provide no documented evidence on how it chose the Institute to perform this task. The current sponsor was given the responsibility for this task after its assignment to the Institute and believed that because the Institute was selected to perform this task, the decision must

have been based on a sound and verifiable process, and that evidently, the Institute was the most capable source available. There was no evidence of market research.

Contract Surveillance. The schedule for this task order required submission of a draft report by October 31, 1986. The draft report was transmitted April 28, 1987, approximately 6 months late. There was no documentation in the file extending the date of delivery and we found no correspondence to the contracting officer from the contracting officer's representative advising the contracting officer of late delivery or problems encountered. No additional records of surveillance were found in the files maintained by the contracting officer's representative.

Subcontracting Practices. Administrative contracting officer consent was obtained before the subcontract for consulting services was awarded. The subcontractor was chosen on a sole-source basis. However, there was no documented support for the sole-source justification in the IDA files.

TASK ORDER NUMBER: T-N9-225

Sponsor: Deputy Director of Defense Research and Engineering (Test and Evaluation)

Title: Options for Simplifying the Structure and Procedures of the Central Region Airspace Control Plan

Dollar Value: $1,195,000 Date of Pilot Study: April 1984

DESCRIPTION OF TASK

The pilot study for this task provided for identification and evaluation of options for improving and simplifying the structure and procedures of the Central Region Airspace Control Plan, and for planning and analyzing the results of an operational evaluation of the Central Region Airspace Control Plan to be conducted during Central Enterprise 84. This ongoing FY 1987 study covered the completion of ongoing work on identification of options to incorporate PATRIOT into the Central Region Airspace Control Plan and to initiate further evaluations of the new live-flying exercises and command-post exercises.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was traced back to the study plan. The sponsor could provide no documented evidence on how the Institute was chosen to perform this task. The current sponsor was not initially involved with the task and had no idea how the Institute was selected to perform the work because the files did not contain background information on the selection process. The sponsor did not conduct market research.

Contract Surveillance. A Memorandum for the Record, dated April 28, 1986, stated that because of sponsor delays during the review process, the issuance of the report will be delayed no later than September 1986. We reviewed this file on March 13, 1989, at which time the file contained no documentation verifying receipt of the deliverable, and we found no correspondence to the contracting officer from the contracting officer's representative advising the contracting officer of late delivery, no delivery, or problems encountered. No additional records of surveillance were found in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-J1-246

Sponsor: Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

Title: A Common Army Tactical Command and Control Information System for the Central Region

Dollar Value: $3,110,000 Date of Pilot Study: June 1984

DESCRIPTION OF TASK

The pilot study for this task provides for assistance to the Supreme Headquarters, Allied Powers Europe (SHAPE) in defining the military objectives and basic operational requirements for a common Army Tactical Command and Control Information System that achieves interoperability for Automated Data Processing systems. The FY 1987 study amends the pilot study by providing for the development of the Army's portion of the concept for the International Decision Support System.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was not traced back to the study plan. The sponsor could provide no documented evidence on how the Institute was chosen to perform this task. The only document found in the sponsor's files concerning the selection of the Institute was entitled "Justification for Noncompetitive Acquisition." This document includes various reasons why no other contractor besides the Institute could meet the specified study completion date of November 30, 1986. Amendment 6 to this task order, whose objective is identical to that of the pilot study, was effective December 1, 1987, 1 year past the original November 30, 1986 due date. The sponsor stated that any other existing documentation may be found in the FY 1985 records, which are in storage.

Contract Surveillance. The schedule for this task order, amendment 6, required submission of three draft reports on or about September 30, 1988. We were able to verify that one report was submitted, but documents relating to the remaining two reports were not in the task order file. There was no documentation in the file extending the date of delivery. We found no correspondence to the contracting officer from his representative concerning the status of the deliverable. No additional records of surveillance were found in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-W5-259

Sponsor: World-Wide Military Command and Control System Information System, Systems Program Manager

Title: WIS Application Software Sizing Study

Dollar Value: $1,044,000 Date of Pilot Study: September 1984

DESCRIPTION OF TASK

The task requirement was to estimate the size of the World-Wide Military Command and Control System Information System application software, expressed in a unit of measure, (i.e., man-months, lines of code, or both) for the purpose of costing the system. Additionally, the analysis was to provide guidance on the effect the use of Ada had on the World-Wide Military Command and Control System Information System application program size and development costs. Further, the task was to provide the World-Wide Military Command and Control System Information System, Joint Program Office with support in the continued prototyping of Ada and Structured Query Language, the refinement of the Ada and Structured Query Language specification, and the coordination with appropriate standards bodies.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. No study plan was received from the World-Wide Military Command and Control System Information System, Joint Program Office on this task order. A copy of the study plan was requested from the sponsor; however, the sponsor was unable to provide one. The sponsor provided no documented evidence of why the Institute was selected to do this work instead of having a non-Federally Funded Research and Development Center or industry perform this task. The sponsor who was responsible for this task did not know whether the work could have been competed. In addition, the sponsor did not conduct market research.

Contract Surveillance. This task order, Amendment 6, required that updates to the final report be provided on April 15, 1988; however, none were received until December 5, 1988. The task order file did not include any comments or concerns about the status of the delivery between April 15 and December 5, 1988. The correspondence file between the contracting officer's representative and the procurement contracting officer did not include any correspondence concerning the late delivery. The task file did not contain data on contractor performance. Further, 88 percent of the total labor cost was paid to a subcontractor.

Subcontracting Practices. Systems Strategies, Incorporated, was the subcontractor. Administrative contracting officer consent was obtained before the subcontract was awarded. Systems Strategies provided 2,580 hours of technical support during the period January 16, 1986, through December 31, 1986. Additionally, the contractor was chosen on a sole-source basis. The Institute's sole-source justification written in support of System Strategies indicated time as a critical element. The results of the study were to be used in a January 1988 Joint Requirements and Management Board Milestone I and II review that was less than a year away.

Between 1 and 1 1/2 years would be required for another contractor to become familiar with and successfully implement the methodology. We could not find documentation in the DoD/Institute for Defense Analyses Management Office's file indicating that information was provided by January 1988. We could only verify that the final report was forwarded December 5, 1988. The justification also stated, "this is the final year that IDA [Institute for Defense Analyses] will support this WIS sizing effort, IDA does not currently have the in-house expertise or staff to do this work, nor would it be feasible for us to try to develop it in view of the very specialized nature of the work involved."

TASK ORDER NUMBER: T-W5-260

Sponsor: World-Wide Military Command and Control System Information System, Joint Program Manager

Title: WIS Ada Foundation Technology Translation Tool

Dollar Value: $2,700,000 Date of Pilot Study: September 1984

DESCRIPTION OF TASK

The pilot study for this task provided for continuing support to the World-Wide Military Command and Control System Information System, Joint Program Manager in the development of functional specifications, estimation of effort and formulation of implementation plans for the development of foundation and modern application software packages in Ada. The FY 1987 study provides for the completion of work on the FORTRAN/COBOL-Ada Translator.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. No study plan was received from the World-Wide Military Command and Control System Information System, Joint Program Manager on this task order. A copy of the study plan was requested from the sponsor, who was unable to provide one. The sponsor did not provide documented evidence on how the Institute was selected to perform this task. The sponsor currently responsible for this task did not know whether the work could have been competed, and there was no record that indicated whether the original pilot study could have been competed. No market research was conducted.

Contract Surveillance. This task order required submission of a FORTRAN/COBOL-Ada Translator 20 months after the start date of work on September 4, 1984, or a completion date of June 1986. The deliverable was forwarded on April 27, 1987. The task order file did not include any comments or concerns about the status of the delivery between June 1986 and April 27, 1987. The correspondence file between the contracting officer's representative and the procurement contracting officer did not include any correspondence concerning the late delivery. The task file also did not contain data on contractor performance. Additionally, 95 percent of the work was performed by the subcontractor, Advanced Technology Systems. Purchase orders, totaling $2,271,205 and representing 84 percent of total funding ($2,700,000) paid to subcontractors, were issued to Advanced Technology Systems (purchase order number 5362 for $2,233,405) and Management and Computer Services (purchase order number 6043 for $37,800). These amounts excluded overhead charges, general and administrative expenses, and management fees; otherwise, the percentage would have been higher.

Subcontracting Practices. Advanced Technology Systems is the subcontractor on this task, and was chosen on a competitive basis. Administrative contracting officer consent was obtained before the subcontract was awarded. The deliverable was computer software, and was received after the date due. However, there was no evidence that the contract price was adjusted to reflect the late delivery.

