DEPARTMENT OF DEFENSE

AUDIT REPORT

USER CHARGES AND RESOURCE MANAGEMENT AT
MAJOR RANGE AND TEST FACILITIES

No. 90-001

October 6, 1989

Office of the
Inspector General

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
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MEMORANDUM FOR SECRETARY OF THE ARMY
SECRETARY OF THE NAVY
SECRETARY OF THE AIR FORCE
UNDER SECRETARY OF DEFENSE FOR ACQUISITION
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Report on the Audit of User Charges and Resource Management at Major Range and Test Facilities (Report No. 90-001)

This is our final report on the Audit of User Charges and Resource Management at Major Range and Test Facilities for your information and use. Comments on a draft of this report were considered in preparing the final report. This audit was made from July 1988 through May 1989. The audit objective was to determine whether all applicable costs were included in the user charges and to evaluate management controls over direct reimbursements to the Major Range and Test Facilities (Test Ranges). Another objective was to evaluate the operation of the Test Ranges to determine if resources were efficiently and effectively managed. In addition, we evaluated the effectiveness of applicable internal controls. The Major Range and Test Facility Base (Facility Base) consists of 21 Test Ranges that are sized, operated, and maintained by the Military Departments primarily for DoD test and evaluation support missions. DoD and other Test Range users reimbursed the Facility Base for user charges of approximately $1.3 billion in FY 1987 and $1.5 billion in FY 1988.

Test Ranges, for the most part, had established effective procedures for identifying applicable costs to be included in user charges and effective procedures for managing direct reimbursements. Further, the Deputy Secretary of Defense established a central (OSD-level) test and evaluation investment program element to remedy shortfalls in institutional funding for Test Range improvement and modernization projects. However, we found that the Military Departments' Test Ranges inappropriately identified certain indirect costs as being reimbursable from DoD users. In addition, one of the five Test Ranges visited did not ensure that the Test Range support contractor efficiently and effectively managed resources. 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.

Four of the five Test Ranges visited inappropriately included indirect costs in user rates applied to DoD users. As a result, in FY's 1987 and 1988, DoD users were incorrectly charged $25 million for test support services by the four Test Ranges. We recommended that the Deputy Director, Defense Research and Engineering (Test and Evaluation) exercise direct oversight over the Military Departments' budget review process to ensure that the Test Ranges receive adequate institutional funding and clarify the DoD user charge reimbursement policy regarding what costs must be charged to DoD users and what costs may be charged at the Test Range's discretion. We recommended that the Military Departments allocate adequate institutional funding to the Test Ranges in the annual budget process to perform their missions. We also recommended that the Army and Air Force revise internal regulations to define equipment maintenance, rental, and equivalent lease costs (institutional costs) as indirect costs in accordance with the DoD user charge reimbursement policy. Last, we recommended that the Commander, Naval Air Test Center, establish separate line items in future Center contracts to break out direct and indirect costs, and charge DoD users for only direct costs associated with a particular test program in accordance with the DoD user charge reimbursement policy (page 5).

The Test Range support contractor at the Air Force Flight Test Center (Flight Test Center) was using more personnel than necessary to operate and maintain radar equipment. We estimated that in FY 1988, the Flight Test Center charged DoD users $474,650 in costs related to the contractor's inefficient use of resources to operate and maintain two AN/FPS-16 radar sites. We recommended that the Flight Test Center specify, where practical, maximum staff levels required to efficiently and effectively operate and support major items of equipment in statements of work for future Test Range support contracts. We also recommended that the Flight Test Center increase the weight given to the contractor's efficient use of resources and effective application of cost controls as compared to quality and timeliness in the award-fee determination process on future cost-plus-award-fee Test Range support contracts and that the Flight Test Center task Government surveillance personnel with the responsibility of monitoring, evaluating, and reporting on the reasonableness of contractor staffing levels for major items of Test Range support equipment (page 13).

On June 30, 1989, a draft of this report was provided to the Under Secretary of Defense for Acquisition; the Assistant Secretary of the Army (Research, Development and Acquisition); the Commander, U.S. Army Test and Evaluation Command; the Commander, Naval Air Systems Command; the Commander, Air Force Systems Command; the Commander, Naval Air Test Center; and the contracting officer, Air Force Flight Test Center. As of August 29, 1989, the Commander, Naval Air Systems Command; the Commander, Air Force Systems Command; the Commander, Naval Air Test Center; and the contracting officer, Air Force Flight Test

Center had not responded to the report. Comments from the Director of Defense Research and Engineering were received on August 29, 1989, and consolidated Army comments from the Director, Test and Evaluation Management Agency, Office of the Army Chief of Staff were received on August 28, 1989. The complete texts of the management comments are in Appendixes E and G, and our response to management comments is in Appendix F.

The Director of Defense Research and Engineering concurred with Recommendation A.1.a., stating that OSD will strengthen oversight over the Military Departments' budget decisions concerning institutional funding for the Test Ranges, including oversight through the auspices of the Resource Panel of the Test and Evaluation Committee. In addition, the Director concurred with Recommendation A.1.b., stating that OSD will issue guidance clarifying what Test Range costs must be charged to DoD users and what flexibility the Services can exercise in respect to these costs. However, the Director stated that he would defer issuing revised guidance until an OSD proposal to industrially fund test and evaluation investments has been resolved. The Director inferred that implementation of the OSD proposal would directly affect the revision of DoD user charge reimbursement policy. We agreed with management's position to defer clarifying DoD user charge reimbursement policy until resolution of the OSD proposal. However, we believe that management should not defer implementation indefinitely, but proceed with clarifying the guidance upon resolution of the OSD proposal or within a given time frame from issuance of this report, whichever comes first.

The Army nonconcurred with Recommendation A.2., stating that only the Military Departments and OSD have authority to allocate adequate institutional funding to the Test Ranges in the annual budget process. The audit recommendation was addressed to an Army major subordinate command. Based on the Army comments, we redirected Recommendation A.2. to the Secretary of the Army, the Secretary of the Navy, and the Secretary of the Air Force. Accordingly, we request that the Military Department Secretaries provide comments on Recommendation A.2.

The Army nonconcurred with Recommendation A.3., stating that the Army regulation was approved by DoD and represented a reasonable interpretation of DoD user charge reimbursement policy. We believe the recommendation is still warranted for reasons discussed in Part II of the report.

Although official Air Force comments were not received on the draft report, the Director of Defense Research and Engineering suggested wording changes in Recommendations A.4., B.1., and B.2. and the Air Force Flight Test Center provided additional information on facts in the finding addressing contractor staffing of Test Range support equipment. We considered management suggestions and comments in finalizing the report and modified the recommendations, where appropriate.