TASK ORDER NUMBER: T-D5-263

Sponsor: Ada Joint Program Office, Deputy Director of Defense Research and Engineering (Research and Advanced Technology)

Title: Ada Verification Technology

Dollar Value: $700,000 Date of Pilot Study: November 1984

DESCRIPTION OF TASK

The task was to provide support to the Ada Joint Program Office in the development and technical assessment of plans and strategies designed to insert existing verification technology into the Ada program throughout the DoD. Additionally, the task was to perform a study of the requirements for Ada-based high assurance systems. To achieve this, the Institute was to review documented national and international ongoing and planned efforts within Government, academia, and industry; and to assess the state of technology and the requirements for technology insertion to support DoD programs. Based on this study, the Institute was to recommend a plan for DoD to achieve such systems.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. No study plan for this task order was found. A copy of the study plan was requested from the sponsor, who was unable to provide one. A sponsor representative assured us that their files, which were in storage, contained no documentation on how the Institute was selected to do this work. The project was assigned to the Institute because of its involvement in the initial development of the software. Because of the specialized nature of this particular task and the Institute's involvement in its initial development, it could not have been competed. However, the Ada Joint Program Office sponsor said they had considered competing the work. The sponsor did not conduct market research for this work.

Contract Surveillance. This task order required a Draft Plan by June 1, 1988, but the plan was forwarded to the sponsor on June 27, 1988. There was no documentation in the task order files extending the delivery date and no correspondence between the contracting officer's representative and the procurement contracting officer concerning the late delivery. Further, the task file did not contain data on contractor performance. Seventy-six percent of the total labor cost was subcontracted.

Subcontracting Practices. The subcontractor was Research Triangle Institute. Administrative contracting officer consent was obtained before the subcontract was awarded for consulting services. Additionally, the contractor was chosen on a sole-source basis. Our review of the IDA files indicated that there was no documented support for the sole-source justification.

TASK ORDER NUMBER: T-F1-270

Sponsor: Deputy Director of Defense Research and Engineering (Tactical Warfare Programs)

Title: ASW at Lower Source Levels

Dollar Value: $250,000 Date of Pilot Study: March 1985

DESCRIPTION OF TASK

The task order was to identify passive acoustic sensor candidates for development by identifying those parameters that most affect cost and performance. This was to be done by considering a number of generic systems and determining, by parametric analysis, those system characteristics that offered the highest potential payoffs in terms of cost-effectiveness.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was traced back to the study plan. There was no market research conducted to determine that the Institute should have the job. Selecting the Institute was a judgment call based on past experiences and was not documented.

Contract Surveillance. The schedule for this task order, amendment 2, required submission of a draft report on August 29, 1986. The draft report was transmitted approximately 8 months late, on May 1, 1987. There was no documentation in the file extending the date of delivery and we found no correspondence to the contracting officer from the contracting officer's

representative advising the contracting officer of late delivery or of problems encountered. No additional records of surveillance were found in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-F1-272

Sponsor: Deputy Director of Defense Research and Engineering (Tactical Warfare Programs)

Title: Defensive Systems for the Protection of Intertheater Sealift Vehicles in Transit Through Hostile Areas

Dollar Value: $250,000 Date of Pilot Study: May 1985

DESCRIPTION OF TASK

This task order was to determine for the Defense Guidance Scenario (1991) the enemy threat to high-value strategic sealift dry cargo ships that were at sea deploying combat equipment to overseas theaters; and to identify potentially cost-effective self-defense measures and devices that would allow enemy weapons to be evaded, decoyed, or destroyed; or that would reduce damage from hits.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was traced back to the study plan. Sponsor personnel stated that all files pertaining to the task order had been disposed of except for some unsigned documents, the initial 1981 study proposal, a critique of the Institute, and reports concerning Institute studies. Research was not conducted to determine whether the Institute should have done the job. Sponsor personnel noted that there was a definite belief that only the Institute could have undertaken the task. The sponsor did not conduct market research.

Contract Surveillance. A memorandum for the record, dated September 8, 1987, extended the due date of the report from September 30 to November 30, 1987. The Institute for Defense

Analyses and the Office of Naval Warfare and Mobility signed the extension. The letter transmitting the report to the sponsor was dated December 4, 1987, however after talking with the sponsor we considered the submission timely, because the sponsor stated that he had a copy on November 30, 1987. No additional records of surveillance were found in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-S6-280

Sponsor: Defense Communications Agency

Title: Transition Rate Structure and Usage Sensitive Pricing Issues in Defense Switched Network (DSN)

Dollar Value: $1,350,000 Date of Pilot Study: December 1984

DESCRIPTION OF TASK

This task order was to review the relationships between levels of usage and the requirements for switching and circuitry to carry voice and data over the Defense Switched Network and to examine these relationships in terms of the potential effect of usage prices on the Defense Switched Network funding requirements.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was not traced back to the study plan. According to sponsor personnel, the files did not include documentation showing that the Institute was solely suited to do the task. However, personnel stated that this effort could not be competed because of proprietary rate and costing data needed to develop the Defense Switched Network rate structure, but no documented support for this statement was provided. The sponsor did not conduct market research.

Contract Surveillance. The schedule for this task order, per amendment 6, required submission of four interim reports between March 15 and June 1, 1988. There was no documentation in the file verifying delivery of these four interim reports. There was no documentation in the file extending the date of delivery and we found no correspondence to the contracting officer from his

representative advising him of late delivery or problems encountered. We found no additional records of surveillance in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-Q7-299

Sponsor: Assistant Secretary of Defense (Program Analysis and Evaluation)

Title: Military Aircraft Development Costs

Dollar Value: $801,392 Date of Pilot Study: December 1984

DESCRIPTION OF TASK

The objective of this task was to develop cost estimating relationships and other tools for assessing cost estimates for the development of tactical aircraft components, to include airframe, propulsion, and fire control radars, using the development cost information assimilated under the prior task order and amendments.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was traced back to the study plan. The sponsor did not document how the Institute was selected. Personnel stated that they contemplated having another contractor do this study; however, the cons outweighed the pros. But they were not specific as to what the "cons" were, and there was no documented support for the decision. According to the sponsor, the Institute was chosen based on its expertise, ability to work independently, and industry's favorable response to the Office of the Director, Program Analysis and Evaluation's decision to use the Institute for this analysis, which involved reviewing contractors' proprietary sources of data. Further, the sponsor did not conduct market research for this work.

Contract Surveillance. The schedule for this task order, per amendment 5, required that a draft report be provided to the sponsor in September 1988. The report was transmitted to the sponsor on December 2, 1988. There was no documentation in the file extending the date of delivery and we found no correspondence to the contracting officer from his representative advising

him of late delivery or other problems encountered. We found no additional records of surveillance in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-D5-305

Sponsor: Ada Joint Program Office, Deputy Director of Defense Research and Engineering (Research and Advanced Technology)

Title: Ada (TM) Program Support Environments (APSE's)

Dollar Value: $1,426,000 Date of Pilot Study: January 1985

DESCRIPTION OF TASK

The task was to provide support to the Ada Joint Program Office in the development and technical assessment of plans and strategies designed to improve the quality and use of Ada Program Support Environments that specifically support the mission critical applications area throughout the DoD. Further, the task was to provide technical assistance during the process of adopting the Common Ada Program Support Environment Interface Set as a military standard.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. No study plan for this task order was found. A copy of the study plan was requested from the sponsor, who was unable to provide one. A sponsor representative stated their files, which are in storage, contain no documentation on how the Institute was selected to do this work. The project was assigned to the Institute because of its involvement in the initial development of the software. It could not have been competed because of the specialized nature of this task and the Institute's involvement in its initial development. However, there was no documented evidence that any effort was expended to see if any one else could do the job.

Contract Surveillance. The task order file did not show any documentation verifying that the schedule in the task order was met. The Common Ada Program Support Environment Interface Set Operational Definition was due September 30, 1988, according to a memorandum dated July 9, 1988. Amendment 6, with a draft date of March 10, 1989, and an effective date of February 1, 1989, terminated this task and transferred the unfinished work and remaining funds to task T-D5-306. There was no correspondence between the contracting officer's representative and the

procurement contracting officer on this task order concerning late or lack of delivery. The task file did not contain data on contractor performance. In addition, the Institute subcontracted 56 percent of total labor cost for analytical support.

Subcontracting Practices. Tartan Laboratories, Incorporated, was the subcontractor. Administrative contracting officer consent was obtained before the subcontract for consulting services was awarded. The contractor was chosen on a sole-source basis. Our review of the Institute's files indicated that there was no documented support for the sole-source justification.

TASK ORDER NUMBER: T-D5-306

Sponsor: Ada Joint Program Office, Deputy Director of Defense Research and Engineering (Research and Advanced Technology)

Title: Ada (TM) Technology Program

Dollar Value: $835,000 Date of Pilot Study: January 1985

DESCRIPTION OF TASK

The task order was for continuing Institute for Defense Analyses support to the Ada Joint Program Office in the development and technical assessment of plans, strategies and documentation required to conduct the Ada language evaluation and revision process and to encourage development of software or hardware standards that facilitate the insertion of Ada technology in the DoD software development and maintenance processes.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. No study plan for this task order was found. A copy of the study plan was requested from the sponsor, who was unable to provide one. A sponsor representative stated that their files, which were in storage, contain no documentation on how the Institute was selected to do this work. The project was assigned to the Institute because of its involvement in the initial development of the software. Because of the specialized nature of this particular task and the Institute's involvement in the initial development, it could not have been competed. However, the Ada Joint Program Office sponsor said they had considered competing the work. The sponsor did not conduct market research for this work.

Contract Surveillance. The schedule for this task order, amendment 4, required submission of a report on Ada program manager issues on December 18, 1987. The report was transmitted to the Sponsor on December 18, 1987. We found no additional records of surveillance in the the contracting officer's representative's files.

Subcontracting Practices. Administrative contracting officer consent was obtained before the subcontract for consulting services was awarded. The subcontractor was chosen on a sole-source basis. Our review of the Institute's files indicated that there was no documented support for the sole-source justification.

TASK ORDER NUMBER: T-D2-310

Sponsor: Deputy Director of Defense Research and Engineering (Research and Advanced Technology)

Title: Cost-Effectiveness Methods for Assessing Training Technologies

Dollar Value: $900,000 Date of Pilot Study: January 1985

DESCRIPTION OF TASK

The task was to assess both foreign and commercial advances in training technology and to evaluate them in terms of cost and training effectiveness as well as to produce a valid methodology for OSD's use. Further, in July 1985, the Deputy Under Secretary of Defense for Acquisition (Research and Advanced Technology) tasked the Institute to participate in and evaluate tests of prototype training equipment and devices that the Military Departments were developing. In FY 1987, the Institute requested and was granted an extension on this study to allow time to purchase, install and evaluate the use of Macintosh computers as part of the prototype training equipment development program.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was traced back to the study plan. The current sponsor said that the Institute was selected and had begun work before his coming on board. The sponsor's files contained no written documentation indicating why the Institute was chosen. According to the sponsor, the Institute is usually selected based on favorable experiences and results in the past. One major reason the Institute was selected is that the Institute has an employee, who

the sponsor believes to be the "worldwide guru" on these type studies. The sponsor stated that this effort must be done by an unbiased party in order that all Services will be assessed fairly. The sponsor did not conduct market research for this work.

Contract Surveillance. The completion date for this task was October 31, 1987. We contacted the sponsor who verified that the task was completed on February 10, 1989. There was no documentation in the file extending the due date. We reviewed the DoD/Institute for Defense Analyses Management Office's correspondence file and the task order file, and found no correspondence between the procurement contracting officer and contracting officer's representative concerning the late delivery. The task file did not contain data on contractor performance. Further, the Institute subcontracted 50 percent of total labor cost.

Subcontracting Practices. Administrative contracting officer consent was obtained before the subcontract was awarded. The due date of the deliverable was not shown in the files. The subcontract was chosen on a sole-source basis. In an October 5, 1989, letter on the sole-source selection of Essex Corporation, the Director, OSD Federally Funded Research and Development Center Program Office, stated that the advertisement of this need might in fact generate responses from contractors unknown to the Institute, whose services may be adequate and lower in cost. The Director left the determination of the adequacy of the sole-source justification up to the administrative contracting officer.

TASK ORDER NUMBER: T-P9-321/142

Sponsor: Director, Operational Test and Evaluation

Title: Joint Operational Tests of U.S. Retaliatory Capabilities in Chemical Warfare

Dollar Value: $6,403,196 Date of Pilot Study: September 1982

DESCRIPTION OF TASK

This task order was to complete the analysis and assessments of the 1986 Chemical Warfare Retaliatory Capability, to incorporate these assessments into the 1985 interim report, and to publish a final report of current Chemical Warfare capability by May 1987.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was traced back to the study plan. The sponsor did not provide documented evidence on how the Institute was selected to perform this task. The sponsor responsible for this task said almost all of its tasks can be competed; however, there was no record that competition was pursued, and no market research was conducted.

Contract Surveillance. This task order required the final report to be issued and distributed no later than May 1, 1987. We determined the final report was transmitted to the sponsor on May 28, 1987, 27 days late. There was no correspondence from the contracting officer's representative to the contracting officer concerning the status of the final report. There was no written documentation extending the due date from May 1 to May 28. No additional records of surveillance were found in the contracting officer's representative's files.

Subcontracting Practices. Administrative contracting officer consent was obtained before the subcontract for consulting services was issued. The subcontractor was chosen on a sole-source basis. Our review indicated that the Institute's files did not contain support for the sole-source justification.

TASK ORDER NUMBER: T-R2-332

Sponsor: Strategic Defense Initiative Organization

Title: Strategic Defense Initiative Advisory Committee

Dollar Value: $1,625,000 Date of Pilot Study: August 1985

DESCRIPTION OF TASK

The purpose of this task is to provide technical and analytic support to Strategic Defense Initiative Advisory Committee panels and to perform technical analyses and reviews of Strategic Defense Initiative technology and systems programs to identify potential suitability, feasibility, and risk issues for consideration by the Strategic Defense Initiative Advisory Committee, specifically in the areas of BM/C3 and discrimination.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was not traced back to the study plan. The sponsor did not provide documented evidence on how the Institute was selected to perform this task. No market research was conducted.

Contract Surveillance. This task order, amendment 4, required the submission of draft reports by October 15, 1988, and the submission of draft summary reports to the Discrimination Panel by June 1, 1988. We could not verify if these reports were submitted within the time frame requested. We spoke with the sponsor, who verified that the reports were received but could not provide the date received. There was no correspondence between the contracting officer and the contracting officer's representative concerning the status of this task order and there was no additional documentation extending the delivery date of the reports. No additional records of surveillance were found in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-Z5-341

Sponsor: DoD, Computer Security Center

Title: Emergency Destruction of Information Storing Media

Dollar Value: $355,000 Date of Pilot Study: January 1987

DESCRIPTION OF TASK

The task was to define the issues presented by the information retaining capabilities of computers and other information processing and storage media concerning emergency destruction. The task was also to make recommendations for technical guidelines and security practices.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. The DoD Director for Contracted Advisory and Assistance Services did not have a copy of the DoD Computer Security Center's study plan. We requested a copy from the sponsor, whose files contained only copies of reports. The sponsor had no idea how the Institute was selected for this project nor could he provide documentation to support the choice. The sponsor provided no documented justification of why the work could not have been done in-house. The justification is usually found in the task study plan. The sponsor did not conduct market research for this work.

Contract Surveillance. This task order was scheduled to submit a final report on September 30, 1987. The report was forwarded January 7, 1988. There was no documentation in the file extending the due date. No correspondence between the procurement contracting officer and the contracting officer's representative concerning the late delivery was found in the DoD/Institute for Defense Analyses Management Office's correspondence file or the task order file. The task file did not contain data on contractor performance. Further, the Institute contracted 79 percent of total labor cost to a consultant.

Subcontracting Practices. There was no subcontractor.

TASK ORDER NUMBER: T-R2-351

Sponsor: Strategic Defense Initiative Organization

Title: Identification and Analyses of SDI Survivability Issues

Dollar Value: $400,000 Date of Pilot Study: July 1985

DESCRIPTION OF TASK

When this study began, the Institute was involved in related system studies for the Strategic Defense Initiative Organization. This task complemented those efforts, in that the Institute reviewed ongoing and proposed efforts within other Strategic Defense Initiative Program Elements, and within National Aeronautics and Space Administration, the National Labs, Department of Energy, and the DoD to determine how they were applicable to the Survivability Project, and recommended specific tasks that could be added to these projects. Additionally, the Institute was to generate and develop innovative survivability concepts and tactics for the Strategic Defense Initiative Organization. In conjunction with the initial study involving the concept of defocusing shields that interfere with the tracking and kill mechanisms of laser beams, this task addressed the issues of materials and power dissipation, wide angle performance, analysis of optical fibers, deployment, and validation experiments.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. The Strategic Defense Initiative Organization did not submit any study plans. A copy of the study plan was requested from the sponsor, who was unable

to provide one. The current sponsor said that the files of his two predecessors were not well-kept and contained no documentation on how the Institute was chosen and whether or not the work could have been competed. The sponsor was totally unfamiliar with the task and stated that, before his arrival, things were done in a very loose manner. The individual could provide no justification as to why the work could not have been done in-house. The sponsor did not conduct market research for this work.

Contract Surveillance. The final report due on this task order was completed on time and verification of the deliverable was in the task order file. The task file did not contain data on contractor performance. In addition, the Institute subcontracted 53 percent of total labor cost.