DoD Directive 7650.3 requires that all audit recommendations be resolved within 6 months of the date of the final report. Accordingly, we request that the Under Secretary of Defense for Acquisition provide us with a completion date for implementing Recommendation A.1.b. We request that the Secretary of the Army, the Secretary of the Navy, and the Secretary of the Air Force comment on Recommendation A.2., as redirected in our response to management comments. We also request that the Assistant Secretary of the Army (Research, Development and Acquisition) reconsider its nonconcurrence with Recommendation A.3. We request that the Commander, Naval Air Systems Command; the Commander, Air Force Systems Command; the Commander, Naval Air Test Center; and the contracting officer, Air Force Flight Test Center respond to the final report, indicating concurrence or nonconcurrence with the findings and each recommendation addressed to you. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and the estimated dates for completion of planned actions. If you nonconcur with any of the findings or recommendations, please state your specific reasons. If appropriate, you may propose alternative methods for accomplishing desired improvements.

In order for Air Force comments to be considered responsive, the Air Force must state concurrence or nonconcurrence with the estimated monetary benefits, identified in Appendix D, of $474,650 that will result from the Test Range support contractor at the Flight Test Center efficiently using manpower resources to operate and maintain the radars. If you nonconcur with the estimated savings or any part thereof, you must state the amount you nonconcur with and the basis for your nonconcurrence. Potential monetary benefits are subject to resolution in the event of nonconcurrence or failure to comment. Accordingly, final comments on the unresolved issues in this report should be provided within 60 days of the date of this memorandum.

The courtesies extended to the audit staff are appreciated. A list of audit team members is in Appendix I. If you have any questions on this audit, please contact Mr. John E. Meling at 202-693-0392 (AUTOVON 223-0392). Copies of this report are being provided to the activities listed in Appendix J.

Stephen A. Trodden
Assistant Inspector General
for Auditing

cc:
Comptroller of the Department of Defense

REPORT ON THE AUDIT OF USER
CHARGES AND RESOURCE MANAGEMENT
AT MAJOR RANGE AND TEST FACILITIES

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Prepared by:
Acquisition Management
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REPORT ON THE AUDIT OF USER CHARGES AND RESOURCE MANAGEMENT AT MAJOR RANGE AND TEST FACILITIES

PART I - INTRODUCTION

Background

The Major Range and Test Facility Base (Facility Base) consists of test and evaluation activities that are managed and operated by the Military Departments. As of the time of our audit, the Facility Base included 21 test and evaluation activities (Test Ranges) that were sized, operated, and maintained primarily by the Military Departments for DoD test and evaluation support missions. The six Army, six Navy, and nine Air Force Test Ranges are situated in the United States and its territories. In addition to supporting DoD Components, the Test Ranges support other U.S. Government agencies, foreign governments, and private organizations on a space available, direct reimbursement basis. The Facility Base represents a DoD investment of over $25 billion, has a current annual operating budget of approximately $3.8 billion, and employs over 56,000 military, civilian, and contractor personnel.

DoD Directive 3200.11, "Major Range and Test Facility Base," September 29, 1980, establishes policies and responsibilities for operating the Facility Base. The Directive requires that all Test Ranges in the Facility Base be funded in a uniform manner. The Test Ranges are financed through user reimbursements and institutional funding from the respective parent Military Department. DoD and other Test Range users reimbursed the Facility Base approximately $1.3 billion in FY 1987 and $1.5 billion in FY 1988.

The Deputy Secretary of Defense, through the Under Secretary of Defense for Acquisition, has designated the Deputy Director, Defense Research and Engineering (Test and Evaluation) as the official responsible for establishing policy for the Facility Base. The Deputy Director is also responsible for monitoring and evaluating the Facility Base to ensure that it is able to meet requirements in DoD Directive 3200.11. The Secretaries of the Military Departments, under the policy guidance and oversight of the Deputy Director in coordination with the Director, Operational Test and Evaluation, are responsible for the management of the Test Ranges under their cognizance.

Objectives and Scope

The audit objective was to determine whether all applicable costs were included in the user charges and to evaluate management controls over direct reimbursements to the Test Ranges. Another objective was to evaluate the operation of the Test Ranges to determine if resources were efficiently and effectively managed. In addition, we evaluated the effectiveness of applicable internal controls.

We selected a judgmental sample of 5 of the 21 Test Ranges in the Facility Base for review. We selected Test Ranges (one Army, two Navy, and two Air Force) with similar test capabilities to evaluate Military Department policies and procedures and to make comparisons between the Military Departments and Test Ranges. The five Test Ranges were Yuma Proving Ground, Yuma, Arizona; Naval Air Test Center, Patuxent River, Maryland; Naval Weapons Center, China Lake, California; Air Force Flight Test Center, Edwards Air Force Base, California; and 3246th Test Wing, Eglin Air Force Base, Florida. As part of their missions, the five Test Ranges support flight testing of aircraft armaments. At each Test Range, we:

- examined individual categories of cost included in the user charges to determine their compliance with applicable DoD and Military Department guidance;

- examined internal controls established for receipt and use of direct reimbursements from users;

- compared, between Test Ranges, user charges for similar type test activities to determine if only necessary costs were incurred;

- examined work load and staffing to determine if the Test Range was sized primarily to support DoD missions;

- examined test program assignments to determine their compliance with DoD user priority codes; and

- assessed, for cost-effectiveness, the use of resources to operate similar equipment at the Test Ranges.

At the five Test Ranges, we examined the following records for FY 1987 and the first half of FY 1988: rate schedules for user charges and related working papers, user tasking and work load documents, test cost estimates, funding documents, financial records and related internal controls, vulnerability assessments, and management control reviews. In addition, we evaluated statements of work and contractor proposals, we evaluated contract award-fee criteria and procedures, and we interviewed appropriate contracting personnel. At Military Departments' headquarters, we evaluated policies, procedures, funding, and management of Test Ranges. At OSD, we discussed funding, contracting issues, and oversight responsibilities for the Test Ranges.

We relied on information generated from automated accounting systems established at the Test Ranges visited. Although we did not fully evaluate the internal controls over data input and output related to these computer-based systems, we did make necessary audit tests to ensure that user funds were properly recorded and accounted for in the computer-generated financial

reports. We also examined internal controls related to setting user charge rates, billing users, accumulating and recording test costs, and refunding excess user payments. Our audit identified no internal control weaknesses.

This economy and efficiency audit was made from July 1988 through May 1989 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. Funding of the Facility Base and the Test Ranges in our judgmental sample is in Appendix A, and a list of activities visited or contacted is in Appendix H.

Prior Audit Coverage

The Assistant Inspector General for Auditing issued Report No. 85-085, "Report on the Audit of Supersonic Sled Tracks," April 5, 1985. The report showed that there was a significant difference in operating costs per sled track run between two Test Ranges: the Naval Weapons Center, China Lake, California (China Lake) and the 6585th Test Group, Holloman Air Force Base, New Mexico (Holloman). The report stated that China Lake effectively controlled its personnel resources by cross-training its personnel and by using outside support on a temporary basis to augment its staff during periods of peak work load. Conversely, the report stated that Holloman inefficiently controlled its personnel resources by using dedicated work crews. Because Holloman had existing capability and resources to absorb China Lake's sled track work load, the report recommended closure of the China Lake facility, cancellation of funding requests for a new track facility at China Lake, and creation of an implementation plan at the Holloman track facility to permit the facility to absorb China Lake's work load. In response to the report, OSD agreed to disapprove funding of the new track facility at China Lake until FY 1986. OSD stated that it would reassess the combined work load of the sled track facilities at China Lake and Holloman and make a decision on the recommended consolidation of work load at Holloman. In FY 1986, OSD concluded that the consolidation was not feasible and the Navy concluded that the existing sled track facility did not require replacing in the near future.

The Assistant Inspector General for Auditing issued Report No. 88-155, "Report on the Audit of DoD Aircraft Engine Test Facilities," May 23, 1988. The report concluded that there was a significant difference in operating costs between two Test Ranges: Naval Air Propulsion Center, Trenton, New Jersey (Trenton) and Arnold Engineering Development Center (Arnold), Tullahoma, Tennessee. For three comparable engine tests, Arnold consumed 33 percent more labor hours than Trenton, at a cost of $900,000, and used a higher proportion of professional labor

hours in its test efforts. The report also concluded that the use of dedicated work crews at Arnold was an inefficient use of personnel resources. The report recommended that Arnold renegotiate the operating contractor's level of effort at the next contract negotiation. Management concurred and proposed corrective action that was responsive to the recommendation.

Air Force Audit Agency report, Project No. 6026210, "Followup Audit - Selected Aspects of Air Force Range and Test Facility Management," July 13, 1987, concluded that Air Force management had not revised guidance on Test Range reimbursements, an action they agreed to in response to a prior audit report. The followup audit reported that Test Ranges continued to improperly bill DoD users for indirect costs and ineffectively controlled the user charge rate development process. The auditors recommended that the Comptroller of the Air Force revise guidance to clearly delineate differences between direct and indirect costs and provide guidance for control and use of standard user rates. The Comptroller concurred and issued revised guidance in August 1987. However, the Air Force Systems Command did not implement the revised guidance in Air Force Systems Command Regulation 172-8, "Budgeting and Funding for Test and Evaluation," February 12, 1988.

Other Matters of Interest

OSD, through the Test and Evaluation Management and Investment Initiative, has taken action to accelerate funding of needed improvement and modernization projects at the Test Ranges. Since 1980, the Military Departments have applied budget reductions imposed by Congress against funds requested by the Test Ranges to support improvement and modernization projects. For example, in FY 1987, the 21 Test Ranges requested budget authority for $578 million to fund improvement and modernization projects. Of the $578 million requested, the Test Ranges received authorized funding for $240 million or 42 percent. In FY 1988, OSD took positive steps to resolve the funding issue for improvement and modernization projects. The Defense Acquisition Board, Committee for Test and Evaluation, addressed the issue in its Test and Evaluation Management and Investment Initiative study. The Committee identified various funding methods to resolve the funding shortfall and presented the alternatives at the Defense Resources Board budget discussions in mid-1988. As a result of the study, the Deputy Secretary of Defense rendered a decision on November 9, 1988, which established a central (OSD-level) test and evaluation investment program element to remedy this institutional funding shortfall. For budget purposes, the Defense Resources Board added $1.5 billion to the investment program element over the period FY 1990 to FY 1994. OSD has reported that this level of funding does not represent a "get well" profile, but an effort to address the highest priority shortfalls.

PART II - FINDINGS AND RECOMMENDATIONS

A. Indirect Costs

FINDING

Four of the five Major Range and Test Facilities (Test Ranges) did not comply with the provisions of DoD Directive 3200.11, by inappropriately including indirect costs in user rates applied to DoD users. This occurred because the four Test Ranges (one Army, one Navy, and two Air Force) categorized indirect costs as direct costs to compensate for institutional funding shortfalls. In this respect, Army and Air Force Test Ranges were complying with Military Department guidance while the Navy Test Range was not complying with Navy guidance. In addition, OSD had not instructed the Military Departments to provide adequate institutional funds to the Test Ranges. As a result, in FY's 1987 and 1988, the four Test Ranges incorrectly charged DoD users for indirect costs totaling $25 million.*

DISCUSSION OF DETAILS

Background. DoD Directive 3200.11, "Major Range and Test Facility Base," September 29, 1980, requires that all Test Ranges in the Major Range and Test Facility Base be funded in a uniform manner. The Test Ranges are to be financed through user reimbursements and institutional funding from the parent military command. The directive specifies that DoD users uniformly reimburse the Test Ranges for direct costs that can be readily identified with the particular program support, excluding military personnel costs. The Directive specifies that direct cost categories include personnel, material, minor construction, utilities, equipment, supplies, and any other resources damaged or consumed during testing or maintained for a particular user. Further, the DoD Directive requires that Test Ranges uniformly use institutional funding budgeted by their parent military commands for indirect cost categories, including management and other costs that are not readily identifiable to a particular program. No indirect costs are to be charged to DoD users.

The Test Ranges annually submit their institutional funding requirements to their parent military commands. Institutional funding is requested for Test Ranges' in-house costs, contract costs, and improvement and modernization projects. In the budget review process, the Test Ranges' budgets compete for funding available to the parent military commands. Since 1980, Test Range budget requests have been reduced in the budget review

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* The $25 million represents about 2 percent of the $1.1 billion in user charges assessed by the four Test Ranges in FY's 1987 and 1988.

process because of congressional, and resulting DoD budget, constraints. As a result, the Test Ranges' institutional funding has not kept pace with increased work load. Most seriously, the Test Ranges' requests for improvement and modernization funds have lost in competition with the Military Departments' weapon system acquisition and operational funding needs. We discuss OSD actions to improve funding of improvement and modernization projects in Part I of this report, under Other Matters of Interest. A discussion of funding for in-house and contract costs follows.