Subcontracting Practices. Orion Engineering, Incorporated, was the subcontractor. Administrative contracting officer consent was obtained before the subcontract for consulting services was awarded. The subcontractor was chosen on a sole-source basis. Our review of the Institute's files indicated that there was no documented support for the sole-source justification.

TASK ORDER NUMBER: T-P9-396

Sponsor: Director, Operational Test and Evaluation

Title: Operational Test and Evaluation of the Airborne Self-Protection Jammer

Dollar Value: $255,000 Date of Pilot Study: January 1986

DESCRIPTION OF TASK

This task provided supporting reviews and analyses on statements of requirements from the participating Services, test reports, studies and other relevant documents pertaining to the Airborne Self-Protection Jammer system. This study will identify mission critical system performance characteristics and capabilities; will review the Test and Evaluation Master Plan and subsequent Test Plans as they are issued for technical content and completeness; and will indicate how test activities for the Services' programs might be further integrated and made more complementary.

SUMMARY OF REVIEW

How Work Is Assigned to the Institute. The sponsor did not provide documented evidence on how the Institute was selected to perform this task, but said that the choice was between BDM Corporation and the Institute. The decision was based on which of the two possessed the most technical capability. The sponsor currently responsible for this task said the task could have been competed if time were available. No market research was conducted.

Contract Surveillance. This task order, amendment 1, required that a draft final report on all tasks be provided by December 31, 1986. We could not verify if these reports were submitted within the time frame requested. We spoke with the sponsor, who verified that the reports were received but could not provide the date received. There was no correspondence between the contracting officer and the contracting officer's representative concerning the status of this task order and there was no additional documentation extending the delivery date of the reports. We found no additional records of surveillance in the contracting officer's representative's files.

Subcontracting Practices: There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-R2-404

Sponsor: Strategic Defense Initiative Organization

Title: Physics of Plume Signatures

Dollar Value: $871,000 Date of Pilot Study: April 1986

DESCRIPTION OF TASK

The pilot study for this task provides for reviewing and performing technical assessments of the plume-measurements program to assist the Strategic Defense Initiative Organization and Sensors Office in the selection of projects that will best serve Strategic Defense Initiative Organization mission requirements, and for initiating theoretical studies of the spatial and spectral characteristics of the plumes at high altitudes. The FY 1987 study, amendment 3, provides for technical analysis and guidance to aid the Institute in suggesting future space experiments and providing initial analysis of forthcoming data from space and laboratory experiments.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was not traced back to the study plan. The sponsor could provide no documented evidence on how it chose the Institute to perform this task. During the audit, the sponsor who recommended that the Institute perform this task was not available. The acting sponsor stated that the review process used was not documented and indicated that the recommendation was based on professional judgment. The acting sponsor suggested contacting the Institute to determine how the office selected the Institute. The sponsor did not conduct market research.

Contract Surveillance. The schedule for this task order, amendment 7, required submission of a draft report summarizing the fiscal year 1988 work by October 30, 1988. A final report will be provided 60 days after receiving sponsor's comments. We found no documentation in the file to verify that draft or final reports were submitted. There was no documentation in the file extending the date of delivery and we found no correspondence to the contracting officer from his representative advising him of late delivery or problems encountered. No additional record of surveillance was found in the contracting officer's representative's files.

Subcontracting Practices. Administrative contracting officer consent was obtained before the subcontract for consulting services was awarded. The subcontractor was chosen on a sole-sources basis. Our review of the Institute's files indicated that there was no documented support for the sole-source justification.

TASK ORDER NUMBER: T-Q1-413

Sponsor: Assistant Secretary of Defense (Program Analysis and Evaluation)

Title: Assessment of Tactical Data Systems

Dollar Value: $600,000 Date of Pilot Study: May 1986

DESCRIPTION OF TASK

The task was to analyze and assess major tactical data system programs. Factors considered in this study include program status, technical risk, cost, and contribution to battlefield missions.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was traced back to the study plan. The sponsor could provide no documented evidence of how it chose the Institute to perform this task. The sponsor said that the selection decision was a judgment call based on the level of expertise at, and past dealings with, the Institute. Additionally, the sponsor stated that perhaps the task could have been competed, but chose to use the Institute because it had completed several studies for Program Analysis and Evaluation and possessed the expertise to perform this task. Technical expertise and manpower resources were not available to do this work in-house. The sponsor did not conduct market research.

Subcontracting Practices. Administrative contracting officer consent was obtained before the subcontract for consulting services was awarded. The subcontractor was chosen on a sole-source basis. Our review of the Institute's files indicated that there was no documented support for the sole-source justification.

Contract Surveillance. The schedule for this task order required submission of a draft report on or about November 1, 1987. A memorandum for the record, dated January 19, 1988, changed the submission date of the draft report from December 31, 1987, to February 29, 1988. We found no documentation in the file extending the submission of the draft report from November 1 to December 31, 1987. According to a memorandum for the record dated November 8, 1988, the draft final report was submitted August 11, 1988. There was no documentation in the file extending the date of delivery from February 29, 1988, to the actual delivery date of August 11, 1988, and we found no correspondence to the contracting officer from the contracting officer's representative advising the contracting officer of late delivery or problems encountered. No additional records of surveillance were found in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-J1-414

Sponsor: Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

Title: Implementation of C3 Countermeasures--An Assessment and Plan of Action

Dollar Value: $825,000 Date of Pilot Study: May 1986

DESCRIPTION OF TASK

The task was to assess the status of implementation of Command, Control, and Communications Countermeasures (C3CM) strategy mandated in DoD Directive 4600.4 and Joint Chiefs of Staff Memorandum of Policy No. 185 by the Commanders of the Unified and Specified Commands, Services, and intelligence community, and for the provision of a plan of action that will form the basis for a cohesive DoD C3CM implementation plan. Amendment 1, March 1, 1987, initiated "Phase II" of the study that identified and described the C3CM data bases necessary to support a C3CM strategy, which included national theater and tactical and organizational activities.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was not traced back to the study plan. The sponsor could provide no documented evidence on how it chose the Institute to perform this task. The sponsor did not conduct market research.

Contract Surveillance. The schedule for this task order, amendment 2, required submission of a draft report on the Phase II task on December 31, 1988. We found no documentation in the file verifying receipt of the draft report and we found no correspondence to the contracting officer from the contracting officer's representative advising the contracting officer of late delivery or problems encountered. As of our February 8, 1989, review date, the delivery date had not been extended. No additional records of surveillance were found in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-R5-422

Sponsor: Strategic Defense Initiative Organization

Title: Strategic Defense Initiative Organization Software Technology Plan

Dollar Value: $4,100,000 Date of Pilot Study: May 1986

DESCRIPTION OF TASK

The task was to assist the sponsor in managing (planning, executing, and controlling) software research and development efforts; integrating the Strategic Defense Initiative Organization software technology program with ongoing non-strategic defense initiative organization software programs; reviewing ongoing software programs and plans within the Services, DoD, industry and academe; performing a review and technical assessment of and identifying deficiencies within the Strategic Defense Initiative Organization software program; identifying critical software technology areas required to meet the unique strategic defense initiatives requirements; and setting priorities for Strategic Defense Initiative Organization software technology required to meet attainability, productivity and reliability goals.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. The sponsor did not submit a study plan. The sponsor could provide no documented evidence on how it chose the Institute to perform this task. The current sponsor was not involved in the decision to select the Institute and said that no formal or documented selection process was in place. The only documentation in the sponsor's files that came close to a study plan were the statement of work and the task order. The sponsor did not conduct market research.

Contract Surveillance. We reviewed this task order file through amendment 5, on February 8, 1989. At that time, we were able to verify that the schedule of items to be delivered through December 31, 1988, had been delivered on time. This was an ongoing task and the remaining deliverables were due at a date beyond the conclusion of audit field work. We found no additional records of surveillance in the contracting officer's representative's files.

Subcontracting Practices. Sun Microsystems Incorporated was the subcontractor on this task; it was chosen by other than full and open competition. Sun Microsystems was the only vendor that provided maintenance for the equipment involved. The deliverable was computer equipment that included maintenance agreements. Administrative contracting officer approval was obtained before the subcontract was awarded. The deliverable was received after the due date; however, there was no evidence of a late charge.

TASK ORDER NUMBER: T-R2-424

Sponsor: Strategic Defense Initiative Organization

Title: Prediction of Target Signatures from Boost Phase Flow Field Studies

Dollar Value: $325,000 Date of Pilot Study: April 1986

DESCRIPTION OF TASK

The task was to assist the sponsor in its understanding of the boost-phase phenomena by studying the various aerodynamic, chemical, and thermodynamic phenomena associated with hardbody and plume flow fields.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. The sponsor did not submit a study plan. The principal investigator at the Institute who was involved in this study and the sponsor wrote the statement of work for this task. The sponsor could provide no documented evidence on how the Institute was chosen to perform this task. The sponsor feels that the work could not be competed because the Institute and the Government have a unique relationship. The sponsor did not conduct market research.