Funding of In-house and Contract Costs. Four of the five Test Ranges visited (one Army, one Navy, and two Air Force) were inappropriately including indirect in-house and contract costs as direct costs in user rates applied to DoD users. The Test Ranges categorized indirect costs as direct costs to compensate for institutional funding shortfalls. Faced with institutional funding shortfalls, the Military Departments and Test Ranges had to either reduce indirect costs (reduce or eliminate certain Test Range support capabilities) or define and rationalize certain indirect costs as direct costs. The Military Departments and Test Ranges chose the latter action because of the legitimate need to maintain test support capabilities to support system developers and increased work load requirements.

Military Departments' Interpretations. For the most part, the Military Departments and Test Ranges interpreted and issued guidance on DoD Directive 3200.11 soon after the Directive was issued in September 1980. However, in interpreting DoD's definition of direct costs, the Military Departments and Test Ranges did not comply with the definition by categorizing all costs that increased with work load as direct costs. Because contract costs (such as Test Range support contractors, equipment leases, and building leases) varied to a certain extent with work load, the majority of contract costs were considered direct costs. Therefore, the Test Ranges categorized common-use equipment (Test Range test capabilities that are not maintained for a particular test program) maintenance and lease costs and building lease costs as direct costs and charged these costs to DoD users.

Military Department Definitions of Direct Costs. Army and Air Force funding guidance defined Test Range indirect costs, such as common-use equipment maintenance, rental, and equivalent lease costs, as direct costs, which allowed their Test Ranges to increase reimbursements from DoD users. However, the costs that the Military Departments defined as direct costs did not conform with the definition of direct costs in DoD Directive 3200.11; that is, the costs were not readily identifiable with a particular test program.

From an accounting standpoint, institutional operation and maintenance costs, such as common-use equipment maintenance, rental, and equivalent lease costs, are not direct costs because they are not readily identifiable with a particular test support program. Also, the costs in question were not relatable to resources damaged or consumed during testing or resources maintained for a particular user. When we queried officials in the Office of the Comptroller of the Department of Defense, they agreed that the costs in question were indirect and should not be charged to DoD users. In effect, the Test Ranges were prorating Test Range costs (indirect costs) back to DoD users to compensate for funding shortfalls.

Army Guidance. Army Regulation 70-69, "Major Range and Test Facility Base," June 15, 1982, specifies that direct costs may include costs of services provided on a standard rate basis. The Army Regulation states that standard rates for test programs could include associated equipment maintenance and lease costs. Accordingly, the one Army Test Range we visited, Yuma Proving Ground, included costs for maintaining common-use equipment in the standard rates that it charged DoD users. The common-use equipment included radars, cameras, and scientific and engineering automatic data processing (ADP) equipment used to support Test Range users. In FY's 1987 and 1988, the Test Ranges charged DoD users $2.4 million in user costs for normal maintenance of the common-use equipment (Appendix B).

Air Force Guidance. Air Force Systems Command Regulation 172-8, "Budgeting and Funding for Test and Evaluation," February 12, 1988, specifies that contractor costs are direct costs and are to be included in standard rates charged to DoD users. The previous version of this Air Force Regulation also specified that equipment-equivalent lease costs were direct costs and chargeable to DoD users. An equipment-equivalent lease cost is a charge to the user that is based on the fair rental value of equipment owned by the Test Range. As a result, in FY's 1987 and 1988, the two Air Force Test Ranges we visited, the Air Force Flight Test Center and the 3246th Test Wing, charged DoD users $16.4 million for common-use equipment maintenance, rental, and equivalent lease costs (Appendix B).

Navy Guidance. The Navy's user charge guidance was in conformance with the DoD Directive. The Naval Weapons Center appropriately included only direct costs in rates charged to DoD users. On the other hand, the Naval Air Test Center inappropriately charged indirect costs to DoD users to compensate for institutional funding shortfalls. The Naval Air Test Center incorrectly included contract equipment maintenance costs and rental costs for storage facilities in direct costs. Responsible Test Range officials advised us that because of institutional funding shortfalls, the Test Range adopted the Army's interpretation that contract maintenance and lease costs were

direct costs. Accordingly, the contracting officer was not requested to establish separate line items in contracts for the various Test Range departments to break out equipment maintenance and lease costs as indirect costs for accounting purposes. In total, the Test Range departments estimated that user rates applied to DoD users in FY's 1987 and 1988 included contract equipment maintenance costs of $5.8 million and storage facility lease costs of $.4 million (Appendix B).

Oversight by OSD. The Test Ranges' institutional funding problem has been recognized by OSD, but OSD has not initiated corrective action. Instead, OSD officials have tacitly approved the Military Departments' and Test Ranges' defining certain costs that are actually indirect costs as direct costs in order to increase reimbursements to the Test Ranges. OSD testing officials acknowledge that such definitions exist, but they consider such definitions as refinements to its overall reimbursement policy and not a sign that its policy needs revision.

Conclusion. We disagree with OSD's position. The Military Departments' and Test Ranges' defining indirect costs as direct costs is causing a nonuniform reimbursement funding policy among the Test Ranges in the Major Range and Test Facility Base. Because the infrastructure of the Major Range and Test Facility Base is predicated on uniform funding, we believe that OSD should take action to ensure that the Test Ranges are provided adequate institutional funding to enable them to comply with existing policy. Also, OSD needs to clarify its reimbursement funding policy to ensure uniform treatment of DoD users among the Test Ranges.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Deputy Director, Defense Research and Engineering (Test and Evaluation):

a. Exercise direct oversight over the Military Departments' budget review process to ensure that Major Range and Test Facilities are provided adequate institutional funding to enable them to comply with existing DoD user charge reimbursement policy.

b. Clarify DoD Directive 3200.11, "Major Range and Test Facility Base," September 29, 1980, regarding what costs must be charged to DoD users and what costs may be charged at the facility's discretion.

2. We recommend that the Secretary of the Army, the Secretary of the Navy, and the Secretary of the Air Force allocate adequate institutional funding to the Major Range and Test Facilities in the annual budget process to perform their missions.

3. We recommend that the Assistant Secretary of the Army (Research, Development and Acquisition) revise Army Regulation 70-69, "Major Range and Test Facility Base," June 15, 1982, by defining common-use equipment maintenance and lease costs as indirect costs in accordance with cost guidance in DoD Directive 3200.11, "Major Range and Test Facility Base," September 29, 1980.

4. We recommend that the Commander, Air Force Systems Command, revise Air Force Systems Command Regulation 172-8, "Budgeting and Funding for Test and Evaluation," February 12, 1988, by defining common-use equipment maintenance and lease costs as indirect costs in accordance with cost guidance in DoD Directive 3200.11.

5. We recommend that the Commander, Naval Air Test Center, direct the contracting officer to establish separate line items in future Major Range and Test Facility support contracts to break out direct and indirect costs, and charge DoD users for only direct costs associated with a particular test program in accordance with cost guidance in DoD Directive 3200.11.

MANAGEMENT COMMENTS

Recommendation A.1.a.

The Director of Defense Research and Engineering concurred with the recommendation, stating that OSD will strengthen oversight over the Military Departments' budget decisions concerning institutional funding for the Major Range and Test Facilities (Test Ranges), including oversight through the auspices of the Resource Panel of the Test and Evaluation Committee.

The Army also concurred with the recommendation.

Recommendation A.1.b.

The Director of Defense Research and Engineering concurred with the recommendation, stating that DoD Directive 3200.11, "Major Range and Test Facility Base," will be clarified to make it clearer as to what Test Range costs must be charged to DoD users and what flexibility the Services can exercise in respect to these costs. However, the Director stated that he would defer issuing revised guidance until an OSD proposal to industrially fund test and evaluation investments has been resolved. The Director inferred that implementation of the OSD proposal would directly affect the revision of DoD user charge reimbursement policy.

The Army also concurred with the recommendation, stating that the Test Ranges were not provided an adequate amount of institutional

funds to finance all indirect costs associated with the test programs they are directed to support. The Army concluded that revising DoD policy would enable Test Ranges to include all costs associated with the test programs in their standard rates and to be reimbursed for these costs.

Recommendation A.2.

The Army nonconcurred with the draft report recommendation, which was addressed to the Commander, U.S. Army Test and Evaluation Command; the Commander, Naval Air System Command; and the Commander, Air Force Systems Command. The Army stated that only the Military Departments and OSD have the authority to allocate adequate institutional funding to the Test Ranges in the annual budget process. The Army stated that the commands cited in this recommendation are either major commands or a major subordinate command and do not have this authority.

The Director of Defense Research and Engineering concurred with the thrust of the recommendation but recognized that the Military Departments must make hard choices between very difficult options.

Recommendation A.3.

The Army nonconcurred with the recommendation, stating that Army Regulation 70-69, "Major Range and Test Facility Base," was approved by DoD and represented a reasonable interpretation of DoD policy outlined in DoD Directive 3200.11. The Army further stated that the DoD Directive encourages the use of standard rates, which allows for consistently applied costing practices, to make direct costs more readily identifiable to the customer.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

Recommendation A.1.b.

We agreed with management's position to defer clarifying DoD user charge reimbursement policy until resolution of the OSD proposal to industrially fund test and evaluation investments. However, we believe that management should not defer implementation indefinitely but proceed with clarifying the guidance when the OSD proposal has been resolved or within a given time frame from issuance of this report, whichever comes first. Therefore, we request that the Under Secretary of Defense for Acquisition provide us with a completion date for implementing the recommendation in responding to this final report.

Recommendation A.2.

Based on Army comments, we redirected the recommendation to the Secretary of the Army, the Secretary of the Navy, and the

Secretary of the Air Force. Therefore, we request that the Secretaries of the Military Departments provide comments on the recommendation in responding to this final report.

Recommendation A.3.

We disagree with the Army's position that costs for normal maintenance of common-use equipment, such as radars and cameras, can be reasonably interpreted as direct costs that are identified readily with a particular test program. As stated in the finding, we obtained an opinion from the Office of the Comptroller of the Department of Defense stating that normal maintenance costs for common-use equipment were indirect costs and should not be charged to DoD users. DoD Directive 3200.11 does encourage the use of standard rates for direct costs that can be identified readily with a particular test program but not for indirect costs that normally are not identifiable to a particular test program. Therefore, we request that the Army reconsider its position in responding to this final report.

B. Contractor Staffing of Test Range Support Equipment

FINDING

The Test Range support contractor at the Air Force Flight Test Center (Flight Test Center) was using more personnel than necessary to operate and maintain two AN/FPS-16 radar sites. Excessive contractor staffing occurred because the Flight Test Center did not specify staff levels required to operate and support the various types of Test Range equipment in the contract's statement of work. In addition, the Flight Test Center did not effectively use the award fee determination process on the cost-plus-award-fee contract to motivate the contractor to use efficient methods and effective cost controls. As a result, we estimated that for FY 1988, DoD users were charged $474,650 in costs related to the contractor's inefficient use of resources to operate and maintain the two AN/FPS-16 radar sites.

DISCUSSION OF DETAILS

Background. The Armed Services Pricing Manual, 1986, states that "The objective of the procurement process is to acquire supplies and services of the desired quality, in a timely manner, at fair and reasonable prices." In the case of the Flight Test Center operating contract, the Air Force had pursued this objective through a competitive contract award process along with on-site contract management. Because of the nature of the work (operating and maintaining test facilities) at the Flight Test Center, the factors used in the competitive contractor selection process placed more emphasis on contractor's technical proposals than on their cost proposals. Also, the absence of precise, advance knowledge of the resources required to execute test requirements led the Air Force to use a cost-plus-award-fee contract. Both the technical-based competitive contract selection process and the use of a cost-plus-award-fee contract create a situation where the Air Force must carefully manage the contracting process to ensure that the Government obtains the needed services at fair and reasonable prices.

Cost-Effectiveness Evaluation. We identified and assessed the operation of similar radar and telemetry equipment at the five Test Ranges visited to evaluate the cost-effectiveness of each Test Range's operation of the equipment. Although the missions of the five Test Ranges varied, all five Test Ranges operated and maintained radar and telemetry equipment to support user tests. To conduct our evaluation, engineering personnel of the Office of the Inspector General, DoD, examined and compared the five Test Ranges' missions, facilities, equipment, and test capabilities. Based on this evaluation and discussions with responsible Test Range personnel, our engineers concluded that, with the exception of the radar equipment at the Flight Test

Center, the Test Ranges effectively used personnel resources to staff the radar and telemetry equipment. A discussion of the radar operation at the Flight Test Center follows.