Contract Surveillance. We reviewed this task order file through amendment 2, on March 13, 1989. At that time we were able to verify that the schedule of items to be delivered through November 10, 1988, had been complied with. This was an ongoing task and the remaining deliverables were due at a date beyond the conclusion of audit field work. No additional records of surveillance were found in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-P9-432

Sponsor: Director, Operational Test and Evaluation

Title: Operational Test and Evaluation of Army Forward Area Air Defense System (FAAD)

Dollar Value: $1,215,000 Date of Pilot Study: May 1986

DESCRIPTION OF TASK

The task was to identify the issues, objectives, scenarios, threats and measures of effectiveness that should be addressed in future operational tests; and to identify data collection and instrumentation requirements, test ranges, and methodology for each individual system to achieve specific objectives as well as review the Test and Evaluation Master Plan, Decision Coordination Paper, Required Capability documents, and later test plans.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was traced back to the study plan. Sponsor personnel indicated that the Institute was recommended for this task because the Institute conducted the initial study; thus, it had the existing level of expertise. However, the sponsor could not provide documented support as to how the Institute was selected. Further, there was no evidence that market research was conducted. Sponsor personnel indicated that this task more than likely could have been competed.

Contract Surveillance. We reviewed this task order file through amendment 4, on March 13, 1989. The dates in the schedule of delivery were not specific enough for us to determine whether or not required items were received on time. There was no documentation in the files forwarding any completed data through the contracting officer to the sponsor. We were unable to contact the sponsor to determine if the work was completed. We found no additional records of surveillance in the contracting officer's representative's files.

Subcontracting Practices. Administrative contracting officer consent was obtained before the subcontract for consulting services was awarded. The subcontractor was chosen on a sole-source basis. A review of the Institute's files indicated that there was no documented support for the sole-source justification.

TASK ORDER NUMBER: T-Q7-438

Sponsor: Assistant Secretary of Defense (Program Analysis and Evaluation)

Title: Computer Implementation of Overhead and Repricing Models

Dollar Value: $410,000 Date of Pilot Study: February 1987

DESCRIPTION OF TASK

The task was to make the previously delivered preliminary computer implementation of the Institute, Office of the Director, Program Analysis and Evaluation overhead and repricing model into an effective tool, suitable for regular use by Office of the Director, Program Analysis and Evaluation analysts to forecast prices in either the airframe or avionics industries.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. No plan was ever written for this task order, which was funded by the Air Force. The sponsor did not document how the Institute was selected. The sponsor contemplated having another contractor do this study, but chose the Institute. The sponsor could provide no documented justification why the work could not have been done in-house or competed. Further, the sponsor did not conduct market research for this work.

Contract Surveillance. This task order was scheduled to submit manuals on March 15, 1988; the manuals were provided on October 21, 1988. There was no documentation in the file extending the due date. We reviewed the DoD/Institute for Defense Analyses Management Office's correspondence file and the task order file, and found no correspondence between the procurement contracting officer and the contracting officer's representative concerning the late delivery. The Institute's request for administrative contracting officer consent stated that subcontracting is needed due to the short delivery date (July 31, 1987) and the type of work involved is not usually done at the Institute. A letter dated September 4, 1987, from the contracting officer's representative to the administrative contracting officer also stated that the Institute does not normally do this type of computer programming and thus does not possess the capability in-house. The task file did not contain data on contractor performance. Further, the Institute subcontracted 67 percent of total labor cost.

Subcontracting Practices. Administrative contracting officer consent was obtained before the subcontract for consulting services was awarded. The subcontractor was chosen on a sole-source basis. Our review of the Institute's subcontract file indicated that there was no documented support for the sole-source justification.

TASK ORDER NUMBER: T-V6-439

Sponsor: Deputy Assistant to the Secretary of Defense for Chemical Matters

Title: Sensitivity Analyses, Chemical Warfare European Study

Dollar Value: $27,500 Date of Pilot Study: June 1986

DESCRIPTION OF TASK

This task order was to provide an understanding of the role that employment doctrine assumptions, new or proposed retaliatory or defensive hardware items, and new or novel chemical agents would have on the development of a strategy for securing an effective chemical warfare capability.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was traced back to the study plan. Sponsor personnel could not provide documented evidence as to how the Institute was chosen to perform this task. Further, they felt that the work could not be competed because only the Institute has the level of expertise required in Chemical Warfare Sensitivity Analyses. The sponsor did not conduct market research and did not document why this effort could not be performed in-house.

Contract Surveillance. The schedule for this task order required that a draft report on this study be available in April 1987. There was no documentation in the files to determine if that report was submitted. However, effective April 1, 1987, amendment 1 was issued redirecting the funds and the intent of the study to support an OSD-funded high priority study. The contracting officer's representative, in his capacity as Director, DoD/Institute for Defense Analyses Management Office jointly signed the amendment with the Institute for Defense Analyses representative; however, there was no documentation in the task order file showing what contact the contracting officer's representative made with the sponsor to determine if the job to that point was satisfactorily complete or if the report, which was due in April, was forthcoming or being incorporated in the new study. We found no additional records of surveillance in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-R2-462

Sponsor: Strategic Defense Initiative Organization

Title: Optical Backgrounds in Benign and Disturbed High Altitude Environments

Dollar Value: $125,000 Date of Pilot Study: November 1986

DESCRIPTION OF TASK

The technical scope of this task order was to review and assist in development of the Atmospheric Radiation Code and Auroral Atmospheric Radiation Code that was to be used in the analysis of the field experiments in the radiative transfer code chemistry data base.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was not traced back to the study plan. The sponsor could provide no documented evidence on how it chose the Institute to perform this task. During the audit, the sponsor who recommended that the Institute perform this task was not available. The acting sponsor stated that the review process used was not documented and indicated that the recommendation was based on professional judgment. The acting sponsor suggested contacting the Institute to determine how the Sensors Office selected the Institute. The sponsor did not conduct market research.

Contract Surveillance. The schedule for this task order, amendment 1, required that a draft report on this study be supplied 3 months after processing of this amendment. The amendment was signed April 28, 1988, by the Institute for Defense Analyses representative; therefore, the estimated completion date was July 28, 1988. The draft report was transmitted to the sponsor on January 5, 1989, 8 months late. There was no documentation in the file extending the date of delivery and we found no correspondence to the contracting officer from the contracting officer's representative advising him of late delivery or problems encountered. We found no additional records of surveillance in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-F1-468

Sponsor: Deputy Director of Defense Research and Engineering (Tactical Warfare Programs)

Title: Competent Munitions

Dollar Value: $300,000 Date of Pilot Study: October 1986

DESCRIPTION OF TASK

The primary objective of this task was to identify several strong candidates for competent munitions programs and develop cost and performance data required for comparison with current and programmed munitions. Secondary objectives included providing an overview of munitions programs in terms of technical sophistication in relation to operational requirements and recommending improvements in the overall management of munitions programs.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was traced back to the study plan. Cognizant personnel advised that no formal documented process existed to select the Institute to perform the task. Further, the Institute's selection was based primarily on the sponsor's knowledge concerning the level of expertise that Institute personnel demonstrated. The sponsor did not conduct market research.

Contract Surveillance. This task order was reviewed on February 14, 1989; the schedule for this task order required future delivery of the draft report, April 30, 1989, beyond the time designated to complete audit field work. We found no additional records of surveillance in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-L2-511

Sponsor: Assistant Secretary of Defense (Force Management and Personnel)

Title: Validating Training Requirements

Dollar Value: $214,328 Date of Pilot Study: June 1987

DESCRIPTION OF TASK

The task was to describe and evaluate how the four Services identified training requirements and allocated them to training centers.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. The sponsor submitted a study plan as required; however, the sponsor did not document how the Institute was selected. The sponsor claims that assignment of work resulted from the Institute's ability to perform. The work could have been competed according to the sponsor but the sponsor never even considered it. The sponsor said that using the Institute or any Federally Funded Research and Development Center instead of competing the work is convenient because it alleviated the problems encountered when sending proposals through the competitive process. According to the sponsor, some of the work assigned to Federally Funded Research and Development Centers was not worth the effort if they were required to compete them because of the labor-intensive competitive process. Further, the sponsor did not conduct market research for this work.