Radar Operations at the Flight Test Center. The Test Range support contractor at the Flight Test Center used two dedicated three-member crews (the crews are assigned full-time to one radar site) and one site chief at each of the two AN/FPS-16 radar sites. In total, 14 contractor personnel were assigned to staff the 2 radar sites during the Test Range's operating hours. The contractor advised us that a three-member crew and a site chief were needed to satisfy normal user test requirements, that is, two persons to operate the radar console, one person to accomplish support functions (backup radar operator, stripchart operator, and clerical duties), and the site chief. The contractor alternated the two crews at each radar site every other test mission to relieve the stress of extended time at the radar console.

Our engineers concluded that two dedicated three-member crews at each radar site were unnecessary. The engineers based this judgment on a comparison of radar operations at the Flight Test Center, at the Naval Air Test Center, and at the Naval Weapons Center. Our engineers observed that unlike the Flight Test Center, the two Navy Test Ranges used staffing arrangements that promoted test economy and efficiency. Specifically, the Navy Test Ranges did not use dedicated crews to staff each radar site. Instead, they drew from a pool of trained operators. Additionally, the Navy Test Ranges used only two operators to staff the radar sites during Test Range operating hours. Our engineers believe that the Flight Test Center can control radar operator stress by having a crew of three radar operators rotate turns on the console; that is, two test missions on, and one test mission off, the radar console. In addition, our engineers concluded that one crew chief could oversee both radar operations because the two radar sites were within walking distance of each other. In summary, our engineers concluded that the Flight Test Center could more efficiently operate the radars by eliminating one of the two dedicated three-member crews at each radar site and eliminating one of the two dedicated crew chiefs.

The cost associated with using the additional dedicated three-member crews at the two radar sites and the additional radar crew chief totaled $474,650 in FY 1988. In Appendix C, we detail the computation of the additional cost.

We concluded that contractor overstaffing of the radar equipment was caused by an inadequate review of the contractor's technical proposal and by the lack of contractor incentives in the award fee determination process on the cost-plus-award-fee contract. A discussion of these two points follows.

Contract Statement of Work. The statement of work for the Test Range support contract at the Flight Test Center did not specify staff levels required to operate and support the various types of Test Range equipment during Test Range operations. Instead, the statement of work specified the overall level of contractor effort required, in terms of staff years, to support all Test Range operations covered by the contract. This condition was caused by the Flight Test Center not adequately reviewing the contractor's technical proposal detailing staff assignments and the Flight Test Center's desire to give the contractor sufficient flexibility in the use of personnel to fulfill Test Range support requirements. In Part I of this report, under Prior Audit Coverage, we discuss other reports where the auditors similarly concluded that inefficiencies were associated with using dedicated crews to support Test Range operations.

Award Fee Determination Process. The Flight Test Center did not effectively use the award fee determination process on the cost-plus-award-fee contract to motivate the contractor to efficiently use resources and to effectively apply cost controls. An integral part of the award fee determination process is the contract award fee plan, which establishes criteria by which the contractor's performance will be evaluated. Evaluation criteria in the Flight Test Center's Test Range support contract included quality of work, timeliness, project management, management effectiveness, cost control, and resource management. As part of the award fee determination process, the Flight Test Center assigned weights to each criterion for use in computing the amount of award fee annually earned by the contractor. In assigning the weights, the contracting officer placed greater emphasis on contractor quality, timeliness, and management than on cost control and resource management of required test support services. Specifically, quality of work and timeliness were assigned 47 percent of the total weight, while cost control and resource management were assigned only 23 percent of the total weight. Another 15 percent of the total weight was assigned to project management and management effectiveness. The two criteria addressed a combination of quality of work, timeliness, and cost control issues but did not provide a breakout of the assigned weight by individual issues. Special interest issues, such as the contractor's ability to identify existing and potential management problem areas, accounted for the remaining 15 percent of the total weight.

Because cost control and resource management were not emphasized in the award fee plan, the contracting officer tasked Government surveillance personnel primarily with assessing the quality and timeliness of contractor performance on the contract. In this regard, the contracting officer did not task surveillance personnel with monitoring and assessing the reasonableness of

contractor staffing levels for major items of Test Range support equipment. As a result, the contracting officer did not receive a report from Government surveillance personnel on the contractor's inefficient use of staff in rating the contractor's cost control and resource management performance in the award fee determination process.

For the first FY 1988 award fee period, the Flight Test Center awarded the contractor $1,008,388 (68 percent) of a maximum award fee of $1,468,934. The amount of the award fee earned was based on judgmental determinations made for each criterion by the contracting officer. Accordingly, we were unable to quantify the effect on the award fee earned if increased weight had been given to the evaluation criteria for cost control and resource management and the contractor had been given a lower rating for inefficiencies.

Conclusion. We estimated that in FY 1988, DoD users were charged $474,650 in costs related to the contractor's inefficient use of personnel to operate and maintain the radar equipment as detailed in Appendix C. The contracting officer at the Flight Test Center needs to specify, where practical, staff levels required to operate and support major items of equipment during Test Range operations in the contract statement of work. In the award fee determination process on future cost-plus-award-fee contracts, the contracting officer needs to motivate the contractor to efficiently use resources and to effectively apply cost controls by increasing the weight given these criteria as compared to quality and timeliness. In addition, the contracting officer needs to task Government surveillance personnel with the responsibility for monitoring, evaluating, and reporting on the reasonableness of contractor staffing levels for major items of Test Range support equipment.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the contracting officer at the Air Force Flight Test Center:

1. Specify, where practical, maximum staff levels required to efficiently and effectively operate and support major items of equipment in statements of work for future Major Range and Test Facility support contracts.

2. Increase the weight given to the contractor's efficient use of resources and effective application of cost controls as compared to quality and timeliness in the award fee determination process in future cost-plus-award-fee Major Range and Test Facility support contracts, and task Government surveillance personnel with responsibility for monitoring, evaluating, and reporting on the reasonableness of contractor staffing levels for major items of equipment.

Auditor Note: Official Air Force comments on the draft report were not received in time for incorpation in this final report. However, the Director of Defense Research and Engineering suggested wording changes on Recommendations B.1. and B.2., and the Air Force Flight Test Center provided additional information on the facts in the finding. We considered management suggestions and comments in finalizing the report and modified the recommendations, where appropriate.