Contract Surveillance. This task was to be completed in two phases. Phase I required that a draft final report be submitted by August 31, 1988. The task order file contained no documentation that this report was submitted. Phase II is in process with no current deliverable due. At the completion of the audit, 100 percent of labor cost on this task had been provided by the subcontractor, The Human Resources Organization. The Institute has not incurred any cost other than overhead and general and administrative expenses. As of November 30, 1988, the total cost incurred was $92,712 ($78,971 to the subcontractor, $9,961 in overhead and general and administrative expenses, and $3,780 in management fees). On August 18, 1987, the contracting officer's representative forwarded the subcontracting request for administrative contracting officer consent. The contracting officer's representative included a letter recommending approval of the consent because neither the Institute nor any other contractor possessed equivalent expertise. There was no documentation in the task order file showing how it was determined that no other contractor had equivalent expertise.

Subcontracting Practices. Administrative contracting officer consent was obtained before the subcontract for consulting services was awarded. The subcontractor was chosen on a sole-source basis. Our review of the Institute files indicated that there was no documented support for the sole-source justification.

TASK ORDER NUMBER: T-A7-513

Sponsor: Office of the Under Secretary of Defense for Acquisition, Directorate (Program Integration)

Title: Force Modernization and Support Cost Model

Dollar Value: $450,000 Date of Pilot Study: April 1987

DESCRIPTION OF TASK

The objective of this task was to design and implement a force modernization and support cost model under a two-phase program suited to the needs of the Office of the Under Secretary of Defense for Acquisition. The Phase I effort will result in initial installation of the prototype force modernization cost model. Action will also be taken to determine the work required to convert the prototype model to operate on desktop microcomputers as a part of Phase II efforts.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. The task was traced back to the study plan. Sponsor personnel advised us that no review process was used to select the Institute to do this task because the sponsor's organization only wanted the Institute to modify the existing model that the Institute had done for the Office of the Joint Chiefs of Staff to meet the sponsor's requirements and needs. The sponsor personnel further stated that industry could have done this task. The sponsor did not conduct market research.

Contract Surveillance. The schedule for this task order, amendment 1, required monthly progress reports; required that a revised Study Plan be presented to the sponsor for approval within 60 days of signing this amendment; and required that electronic versions of the model be made available to the sponsor throughout development. We could verify that on November 2, 1988, only an interim report was transmitted to the sponsor. We found no correspondence to the contracting officer from the contracting officer's representative concerning the status of this task order. We found no additional records of surveillance in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

TASK ORDER NUMBER: T-A1-525

Sponsor: Office of the Under Secretary of Defense for Acquisition, Directorate (Program Integration)

Title: Assessment of Alternatives for the LHX Program

Dollar Value: $1,500,000 Date of Pilot Study: May 1987

DESCRIPTION OF TASK

The objective of this study was to assess the capabilities and appropriateness of various aircraft alternatives to perform the Army's Aerial Attack, Scout, and Assault missions. The study assessed the technical and operational advantages and disadvantages of competing candidates. The study also addressed all the issues bearing on the choice of configurations for the Attack, Scout, and Assault missions; including threat assessment, mission scenarios with operational (design) drivers, mission loads, cost, and operational effectiveness considerations.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was not traced back to the study plan. Sponsor personnel provided no evidence that a review was done to determine whether the task should be assigned to the Institute. Further, there was no evidence that market research was conducted.

Contract Surveillance. The schedule in amendment 1 to this task order required that a draft report be provided by November 10, 1987, and a final report be provided by December 31, 1987. Amendment 2 to this task order, which was signed by the contracting officer's representative in his capacity as Director of the DoD/Institute for Defense Analyses Management Office, stated that the draft report was provided in November 1987, and a draft final report was furnished in February 1988. There was no documentation in the file extending the due date of the draft final report from December 31, 1987, to the date received in February 1988. The contracting officer was not notified of the late delivery of the draft final report. We found no additional records of surveillance in the contracting officer's representative's files.

Subcontracting Practices. Editorial Experts, Inc., was the subcontractor on this task and was chosen on a competitive basis. Administrative contracting officer's approval was obtained before the subcontract was awarded. The deliverable was editorial services and was received before the date due.

TASK ORDER NUMBER: T-P9-543

Sponsor: Director, Operational Test and Evaluation

Title: Cost and Utility of Identification Friend/Foe Neutral Testbed Options

Dollar Value: $162,000 Date of Pilot Study: August 1987

DESCRIPTION OF TASK

The objective of the task was to determine the costs and benefits of a range of options for the use of the Identification Friend or Foe Neutral testbed. For each option, IDA was to determine the objectives that could be addressed; the expected output, users, and impact and any ancillary benefits; the costs of implementing the option and the schedule for doing so; the potential problems and risks; and the costs, advantages, and disadvantages of alternate methods of addressing the objectives.

SUMMARY OF REVIEW

How Work Was Assigned to the Institute. This task was not traced to the study plan. Sponsor personnel provided no evidence that a review was done to determine whether the task should be assigned to the Institute. Further, there was no evidence that market research was conducted. According to sponsor personnel, the work could have been competed; however, this task was in response to a congressional request and the Institute was the only contractor that could have done this work in a timely manner.

Contract Surveillance. The schedule for this task order required submission of a draft report before December 31, 1987. The Report was transmitted January 22, 1988. There was no documentation in the file extending the date of delivery from December 31, 1987, to the actual delivery date of January 22, 1988, and we found no correspondence to the contracting officer from his representative advising him of late delivery or problems encountered. We found no additional records of surveillance in the contracting officer's representative's files.

Subcontracting Practices. There were no subcontracting actions during the FY 1987 period of review.

SUMMARY ANALYSIS OF TASK ORDERS REVIEWED

Sample Number	Task Order Number	Was task order in annual study plan?	Was there an attempt to obtain competition for the task order?	Was there documentation to show why the Institute was chosen for the task?	Was market research performed for the task order?	Did the contracting officer review the sponsor decision to assign the task to the Institute?	Was the fact that the task was not performed in-house documented?	Were sub-contractors used on the task orders?	Were the task order deliverables completed on time?
08	T-B2-119	Yes	No	No	No	No	Yes	No	No
09	T-L2-167/407	Yes	No	No	No	No	No	No	No
10	T-W5-206	No	No	No	No	No	No	Yes	Yes
12	T-F6-219	Yes	No	No	No	No	Yes	Yes	No
13	T-N9-225	Yes	No	No	No	No	Yes	No	No
16	T-J1-246	No	Yes	No	No	No	Yes	No	No
17	T-W5-259	No	No	No	No	No	No	Yes	No
18	T-W5-260	No	No	No	No	No	No	Yes	No
19	T-D5-263	No	No	No	No	No	No	Yes	No
20	T-F1-270	Yes	No	No	No	No	Yes	No	No
21	T-F1-272	Yes	No	No	No	No	Yes	No	Yes
22	T-S6-280	No	No	No	No	No	Yes	No	No
24	T-Q7-299	Yes	No	No	No	No	Yes	No	No
25	T-D5-305	No	No	No	No	No	No	Yes	No
26	T-D5-306	No	No	No	No	No	No	Yes	Yes
27	T-D2-310	Yes	No	No	No	No	Yes	Yes	No
29	T-P9-321/142	Yes	No	No	No	No	Yes	Yes	Yes
31	T-R2-332	No	No	No	No	No	No	No	No
32	T-Z5-341	No	No	No	No	No	Yes	No	No
34	T-R2-351	No	No	No	No	No	No	Yes	Yes
39	T-P9-396	Yes	No	No	No	No	Yes	No	No
40	T-R2-404	No	No	No	No	No	No	Yes	No
41	T-Q1-413	Yes	No	No	No	No	Yes	No	No
42	T-J1-414	No	No	No	No	No	No	No	No
45	T-R5-422	No	No	No	No	No	No	Yes	Yes
46	T-R2-424	No	No	No	No	No	No	No	Yes
47	T-P9-432	Yes	No	No	No	No	Yes	Yes	No
49	T-Q7-438	No	No	No	No	No	Yes	Yes	No
50	T-V6-439	Yes	No	No	No	No	Yes	No	Yes
53	T-R2-462	No	No	No	No	No	No	No	No
55	T-F1-468	Yes	No	No	No	No	Yes	No	No
57	T-L2-511	Yes	No	No	No	No	Yes	Yes	No
58	T-A7-513	Yes	No	No	No	No	No	No	Yes
59	T-A1-525	No	No	No	No	No	No	Yes	Yes
61	T-P9-543	No	No	No	No	No	No	No	No

OPERATING EXPENSE REQUIREMENTS OF THE INSTITUTE FOR DEFENSE ANALYSES FOR FY 1985 THROUGH FY 1987

	Fiscal Years ($000)		
	1985	1986	1987
Working capital	$7,748	$9,796	$19,037
Operating expense requirement	5,925	9,350	12,376
Difference	$1,823	$ 446	$ 6,661

MANAGEMENT FEE OVERPAYMENT TO THE INSTITUTE FOR DEFENSE ANALYSES IN FY'S 1985, 1986 AND 1987

Fiscal Year	Management Fee Payment	Management Fee Overpayment	Interest Expense*	Total Interest Expense and Overpayment
1985	$1,840,098	$1,823,079	$ 91,154	$1,914,233
1986	2,493,335	446,295	22,315	468,610
1987	3,120,085	3,120,085	156,004	3,276,089
Totals	$7,453,518	$5,389,459	$269,473	$5,658,932

* Used 5 percent (1/2 of the Office of Management and Budget 10-percent interest rate) since the Government made payments to the Institute over the course of the year.