FUNDING OF THE MAJOR RANGE AND TEST FACILITY BASE

Test Range	Funding for FY's 1987 and 1988 ($000) Institutional	User Reimbursements	Other	Total
Army				
Yuma Proving Ground*	$ 38,293	$ 56,051	$ 80,472	$ 174,816
Other 5 Army Test Ranges	629,836	435,442	460,205	1,525,483
Total Army	$ 668,129	$ 491,493	$ 540,677	$1,700,299
Navy				
Naval Air Test Center*	$ 152,720	$ 554,519	$ 221,415	$ 928,654
Naval Weapons Center*	127,670	198,751	28,768	355,189
Other 4 Navy Test Ranges	372,294	340,055	49,434	761,783
Total Navy	$ 652,684	$1,093,325	$ 299,617	$2,045,626
Air Force				
Air Force Flight Test Center*	$ 123,422	$ 274,724	$ 456,059	$ 854,205
3246th Test Wing*	103,491	181,084	432,820	717,395
Other 7 Air Force Test Ranges	1,060,387	731,987	404,272	2,196,646
Total Air Force	$1,287,300	$1,187,795	$1,293,151	$3,768,246
Total DoD	$2,608,113	$2,772,613	$2,133,445	$7,514,171
Total - 5 Test Ranges Visited	$ 545,596	$1,265,129	$1,219,534	$3,030,259

* Test Range visited.

INDIRECT COSTS CHARGED DOD USERS IN FY'S 1987 AND 1988 ($000)

Test Range	Equipment Maintenance Costs	Equipment/Building Lease Costs	Equipment Equivalent Lease Costs	Total Costs
Army				
Yuma Proving Grounds	$ 2,356	$ 0	$ 0	$ 2,356
Navy				
Naval Air Test Center	5,783	444	0	6,227
Naval Weapons Center	0	0	0	0
Air Force				
Air Force Flight Center	3,694	3,510	4,108	11,312
3246th Test Wing	5,056	0	0	5,056
Total	$16,889	$3,954	$4,108	$24,951

COMPUTATION OF COST OF ADDITIONAL RADAR CREWS AND SITE CHIEF

	Dollars
Contract labor costs allocable to the two AN/FPS-16 radar sites in FY 1988 (four three-member crews to operate the two radars and two site chiefs)	$949,300
One-half of the contract labor allocable costs are associated with the additional three-member crew at each radar site and one additional site chief	x .50
Approximate cost of two additional radar crews and one site chief	$474,650

REPORT OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefits	Amount and/or Type of Benefit
A.1.a., A.2.	Program Results. Adequate institutional funding will enable the Test Ranges to fund indirect costs and to comply with DoD uniform reimbursement funding policy.	Nonmonetary. Shifts funding of Test Range indirect costs from DoD users to the Test Ranges.
A.1.b.	Program Results. Revision of DoD uniform reimbursement policy may be necessary for uniform implementation of the policy.	Nonmonetary. Policy change could shift responsibility for funding certain Test Range indirect costs from Test Ranges to DoD users.
A.3., A.4.	Compliance with regulations. Require Test Ranges to fund indirect costs associated with DoD user test support.	See A.1.a.
A.5.	Internal Control. Establish separate contract line items to break out contract costs as direct and indirect to enable charging of only direct costs to DoD users.	See A.1.a.
B.1.	Economy and Efficiency. Definition of efficient equipment operations in the contract work statement will result in reduced contract costs.	Projected one-time contract cost avoidance of $474,650, Program Element 65807F in FY 1991.
B.2.	Economy and Efficiency. Motivates the contractor through the award-fee determination process to use efficient and effective cost controls.	See B.1.

DIRECTOR OF DEFENSE RESEARCH AND ENGINEERING

WASHINGTON, DC 20301-3010

29 AUG 1989

MEMORANDUM FOR DIRECTOR, ACQUISITION SUPPORT PROGRAMS DIVISION
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Draft Report on the Audit of User Charges and Resource Management at Major Range and Test Facilities (Project No. 8AB-0057)

We appreciate the opportunity to comment on the subject report. The DDDRE(T&E) agrees with the major thrust of the subject DoD/IG report, particularly with regard to the need for additional funding for T&E. As pointed out in the report, institutional T&E funding has historically suffered shortfalls, particularly with regard to investment projects. As acknowledged in the report, the OSD initiative for a centrally funded investment line is a first step in correcting this problem.

The subject report identified the need for stronger OSD oversight and we concur. We have already taken action to strengthen our oversight without unduly burdening the Services. We conducted in-depth reviews of all the Services T&E infrastructure the week of 21-25 August 1989 along functional lines. This review was conducted under the auspices of the Resource Panel of the Test and Evaluation Committee.

The subject report identified the fact that less than two percent of the MRTFB charges to users are too high and are inconsistent with language in the DODD 3200.11 which governs the charge policy. Here again we concur in your recommendation to either increase T&E funding, or if that fails, to make changes to the DODD 3200.11.

Finally, the report recommended that we change the basis for award fees for service contracts to encourage more efficient operations. We concur with this concept to improve efficiency of range operations and will explore potential ways to incentivize cost-effective management.

In summary, we support more T&E funding, we agree with the need to clarify our charge policy for better implementation, and we agree that support contractors should be required to be more cost effective. We will use this IG report as a basis to improve our oversight in these areas. There are, however, minor

changes we would like to see incorporated in the report that we believe will strengthen the report without changing its general thrust to improve T&E. Our detailed comments are included in the attachment to this memorandum.

Robert C. Duncan

Attachment

Suggested Changes to:

Final Report
Page No.

Draft Report on the Audit of User Charges and Resource Management at Major Range and Test Facilities (Project No. 8AB-0057)

Indirect Costs

Finding: The report found that T&E funding was inadequate and that T&E facilities were overcharging users to compensate for this shortfall in funding. The report found that less than two percent of the charges were incorrect out of a total of $3.03B provided to the five activities visited (involved thousands of projects and charge factors). Inconsistent charges ranged from 0% to 1.34% (average 0.82%) of total funding provided to the MRTFB activity.

Comment: DDDRE(T&E) agrees that T&E is under funded. His office has the sole responsibility for setting the charge policy and they do not believe the charges are incorrect in terms of the policy. Since there are hundreds of factors to be considered, the policy as written allows the services the needed flexibility to balance these factors against each other. DDDRE(T&E) believes that a less than two percent (2%) difference of opinion between the DoD/IG and DDDRE(T&E) is testimony that the Services are acting responsibly in use of this flexibility. We would like the finding to reflect that the amount considered as over charges is less than two percent.

DoD/IG Recommendation Number 1. (p. 16) a.: DDDRE(T&E) exercise direct oversight..... or b. reassess and revise... 8

Comment: DDDRE(T&E) concurs in this recommendation. We support your recommendation for more T&E funding by the Services. At the very minimum we will issue a clarification to the DODD 3200.11 to make it clearer as to what must be charged to users and what flexibility the Services can exercise. However, within OSD we have been directed to study a proposal to industrially fund T&E investments. We should defer making changes until this issue is resolved.