SUBCONTRACTOR AND CONSULTANT LABOR CONTRACTED FOR BY THE INSTITUTE FOR DEFENSE ANALYSES FROM FY 1984 THROUGH FY 1988

FY	Total Institute Contract ($000)	Total Labor Contracted Out ($000) 1/	Subcontractor Labor Percent	Subcontractor Labor Value ($000)	Consultant Labor 2/ Percent	Consultant Labor 2/ Value ($000)
84	$24,104	$ 2,796	61	$1,697	39	$1,099
85	43,788	7,474	62	4,635	38	2,839
86	55,928	13,065	60	7,843	40	5,222
87	56,042	12,248	56	6,832	44	5,416
88	54,861	9,695	38	3,688	62	6,007

1/ Total labor costs contracted out between subcontractors and consultants.

2/ Individuals hired under consulting agreements who were not subjected to the same level of justification and approval as were consultants hired as subcontractors.

SCHEDULE OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefits	Amount and Type of Benefit
A.1.	Performance results: Director of Defense Research and Engineering's action to require that task order proposals submitted to the Institute for Defense Analyses (the Institute) be adequately researched with sufficient acquisition documentation concerning competition, and performance by the Institute should improve effectiveness, economy of operations, and compliance with regulations.	Undeterminable monetary benefit because benefits of validating and correlating requirement for the Institute are not readily measurable.
A.2.	Performance results: Director of Defense Research and Engineering's action to require a mission statement that differentiates between Institute work and work to be done by a non-Federally Funded Research and Development Center should improve effectiveness, economy of operations, and compliance with regulations.	Nonmonetary: Establishing review procedures is a nonmonetary benefit; however, the effectiveness of providing only appropriate work for the Institute should improve.
A.3.	Performance results: Director of Defense Research and Engineering's action to require the heads of sponsoring agencies to review and certify that the sponsors have justified and documented the unique and noncompetitive contract actions, and take responsible actions to provide for competition in follow-on research efforts, and challenge inappropriate noncompetitive procurement should improve effectiveness and economy of operations.	Nonmonetary: Establishing review procedures is a nonmentary benefit; however, the effectiveness of providing only appropriate work for the Institute should improve.

SCHEDULE OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT (Continued)

Recommendation Reference	Description of Benefits	Amount and Type of Benefit
B.1.	Performance results: Director of Defense Research and Engineering's action to review staffing levels at the DoD/ Institute for Defense Analyses Management Office and verify that staffing is sufficient for the contracting officer's representative to adequately perform assigned duties should improve effectiveness and economy of operations.	Nonmonetary: The effect of matching workload to staffing levels is undeterminable; however, the effectiveness of the Institute's management office should improve.
B.2.	Performance results: Defense Supply Service - Washington procurement contracting officer's action to require the contracting officer's representatives to formally track the receipt of reports or deliverable items and have physical evidence in the task order file verifying receipt of the deliverable; to require the Institute for Defense Analyses to implement the recommendation in the Defense Contract Audit Agency Audit Report No. 6121-89H21000001, December 1, 1988, or adequately document why the recommendation is not feasible; to base the amount of the Institute's management fees on need, and the modified weighted guidelines for nonprofit organizations; to review subcontracts issued to	Undeterminable monetary benefit because the benefits of a formal tracking system for contract requirements cannot be quantitied, because the benefit of implementing the the Defense Contract Audit Agency recommendations and justifying the use of consultants cannot be readily quantified, and because the results of implementing proper procedures and adequate documentation cannot be readily determined.

SCHEDULE OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT (Continued)

Recommendation Reference	Description of Benefits	Amount and Type of Benefit
B.2. (Continued)	consultants and require a justification memorandum; and to develop a time phase plan to implement the Defense Contract Administration Services Region, Philadelphia, Contractor Purchasing System Review recommendations, should improve effectiveness and economy of operations, and compliance with regulations.	
	Collection: Defense Supply Service - Washington procurement contracting officer will require the contracting officer to withhold payment to the Institute of up to $1.1 million, if the Institute does not provide acceptable proof of delivery for for deliverables.	Monetary: The billing office, the Defense Contract Administration Services Region, Philadelphia, would collect up to $1.1 million if acceptable proof of delivery could not b provided. One-time benefit.

OFFICE OF THE DIRECTOR OF
DEFENSE RESEARCH AND ENGINEERING

WASHINGTON, DC 20301

(R&AT)

20 DEC 1989

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING

SUBJECT: Draft Report on the Audit of the Contracting Practices of the Institute for Defense Analyses (IDA) (Project 8AE-8002)

This response to your letter dated November 9, 1989, addresses findings and recommendations in Part II A, IDA Oversight, and the first recommendation in Part II B. The balance of the recommendations in Part II B are being responded to by Defense Supply Service--Washington through Army channels.

The finding in Part II A that IDA did not have a sponsoring agreement and the recommendation that one be established are concurred with. Such an agreement has been completed and a copy is attached.

The finding in Part II A that there is not an adequate control process to assure that only work especially appropriate for a Federally-Funded Research and Development Center, and IDA in particular, is concurred with. Recommendations one and three in Part II A (page 19 of the Report) are viewed as parallel and similar management actions to assure control, and are concurred with. A DoD Directive is presently in draft form and will address this deficiency. Sponsor certification is the method presently being considered. 11

The monetary impact in the finding is not concurred with. Best value is the objective in contracting for studies and analyses, not lowest price. In manufacturing, 25% may be saved when competition is introduced in a sole-source environment. But, to presume this savings might have been realized under level-of-effort contracting, for research, and that the product would be equally acceptable, is not logical. Additionally, the figure presented is almost 25% of the value of the sample, which implies the presumption that virtually every task order examined could have been competed. This is not the case.

The finding in Part II B that contract administration of the IDA contract needed improvement is concurred with. The recommendation that the Director of Defense Research and Engineering (DDR&E) review the staffing level of the DoD/IDA Management Office is also concurred with. This review will necessarily be delayed as the DDR&E position is presently vacant.

George P. Millburn
Deputy Director of Defense
Research and Engineering
(Research and Advanced Technology)

Attachments

MAY 8, 1989

DOD POLICY FOR THE INSTITUTE FOR DEFENSE ANALYSES, A FEDERALLY FUNDED RESEARCH AND DEVELOPMENT CENTER

1. PURPOSE

This document sets forth policy for the conduct of research, studies and analyses by the Institute for Defense Analyses (IDA) for the Office of the Secretary of Defense, the Joint Staff, the Unified and Specified Commands, and Defense Agencies. This statement of policy covers all IDA work for the Department of Defense except that of the IDA Communications Research Division and the IDA Supercomputing Research Center, which were established at Department of Defense request to provide special services for the DoD and which will continue to function in that mode under separate sponsoring arrangements.

2. POLICY

a. IDA's primary function is to assist in problem solving by the Office of the Secretary of Defense (OSD), the Joint Staff, the Unified and Specified Commands, and Defense Agencies. It was established upon request of the Secretary of Defense, was incorporated in the State of Delaware in 1956 as an independent, not for profit corporation, and is governed by an independent self-perpetuating board of trustees. The purposes of the corporation are to promote the national security, the public welfare, and the advancement of scientific learning by making analyses, evaluations and reports, to include examination of the relative effectiveness of alternative measures, on matters of interest to the United States Government with primary orientation toward matters of national security.

b. IDA will provide studies, analyses, computer software prototypes, analytical models, and other technical and analytical support useful for policy and program planning and management by its sponsors.

c. IDA will perform no work for private industry or foreign governments. IDA may perform work for other Government agencies when approved by the primary sponsor.

d. IDA will maintain a high-quality staff and technical capabilities across a broad range of matters of concern to its sponsors, consistent with its assigned mission and functions.

e. Work assigned to IDA will often require privileged access to classified and sensitive data, facilities, plans and related information, including proprietary data, that would not normally be available to non-Government organizations. IDA's sponsors will provide for such access as appropriate.

f. IDA will not compete with any non-FFRDC in response to a Federal agency formal request for proposal for other than the operation of a FFRDC.