Recommendation Number 2. We recommend that the Commander....allocate adequate institutional funding....

Comment: We concur with the thrust of this recommendation but we recognize that the Services must make hard choices between very difficult options.

Recommendations Numbers 3. through 5. (pages 16 & 17): These recommendations require the Services to change their policies. 9

Comment: We believe that these recommendations, as written, are inconsistent with recommendations numbers 1a and 1b

above; the Services should take no action until OSD clarifies its policy. The wording should be changed to be in agreement with DoD/IG recommendation 1b above. We believe the language should be changed to express the idea that the Service's regulations should be changed as recommended if OSD does not change or clarify DODD 3200.11; or if DODD 3200.11 is changed, the Service's regulations should reflect the changes.

Contractor Staffing of Test Range Support Equipment

Recommendation Number 1. Specify staff levels...

Comment: By specifying staff levels the Air Force would preclude the contractor from taking action to be more efficient. We would prefer the following language: 1. Specify, where practical, the maximum staff levels to efficiently and ...

Recommendation Number 2. Include the contractor's use....

Comment: We agree that efficiency should be an important factor but quality and timeliness are even more important to multi-billion dollar weapon system programs. Inefficiencies at a test center may be more acceptable when taken in the context of the total DoD weapons acquisition process. The wording should be changed to reflect that efficient methods and effective cost controls, along with resource management, project management, management effectiveness, and other factors related to efficiency should be a major factor in award fee determination rather than equal to the quality and timeliness factors.

AUDIT RESPONSE TO DIRECTOR OF DEFENSE RESEARCH AND ENGINEERING COMMENTS

In responding to the draft report, the Director of Defense Research and Engineering commented on action to be taken by the Military Departments in response to Recommendations A.3., A.4., and A.5. which require the Military Departments to change their policies. The Director believes that these recommendations, as written, are inconsistent with Recommendations A.1.a. and A.1.b., which recommended that the Deputy Director of Defense Research and Engineering (Test and Evaluation) ensure that the Major Range and Test Facilities are provided adequate institutional funding in accordance with existing DoD policy guidance, or if adequate funding is not possible, reassess and revise DoD user charge reimbursement policy to allow the facilities to recover additional costs from users. Accordingly, the Director believes that the Military Departments should take no action until OSD clarifies its policy.

In our opinion, the recommendations are consistent. Until OSD clarifies OSD policy, the existing DoD user charge reimbursement policy contained in DoD Directive 3200.11, "Major Range and Test Facility Base," remains in effect and is fully applicable to the Military Departments. Accordingly, we are still recommending that the Military Departments comply with existing DoD user charge reimbursement policy in Recommendations A.3., A.4., and A.5.

DEPARTMENT OF THE ARMY
OFFICE OF THE CHIEF OF STAFF
WASHINGTON, D.C. 20310-0200

28 August 1989

DACS-TE

MEMORANDUM FOR INSPECTOR GENERAL DOD (AUDITING)

SUBJECT: Draft Report on the Audit of User Charges and Resource Management at Major Range and Test Facilities (Project No. 8AB-0057)

1. Reference memorandum from Director, Acquisition Support Programs Division, 30 Jun 89, subject as above.

2. The following comments are offered in response to findings and recommendations of draft report.

a. Findings and Recommendations A. Indirect Costs. Discussion of Details. "Since 1980, Test Range budgets have been reduced in the budget review process because of congressional, and resulting DoD budget, constraints. As a result, the Test Ranges' institutional funding has not kept pace with increased work load. Most seriously, the Test Ranges' requests for improvement and modernization funds have lost in competition with the Military Departments' weapon system acquisition and operational funding needs." To a large extent this discussion is true, however, during the FY 1990-1994 POM the Chief of Staff, Army added $100 million for improvement and modernization of instrumentation between technical testing and operational testing lines.

b. Recommendations for Corrective Action.

(1) Recommendation 1a. Concur. Agree with the recommendation that DOD provide adequate institutional funding to Major Range and Test Facilities (MRTF).

(2) Recommendation 1b. Concur. MRTF's are not provided an adequate amount of institutional funds to finance all indirect costs associated with the test programs they are directed to support. Therefore, revising DOD policy would enable MRTF's to include all user costs identifiable to a particular test program in their standard rates and be reimbursed for these costs.

(3) Recommendation 2. Nonconcur. Only the Services and OSD have the authority to allocate adequate institutional funding to the MRTF in the annual budget process. The commands cited in this recommendation are either major commands or a major subordinate command and do not have this authority.

(4) Recommendation 3. Nonconcur. AR 70-69 represents a reasonable interpretation of DOD policy outlined in DOD Directive 3200.11. This regulation was approved by DOD and found to be in compliance with DOD policy. Furthermore, the DOD Directive encourages the use of standard rates which allow for consistently applied costing practices to make direct costs more readily identifiable to the customer.

John P. Tyler, III
Director, Test and Evaluation
Management Agency

CF:
SARD-RPR-R
SARD-ZE
SAIG-PA

ACTIVITIES VISITED OR CONTACTED

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Office of the Under Secretary of Defense for Acquisition, Washington, DC
Office of the Comptroller of the Department of Defense, Washington, DC
Office of the Deputy Director, Defense Research and Engineering (Test and Evaluation), Washington, DC
Office of the Director, Operational Test and Evaluation, Washington, DC

Department of the Army

Office of the Assistant Secretary of the Army (Research, Development and Acquisition), Washington, DC
U.S. Army Test and Evaluation Command, Aberdeen, MD
U.S. Army Yuma Proving Ground, Yuma, AZ

Department of the Navy

Director of Research and Development Requirements, Test and Evaluation, Office of the Chief of Naval Operations, Washington, DC
Naval Air Systems Command, Washington, DC
Naval Air Test Center, Patuxent River, MD
Naval Weapons Center, China Lake, CA

Department of the Air Force

Air Force Systems Command, Andrews Air Force Base, MD
Air Force Flight Test Center, Edwards Air Force Base, CA
3246th Test Wing, Eglin Air Force Base, FL

Defense Agency

Defense Contract Audit Agency, Alexandria, VA

Non-DoD Activities

Legislative Counsel, Senate Committee on Armed Services, Washington, DC
Department of Labor, Washington, DC
Office of Management and Budget, Washington, DC
American Federation of Government Employees, Washington, DC, Los Angeles, CA, and Denver, CO

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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

U.S. General Accounting Office
NSIAD Technical Information Center