3. SCOPE OF WORK

a. The work performed by IDA is characterized by the need for: unquestioned objectivity, free from conflicts of interest caused by Service, commercial or other involvement; confidentiality, to protect very sensitive military and intelligence information, as well as proprietary commercial information; a stable, interdisciplinary staff with broad knowledge and a familiarity with the needs of its sponsors; and high quality research and advice.

b. IDA work includes: application of science and technology in national security matters; exploration of issues in defense system research and development; computer and software engineering; evaluation of military systems in development or proposed, and of military forces using those systems; evaluation of acquisition procedures and methods; analysis of manpower, readiness and support issues; research into the costs of military systems, personnel and activities; research in strategy, military planning, international security, and related defense policy and management; assessment of worldwide, regional and local balances of power and stability and the factors affecting them including their technical, economic, and military aspects; operational evaluation and analyses of systems, forces, and military organizations in tests, wargames, field operations and actual combat.

c. Work undertaken by IDA will be directed to issues of urgent, near-term and long-term interest in the planning and management of defense and national security-related programs. Such work may on occasion require IDA to augment its in-house research staff with other technical and analytic resources for work on problems of national importance whose scope requires expertise that does not exist at any one organization.

4. SPONSORSHIP

a. In accordance with the initial establishment of IDA, the ultimate sponsor of IDA is the Secretary of Defense. The Under Secretary of Defense for Acquisition, the senior OSD official responsible for oversight of DoD research, development and acquisition matters, acts for the Secretary of Defense as primary sponsor of IDA. DoD sponsors of IDA work may include any OSD or Joint Staff component, or any Defense Agency, or any Unified or Specified Command.

b. IDA will not perform work for the Military Departments unless requested by one or more of its sponsors and only in special circumstances that assure there will be no conflict of interest. Work undertaken by IDA with funding by a Military Department when that Department is acting as executive agent for a multi-Service or OSD/Joint Staff/Defense Agency program will be considered in the same category as work for OSD/Joint Staff/ Defense Agencies.

c. Work undertaken by IDA for non-DoD Federal organizations requires written approval of IDA's primary sponsor.

5. SUPERVISION AND ADMINISTRATION

a. Broad oversight of the IDA program will be exercised for the Government by the primary sponsor, and will include arrangements he may make with the heads of major sponsoring offices and agencies to assure that the IDA program deals with and adheres to issues that they believe collectively are important and in the national interest to resolve.

b. An Advisory Group for IDA will be chaired by the Under Secretary of Defense for Acquisition or, in his behalf, by the Director of Defense Research and Engineering. The members of the Advisory Group will consist of the heads of the principal offices that sponsor research at IDA. The Advisory Group will meet periodically to evaluate the overall IDA research effort, to provide information on the general interests and priorities of IDA sponsors and to provide guidance on the general scope of IDA's work.

c. The IDA Board of Trustees will oversee the operation of IDA, as specified in the certificate of incorporation with the State of Delaware.

d. Quality control over the IDA work will be exercised by IDA management and the IDA Board of Trustees, and in coordination with IDA, by the sponsoring offices for the work that they sponsor at IDA.

e. The Under Secretary of Defense for Acquisition will be the Executive Agency for administration of IDA work for OSD, Joint Staff and their components, and he may act as Executive Agency for administration of IDA work performed for Defense Agencies at the Agencies' request. The Director, DoD-IDA Management Office will act as the point of contact.

6. TASKING AND FUNDING

a. Proposals for work to be undertaken by IDA may originate with any sponsoring office or with IDA.

b. IDA work will be undertaken in discrete tasks, which will be initiated and assigned according to procedures devised and agreed between IDA and the primary sponsor. Tasks will be assigned by mutual consent between IDA and the offices sponsoring work at IDA.

c. Tasks may be initiated at any time during a fiscal year, and may extend over several fiscal years.

d. Funding for IDA tasks may come from various program elements according to resources appropriated for sponsoring offices.

7. TERMINATION PROVISIONS

In accordance with the Corporation By-Laws, in the event of dissolution of IDA, the members of the corporation shall designate the successor corporation or the charitable organization or organizations or the Federal Government or any or all of them to be the recipient or recipients to which shall be paid over any or all property or assets remaining after the winding up of IDA's affairs.

Dr. Robert C. Duncan
Director, Defense Research
and Engineering

DEPARTMENT OF THE ARMY
HEADQUARTERS SERVICES, WASHINGTON
WASHINGTON, D.C. 20310

29 December 1989

IN REPLY REFER TO:

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: IG Draft Report on the Audit of the Contracting Practices of the Institute for Defense Analyses (8AE-8002)

With reference to your memorandum dated 9 November 1989, subject as above, the following comments are furnished related to the recommendations directed to Defense Supply Service-Washington.

B2. We recommend that the Defense Supply Service-Washington, Procurement Contracting Officer:

a. Establish procedures for the Institute for Defense Analyses' contracting officer's representative to formally track the receipt of task order reports or deliverable items and document receipt of the deliverables.

Nonconcur. The Procurement Contracting Officer (PCO) has already incorporated provisions in the contract which cause IDA to furnish information to the Contracting Officer Representative (COR). Defense Supply Service-Washington has been informed that a system is being implemented whereby the COR is notified of every deliverable item under the contract.

b. Request the Institute for Defense Analyses to provide acceptable proof of delivery for the deliverables specified in the 12 task orders in our sample for which there was no documented evidence of delivery within 60 days of the date of this report or withhold payment of up to 10 percent of the value of the 12 task orders.

Concur. Defense Supply Service-Washington formally queried the COR on the deliverables of the 12 questioned task orders. Appropriate action relative to withholding payments will be taken in accordance with the COR's response.

c. Establish and monitor a time-phased plan for the Institute for Defense Analyses to implement the recommendation in the Defense Contract Audit Agency Audit Report No. 6121-89H21000001, December 1, 1988, to establish logical labor categories to aid in the preparation of contract proposals or adequately document in the contract files why the recommendation is not feasible.

Concur. This recommendation from Defense Contract Audit Agency (DCAA) was acted on at the beginning of FY89 prior to the award of the new contract. Defense Supply Service-Washington instructed IDA to establish logical labor categories in their proposals. Institute for Defense Analyses has done this and continues to elaborate on this recommendation. This action was coordinated with the resident DCAA auditor at IDA.

d. Base the management fee for the Institute for Defense Analyses on need and the modified weighted guidelines for nonprofit organizations, in accordance with the DOD Federal Acquisition Regulation Supplement 215.972-1, "Procedures for Establishing Fee Objectives."

Concur. Defense Supply Service-Washington has formally requested a "needs basis" document from IDA that supports the proposed 4.25% fee. Defense Supply Service-Washington will reevaluate the current 4.25% fee based on weighted guidelines and IDA's response supporting its need for the fee.

e. Implement the recommendations in the Defense Contract Audit Agency Report No. 6121-8C-179014, Contractor Purchasing System Review, Institute for Defense Analyses, Alexandria, Virginia," October 4, 1988, by establishing a procedure for the preparation of a sole-source justification memorandum for all consulting agreements and subcontracts issued to consultants by the Institute for Defense Analyses.

Concur. Albeit this recommendation will be implemented by the ACO at whose direction the review was undertaken, DSS-W will recommend that IDA instruct its Project Directors to document the rationale for using a consultant in a manner similar to the justification for a sole-source contract.

f. Establish a time-phased plan for the Institute for Defense Analyses to implement the recommendations in the Defense Contract Administration Services Region, Philadelphia, Contractor Purchasing System Review, and establish procedures to review the progress of implementation.

Concur. However, this is not a responsibility of the PCO. This recommendation should be tasked to the ACO under whose auspices the Purchasing System Review was conducted for action.

PETER STEIN
Coordinator for
Headquarters Services - Washington

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Director of Defense Research and Engineering

Department of the Army

Defense Supply Service - Washington, Washington, DC

Defense Agencies

Defense Contract Audit Agency, Alexandria, VA
Defense Contract Audit Agency Resident Office, Institute for Defense Analyses, Alexandria, VA

Other Defense Activities

Defense Contract Administration Services Region, Philadelphia, PA
Defense Contract Administration Services Management Area, Baltimore, MD

Non-Government Activities

Institute for Defense Analyses, Alexandria, VA

AUDIT TEAM MEMBERS

David Brinkman, Director for Acquisition Management
David Steensma, Program Director
Mike Welborn, Project Manager
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Alvin Lowe, Auditor
Thelma Jackson, Auditor
Margaret Richardson, Auditor
Richard Berger, Auditor
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FINAL REPORT DISTRIBUTION

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Department of the Air Force

Air Force Audit Agency

Defense Activities

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Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange

Non-DoD

Office of Management and Budget

U.S. General Accounting Office
NSIAD Technical Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations