DEPARTMENT OF DEFENSE

# AUDIT REPORT

ADMINISTRATION OF TIME-AND-MATERIALS CONTRACTS
AT THE U.S. ARMY TROOP SUPPORT COMMAND

No. 91-010

November 7, 1990

*Office of the Inspector General*

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

November 7, 1990

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)

SUBJECT: Final Report on the Audit of Administration of Time-and-Materials Contracts at the U.S. Army Troop Support Command (Report No. 91-010)

We are providing this final report on the Audit of Administration of Time-and-Materials Contracts at the U.S. Army Troop Support Command for your information and use. We performed the audit from November 1989 through March 1990 as a result of conditions identified during the "Audit of the Justification for Use of Time-and-Materials Contracts," Project No. 8CE-0037. The objective of the audit was to evaluate the efficiency and effectiveness of the award, modification, and surveillance of time-and-materials contracts for which administration was retained by the U.S. Army Troop Support Command (the Command). The Command had five time-and-materials contracts valued at $13.5 million and we reviewed two time-and-materials contracts, with a combined value of $13.2 million, that were retained by the Command for contract administration.

The audit showed that a contracting officer for the Command improperly awarded both time-and-materials contracts without obtaining adequate competition or performing adequate price analyses. In addition, the contracting officer ineffectively administered both contracts, failing to ensure the reasonableness of costs incurred. The results of the audit are summarized in the following paragraph, and the details, audit recommendations, and management comments are in Part II of this report.

A contracting officer at the Command awarded initial and follow-on time-and-materials contracts without adequate competition or price analyses and ineffectively administered the contracts. Also, the contracting officer modified the initial contract to include a separate requirement that should have been competitively procured. In addition, delivery orders issued on both contracts required the contractor to purchase computers and other nonexpendable equipment, thereby circumventing the normal procurement process and competition. Inadequate competition resulted in procurement of supplies and services that may not have been obtained at fair and reasonable labor rates. Further, there was not adequate contract surveillance to ensure that costs charged to these two contracts were appropriate, and the Command paid at least $145,552 for contractor personnel who did not possess the qualifications required by the contract. We recommended that the Commander of the Command terminate the

appointment of the contracting officer assigned contracts DAAK01-86-D-C071 and DAAK01-89-D-D001 and assign both contracts to a new contracting officer. We also recommended that the Commander assign a contracting officer's representative to monitor the contractor's remaining performance and incurred costs on these two contracts. In addition, we recommended that the Commander initiate action to obtain a refund of $145,552 from the prime contractor for overpayment of personnel who did not possess the qualifications required for the labor categories invoiced on these contracts (page 3).

We addressed the review of internal controls related to the award and administration of time-and-materials contracts during our prior audit, "Audit of the Justification for Use of Time-and-Materials Contracts," Project No. 8CE-0037.

A copy of a draft of this report was provided to the Assistant Secretary of the Army (Financial Management) on July 31, 1990. The U.S. Army Contracting Support Agency, a branch of the Office of the Assistant Secretary of the Army (Research, Development and Acquisition) concurred in the finding, recommendations, and monetary benefits. A summary of potential benefits is shown in Appendix D. The complete text of management comments is in Appendix F.

The management response to a draft of this report conformed to the provisions of DoD Directive 7650.3. No unresolved issues existed on the audit recommendations or potential monetary benefits. Accordingly, additional management comments on the final report are not required.

The courtesies extended to the staff during the audit are appreciated. If you have any questions on this audit, please contact Mr. Salvatore D. Guli, Program Director, at (703) 614-6285 (AUTOVON 224-6285) or Mr. Ronald W. Hodges, Project Manager, at (703) 614-6264 (AUTOVON 224-6264). A list of audit team members who participated in the audit is shown in Appendix G. Copies of this final report will be distributed to the activities listed in Appendix H. This office will be available to assist the contracting officer in the collection of the recommended contract price adjustment.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

cc: Secretary of the Army

# FINAL REPORT ON THE AUDIT OF ADMINISTRATION OF TIME-AND-MATERIALS CONTRACTS AT THE U.S. ARMY TROOP SUPPORT COMMAND

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Prepared by:
Contract Management Directorate
Project No. 0CF-0018

# FINAL REPORT ON THE AUDIT OF ADMINISTRATION OF TIME-AND-MATERIALS CONTRACTS AT THE U.S. ARMY TROOP SUPPORT COMMAND

## PART I - INTRODUCTION

### Background

The Federal Acquisition Regulation (FAR) 15.802(b)(1) requires contracting officers to purchase supplies and services from responsible sources at fair and reasonable prices. A price is usually considered fair and reasonable if it results from adequate price competition. According to FAR 15.804-3(b), adequate price competition exists if two or more responsible offerors, competing independently, submit priced proposals responsive to the solicitation's expressed requirements. Award shall then be made to the contractor submitting the lowest responsive price. The contracting officer is responsible for ensuring that competition is not restricted, or that the lowest price is not unreasonable, based on a price analysis or a combination of price and cost analysis.

The FAR states that time-and-materials contracts are high-risk contracts because contractors have no incentive to control costs or manage labor hours effectively. FAR 16.601(a)(1), "Time-and-Materials Contracts," provides that appropriate Government surveillance of contractors' performance is required to give reasonable assurance that efficient methods and effective cost controls are used. Army Federal Acquisition Regulation Supplement (AFARS), subpart 42.90, "Contracting Officer's Representatives," requires that the contracting officer assign a Contracting Officer's Representative (COR) to administer a contract that is not assigned for administration to the Defense Contract Administration Service (DCAS).

### Objectives and Scope

Our objective was to evaluate the efficiency and effectiveness of the award, modification, and surveillance of time-and-materials contracts for which administration was retained by the U.S. Army Troop Support Command. The Command performed contract administration on two time-and-materials contracts.

We reviewed two time-and-materials contracts awarded by the same contracting officer at the U.S. Army Troop Support Command. We reviewed contract DAAK01-86-D-C071, which totaled $7.9 million, and the follow-on contract DAAK01-89-D-D001, which totaled $5.3 million, for a combined contract value of $13.2 million.

We reviewed documents and records related to the award and administration of the initial contract awarded in FY 1986 and the follow-on contract awarded in FY 1989. The documents and records

reviewed included Government preaward and contract documents, contracting proposals, resumes, delivery orders, invoices, the contracting officer's memorandums, cost accounting records, contractor financial and accounting records, payroll records and Defense Contract Audit Agency reports. We also interviewed contractor personnel.

This economy and efficiency audit was made from November 1989 through March 1990, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We reviewed internal controls related to the award and administration of time-and-materials contracts during our prior audit, "Audit of the Justification for Use of Time-and-Materials Contracts," Project No. 8CE-0037. Activities visited or contacted are shown in Appendix E.

## Prior Audit Coverage

Office of the Assistant Inspector General for Auditing, Draft Report, "Audit of the Justification for Use of Time-and-Materials Contracts," dated May 21, 1990, stated that better procedures and controls were needed to limit the use of time-and-materials contracts and to ensure the reasonableness of costs incurred and payments made under time-and-materials contracts. The report recommended that DoD buying commands use master agreements and perform reviews of contract statements of work when historical cost and performance data were available to award a more preferred fixed-price or cost-reimbursement contract type. The report also recommended revision of the Defense Federal Acquisition Regulation Supplement to improve procedures and controls over the surveillance and payments for time-and-materials contracts.

## PART II - FINDING AND RECOMMENDATIONS

Award, Modification, Administration, and Surveillance of Time-and-Materials Contracts

### FINDING

A contracting officer at the U.S. Army Troop Support Command (the Command) awarded initial and follow-on time-and-materials contracts without adequate competition or price analysis, permitted the prime contractor to "buy in," and ineffectively administered the contracts. Also, the contracting officer modified the initial contract to include a requirement that should have been competitively procured. In addition, delivery orders issued on both contracts required the contractor to purchase computers and other nonexpendable equipment, thereby circumventing the normal procurement process and competition. These conditions occurred because the contracting officer did not fully comply with the Federal Acquisition Regulation (FAR) and did not exercise the business acumen necessary to ensure that the Army obtained fair and reasonable contract prices. The contracts were ineffectively administered because the contracting officer did not assign a Contracting Officer's Representative (COR) to perform contract surveillance or request assistance from the Defense Contract Audit Agency (DCAA) to monitor costs. Inadequate competition and inadequate price analysis resulted in procurement of supplies and services that may not have been obtained at fair and reasonable prices. Further, there was no assurance that costs charged to these two contracts were appropriate, and the Command paid at least $145,552 for contractor personnel who did not possess the qualifications required by the contract.

### DISCUSSION OF DETAILS

Background. The FAR states that contracting officers have the authority to enter into and administer contracts. However, the contracting officer is responsible for ensuring compliance with all laws, regulations, and applicable procedures before binding the Government into a contract. In selecting a contracting officer, the appointing official shall consider the complexity and dollar value of the acquisitions to be assigned and the candidate's experience, training, education, business acumen, judgment, character, and reputation.

Contracting officers may use a time-and-materials type contract when it is not possible to adequately estimate the extent of work or to anticipate costs with any reasonable degree of confidence. Before the issuance of a time-and-materials contract, the contracting officer shall execute a determination

and findings stating the reasons for the use of a time-and-materials contract. Also, the contracting officer must determine that the time-and-materials contract price is fair and reasonable.

After contract award, the contracting officer is responsible for contract administration and may delegate various administrative and surveillance functions to Administrative Contracting Officers, the DCAA auditor, and the COR. However, the contracting officer is ultimately responsible for contract administration.

Summary of Audit Results. We reviewed the award and modification of initial time-and-materials contract DAAK01-86-D-C071, the award of follow-on contract DAAK01-89-D-D001, and the equipment purchases made and contract administration performed on each contract for compliance with FAR, Defense Federal Acquisition Regulation Supplement (DFARS) and Army Federal Acquisition Regulation Supplement (AFARS) requirements. We concluded that the contracting officer did not follow the FAR and DFARS procurement requirements. Further, the contracting officer did not execute proper administration and surveillance on the two time-and-materials contracts in accordance with FAR, DFARS, and AFARS requirements.

Award of Basic Contract. Time-and-materials contract DAAK01-86-D-C071 was awarded to American Technical Institute (ATI) on September 19, 1986, based on competitive bids. The contract provided training on new equipment for personnel assigned to Army units and covered the period from September 19, 1986, through September 30, 1988. Offers were solicited from 65 firms. Six offerors submitted technical cost proposals, but only four were technically qualified. The technical proposals were determined to be qualified based on the review of resumes of individuals who were expected to perform on the contract. Prices of the four technically qualified offers were compared, and award was made to the lowest offeror, ATI. Based on the contracting officer's price comparison, a difference of 23-percent existed between the lowest and next lowest bids. However, the contracting officer did not examine the 23-percent variance to determine its cause.

Our review also showed that the contractor's technical and cost proposals were not compatible, even though these proposals were the only factors the contracting officer considered when awarding the contract. According to the technical proposal, 33 (75 percent) of the 44 individuals expected to perform on the contract were employed by ATI's subcontractor, BDM International, Incorporated (BDM), but ATI's cost proposal did not include costs associated with BDM's personnel. In addition, ATI proposed contract labor rates that ranged 10 to 23 percent lower than the rates BDM quoted to ATI for BDM personnel. There was no

assurance that ATI's labor rates were accurate, because ATI's cost proposal was not compatible with its technical proposal. Consequently, ATI's proposal was not truly competitive.

We believe the contracting officer should have analyzed the 23-percent cost difference between the ATI proposal and the next lowest competitor to ensure that the offerors understood the solicitation requirements and that the proposal was not submitted below anticipated costs, possibly to achieve a "buy-in." The FAR defines "buy-in" as an improper business practice; a proposal is submitted below anticipated costs, with the expectation to increase the contract price after award. For example, ATI's original technical proposal included a BDM employee at a proposed labor rate up to * per hour for several labor categories. Further review showed that ATI billed a total of 899 hours at * per hour for the same BDM employee after the contract was modified to add new labor rates.

Modification P00001. Modification P00001 was issued February 20, 1987, to incorporate seven new labor categories not originally proposed in the contract to perform delivery orders requiring Manpower Requirement Criteria (MARC) data collection. This occurred because 5 days after the Command awarded contract DAAK01-86-D-C071, the Command issued delivery order number 2, tasking ATI to review, collect, and update existing technical data in the Army's MARC data base. Delivery order number 2 is a distinct requirement that was beyond the original contract scope of work. Because the Command issued delivery order 2, ATI submitted a revised contract performance plan indicating that the types of personnel specified in the delivery order would not suffice for MARC data collection requirements. The contracting officer's justification requesting additional labor categories and rates, dated February 20, 1987, states "At the time the statement of work was initiated, requirements for these specific disciplines were not foreseen." Modification P00001 incorporated the new labor categories for the contractor's personnel to accomplish the MARC data collection requirements on delivery order number 2 and subsequent delivery orders requiring MARC data collection tasks. The new rates ranged from * to * per hour for five labor categories for the subcontractor, BDM.

We reviewed BDM's performance on 11 delivery orders, each priced at more than $100,000, that were issued for MARC data collection. The orders' labor costs totaled more than $3.2 million and represented * labor hours averaging * per hour. We compared the Army's statement of work, issued for MARC data collection on these 11 contract delivery orders, to the statement of work ATI issued to BDM. We found that the Army's statements of work for the MARC data collection, issued to ATI, were provided without change to the subcontractor, BDM. Appendix A shows an example of a statement of work for MARC data collection that ATI issued to BDM without change from the Army's



* Contractor proprietary data deleted.

statement of work, shown in Appendix B, issued to ATI. Under these circumstances, BDM performed all MARC requirements. We believe that ATI's performance was nothing more than a conduit for the MARC data collection tasks. BDM billed ATI labor and material costs totaling * million for the MARC data collection. BDM's costs represented * percent of the $4.0 million that the Army paid to ATI for these 11 delivery orders requiring MARC data collection. The contracting officer paid the prime contractor at least $500,000 for administering the Army's statement of work. The MARC data collection was a separate requirement that should have been competitively awarded to ensure that the Government obtained the best possible price. BDM's labor rates were added without benefit of an adequate evaluation of price reasonableness. Also, had the MARC data requirements been separately solicited, the Government would have had an opportunity to avoid at least $500,000 of additional prime contractor's charges for administering BDM's performance.

Follow-on Contract. Offers were solicited from 60 firms to perform new equipment training and MARC studies. Only two bids were received, one from ATI and one from a competitor. The competitor was determined to be technically unqualified because its proposal for project management was not adequate. The contracting officer concluded that ATI's price was fair and reasonable and awarded contract DAAK01-89-D-D001 to ATI on December 23, 1988, for a period of 3 years based on:

- receipt of competitive bids,

- comparison of ATI's proposed labor rates to labor rates proposed by the technically unqualified competition and,

- comparison of ATI's subcontractor (BDM) proposed labor rates to 1986 contract labor rates.

We reviewed these comparisons and found that the contracting officer did not adequately perform a price and cost analysis prior to awarding the follow-on contract. For example, we compared labor rates proposed by BDM to labor rates proposed by the technically unqualified competitor. BDM's labor rates ranged between 13 to 113 percent higher than the competitor's labor rates as follows.



* Contractor proprietary data deleted.

Comparison of Hourly Labor Rates Proposed

| Labor Category | BDM's Proposed Hourly Labor Rates | Competitor's Proposed Hourly Labor Rates | Difference | Percent |
|---|---|---|---|---|
| Principal Researcher | * | * | * | 113 |
| Senior Researcher | * | * | * | 13 |
| Associate Researcher | * | * | * | 113 |
| Staff Researcher | * | * | * | 45 |
| Support Researcher | * | * | * | 24 |

Additionally, a price comparison of proposed labor rates with 1986 contract labor rates provides questionable value since labor rates in 1986 were added without benefit of an adequate evaluation of the reasonableness of the labor rates. In our opinion, the contracting officer failed to detect significant price disparities between the competitor's bids, which could have affected the contract award decision. Because of the difference in requirements between new equipment training and MARC studies and the effect of inadequate price and cost analysis, we believe that the Command should solicit and competitively award a separate contract for MARC requirements.

Equipment Purchases. The contracting officer improperly used time-and-materials contracts to noncompetitively acquire nonexpendable equipment, such as computers, air conditioners, and a sandblaster. Fourteen delivery orders were issued on both the initial contract and the follow-on contract that required ATI to purchase various nonexpendable equipment. The contractor's purchases of nonexpendable equipment amounted to $129,723, without ATI having an approved purchasing system, as required by FAR, subpart 44.3, "Contractors' Purchasing Systems Reviews." Additionally, none of these items met the definition of materials for time-and-materials contracts in the FAR, because the items did not enter directly into an end item or were not consumed in performance of the contract. Army Regulation



* Contractor proprietary data deleted.

735-5, "Property Accountability--Policies and Procedures for Property Accountability," also defines material as that which is consumed in use or property that loses its identity in use. This includes assemblies, components, parts, raw and processed materials, and small tools and supplies that will be consumed during normal use in performing a contract. Property that is not consumed in use and retains its original identity during the period of use is classified as nonexpendable property. Nonexpendable property requires formal accountability throughout the life of the item using appropriate property book procedures.

Further, commercially available computers and related accessories accounted for $58,990 of the $129,723 nonexpendable equipment purchases. The Federal Information Resources Management Regulation states that when a contract is for something other than the acquisition of automatic data processing items or services, and commercially available automatic data processing equipment is to be used in contract performance, the agency will not require the contractor to acquire and manage these items or services in accordance with the management regulation. However, to ensure full and open competition, agencies will sever requirements for general-purpose, commercially available automatic data processing equipment from other contract requirements. Agencies should acquire data processing equipment in accordance with the management regulation, and provide them as Government-furnished equipment when it is operationally feasible to do so, and this action will promote economy and efficiency.

The contracting officer's purchase of nonexpendable equipment on both time-and-materials contracts also inhibited competition, because statements of work for both of the contract solicitations to potential offerors did not specify the equipment to be acquired. Thus, qualified contractors who could have provided the equipment were prevented from having an opportunity to submit an offer. Only ATI, which is capable of providing the required technical services, was available to participate in the equipment acquisitions. The contracting officer's procurement of equipment through ATI did not ensure that full and open competition was promoted or that the lowest overall cost of property items was achieved.

Contract Administration. The contracting officer responsible for contracts DAAK01-86-D-C071 and DAAK01-89-D-D001 did not execute proper administration or maintain surveillance on these time-and-materials contracts to ensure the reasonableness of costs incurred. The contracting officer's surveillance of the contractor's costs was limited to reviews of the contractor's invoices by a technical specialist who was not assigned COR responsibility. The administration of the contract was not adequate to determine if the contractor was providing qualified personnel for the labor rates invoiced and if the labor hours and other direct costs charged to the Government were reasonable.

The contracting officer did not appoint a COR or request DCAA's assistance to monitor the contractor's performance and costs. Normally, a COR is required when the contract administration responsibility is not assigned to the Defense Contract Management Command. We reviewed the prime contractor's and the subcontractor's personnel resumes and compared them to contractual labor requirements. We determined that the Command overpaid a total of $145,552 for personnel who did not possess the qualifications required for the labor categories invoiced on both contracts. The overpayment is detailed in Appendix C. In addition, we determined that the contracting officer did not direct the performance of on-site inspections and floor checks or did not substantiate the contractor's actual labor payment on a systematic basis. In addition, we were unable to substantiate the prime contractor's actual labor payments, because the contractor destroyed the original time cards for individuals who performed on these contracts. Overall, there was no assurance that costs charged to these two contracts were appropriate.

Summary. FAR, subpart 15.802 (b)(1), provides that for every procurement, the contracting officer must decide as to the fairness and reasonableness of the price the Government is going to pay for a product or a service. Our review showed that the contracting officer assigned to time-and-materials contracts DAAK01-86-D-C071 and DAAK01-89-D-D001 lacked the necessary business acumen and judgment to obtain a fair and reasonable price for the services and products procured. In addition, the contracting officer violated a fidiciary responsibility to the U.S. Army by allowing unnecessary expenditures of public funds when awarding, modifying, and administering both contracts.

## RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Commander, U.S. Army Troop Support Command:

1. Terminate the appointment of the contracting officer assigned to contracts DAAK01-86-D-C071 and DAAK01-89-D-D001 and assign the contracts to a new contracting officer.

2. Solicit and competitively award a separate contract for future Manpower Analysis Requirement Criteria requirements.

3. Assign a Contracting Officer's Representative and require that he request the Defense Contract Audit Agency to assist in tracking and maintaining surveillance of the contractor's performance and costs on contracts DAAK01-86-D-C071 and DAAK01-89-D-D001. The responsibilities of the Contracting Officer's Representative should include verifying the qualifications of contractor personnel used and the validity and reasonableness of labor and other direct costs charged to both contracts.

4 Discontinue the practice of acquiring nonexpendable equipment under contract DAAK01-89-D-D001 unless the items are incorporated into deliverable end products.

5. Obtain a refund of $145,552 from American Technical Institute for overpayment of personnel who did not possess the qualifications required for the labor categories invoiced on contracts DAAK01-86-D-C071 and DAAK01-89-D-D001.

## MANAGEMENT COMMENTS

The U.S. Army Contracting Support Agency, a branch of the Office of the Assistant Secretary of the Army (Research, Development and Acquisition) concurred in the finding and in each of the recommendations. Milestone completion dates were established for each of the planned actions: the contracting officer appointed to contracts DAAK01-86-D-C071 and DAAK01-89-D-D001 will be terminated as of October 1, 1990; action will be initiated by August 31, 1990, requesting necessary documents for a competitive contract for MARC requirements; and a surveillance plan will be implemented by October 31, 1990. The practice of acquiring nonexpendable equipment under a service contract was discontinued. The Army also concurred in the monetary benefits and will seek recovery of $145,552 from the contractor. The complete text of management comments is shown in Appendix F.

EXTRACT

STATEMENT OF WORK (SOW)
FOR
MANPOWER REQUIREMENTS CRITERIA (MARC)
MAINTENANCE BURDEN DATA (MBD) ON MULTIPLE LAUNCH
ROCKET SYSTEM (MLRS) AND CHAPARRAL MISSILE SYSTEM

1. SCOPE: Perform qualitative and quantitative personnel analysis review on MICOM LIN equipment as specified by Military Occupational Specialty (MOS) and/or Provisioning Contract Control Number (PCCN). This review will be limited to the MICOM National Inventory Control Point (NICP) managed equipment.

2. GENERAL REQUIREMENTS: The contractor shall provide all necessary labor, materials, supplies, services, and facilities, except as otherwise indicated as Government furnished, to accomplish an efficient completion of designated tasks as scheduled within this SOW. The specific work to be performed by the contractor will be performed in accordance with (IAW) instructions, technical data, and hardware incorporated in this SOW.

3. SPECIFIC REQUIREMENTS: The contractor shall review and update existing technical data in the Army MARC Maintenance Data Base utilizing Sample Data Collection (SDC), Subject Matter Expert (SME) panels, and Provisioning Master Record (PMR) retrievals and will fill all data elements/fields utilizing various sources to include, but not limited to TMs, FMs, ARs, MAC charts, Mil. Specs., Mil Standards or MSC Subject Knowledgeable Experts (SKE).

   a. All data collection meetings will be conducted at the contractor's, subcontractor's, or government facilities as identified by the Government.

   b. All MBD verification/validation (V/V) meetings will be conducted at the contractor's, subcontractor's, or government facilities as identified by the Government, utilizing Government furnished SMEs.

   c. Any required data void meetings will be conducted at Government facilities utilizing Government furnished Subject Knowledgeable Experts (SKEs).

   d. All changes incurred in MBD at any meeting will be documented by contractor personnel with an audit trail for those changes established.

e. All data collected will be provided to the Government IAW AR 570-2, Supplement 1, Appendix G, MARC MED format.

f. Data deliverables will be forwarded to the American Technical Institute. Submissions will include, but are not limited to:

(1) IBM PC compatible microcomputer floppy diskette per PCCN prior to SMEP changes.

(2) Hard copy of SMEP report with review changes.

(3) IBM PC compatible microcomputer floppy diskette per PCCN after SMEP V/V with changes incorporated.

(4) Hard copy of Appendix G Roll-up.

(5) IBM compatible microcomputer floppy diskette of validated Appendix G Roll-up.

(6) Magnetic 9 track, 1600 BPI tape of AR 570-2, Supplement 1, Appendix G formatted Roll-up for MRSA.

(7) Audit trail report of changes identified in the MICOM SME data void working group and the Logistics Center's SME panel V/V.

g. The contractor/subcontractor will accomplish these requirements utilizing but not limited to the following steps.

(1) Review data currently available and apply to TMMDP.

(2) Enhancement/implementation of TMMDP program, as necessary to accomplish this effort.

(3) Produce hard copy data void MICOM SME panel working group reports.

(4) Document data changes, source, and reason into TMMDP.

(5) Produce hard copy Logistics Center's SME panel V/V reports.

(6) Document data to include changes, source, and reason.

(7) Establish audit trail for data, changes, sources, and reasons.

(8) Produce magnetic tape in AR 570-2, Supplement 1, Appendix G, format.

(9) Provide IBM PC floppy diskettes for all data files.

(10) Provide all floppy diskette deliverables in a 3 ring hard binder.

4. GOVERNMENT FURNISHED SERVICES, EQUIPMENT, AND SUPPLIES: The Government will furnish the below listed services, equipment, and supplies.

a. Limited access to Government Data Banks.

b. Referenced technical publications and documents.

c. Personnel to fill the requirements on SKE and SME panels.

d. Technical representatives upon request of the contractor.

e. Facilities, equipment, and services when SKE or SME panels are conducted at a Government site.

5. SCHEDULE:

| SCHEDULED SMEP DATE | SCHEDULED DELIVERY DATE | NOMENCLATURE | FCCN |
|---|---|---|---|
| FEB 88 | MAR 88 | Multiple Launch Rocket System | 35 |
| MAR 88 | APR 88 | Chaparral Missile System | 31 |

Figure 1-1, on the next page, graphically presents the work schedule for this Statement of Work.

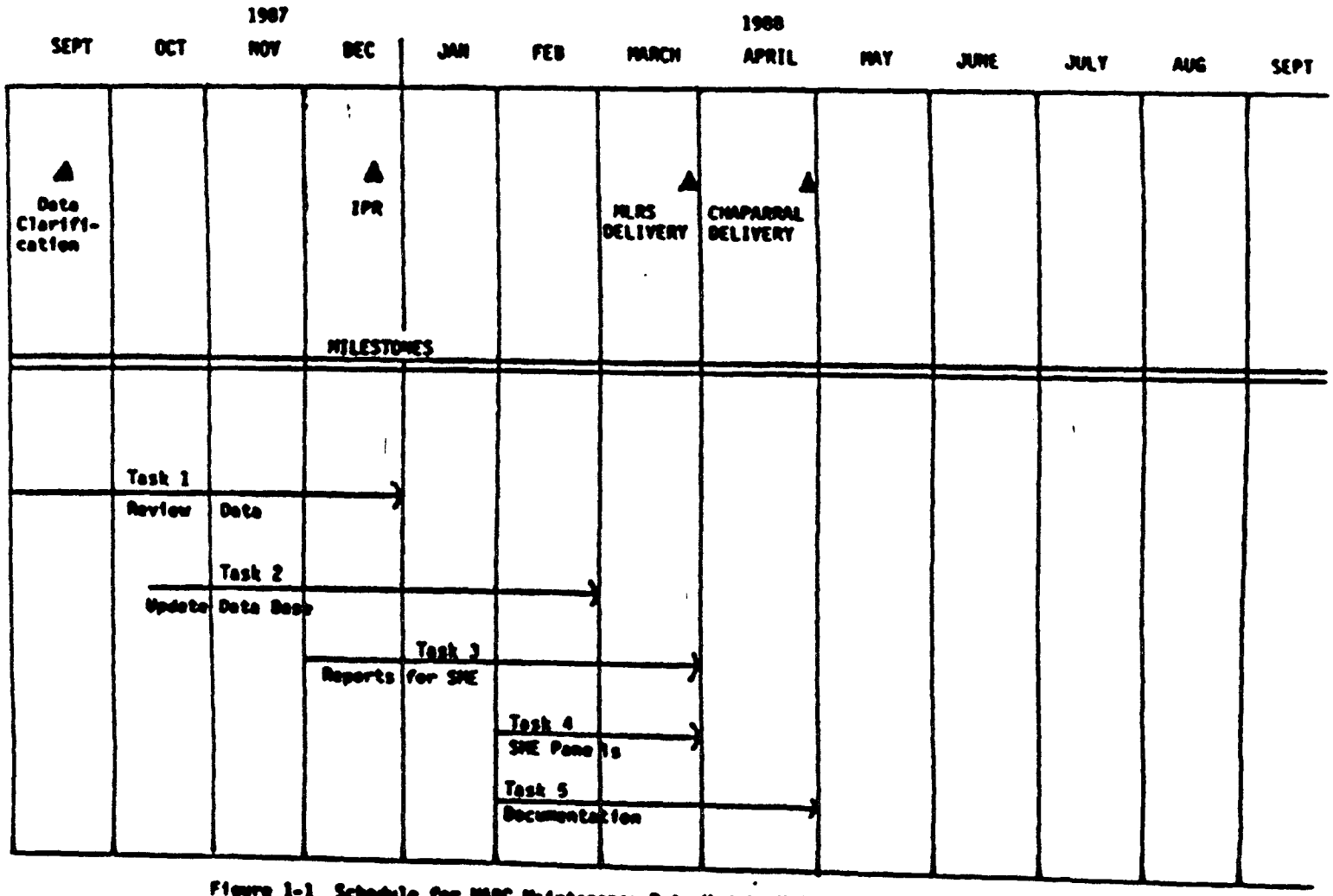


Figure 1-1 Schedule for MARC Maintenance Data Update MICOM MLRS and Chaparral

STATEMENT OF WORK (SOW)
FOR
MANPOWER REQUIREMENTS CRITERIA (MARC)
MAINTENANCE BURDEN DATA (MBD) ON MULTIPLE LAUNCH
ROCKET SYSTEM (MLRS) AND CHAPARRAL MISSILE SYSTEM

1. Scope: Perform qualitative and quantitative personnel analysis review on MICOM LIN equipment as specified by Military Occupational Specialty (MOS) and/or Provisioning Contract Control Number (PCCN). This review will be limited to the MICOM National Inventory Control Point (NICP) managed equipment.

2. General Requirements: The contractor shall provide all necessary labor, materials, supplies, services, and facilities, except as otherwise indicated as Government furnished, to accomplish an efficient completion of designated tasks as scheduled within this SOW. The specific work to be performed by the contractor will be performed in accordance with (IAW) instructions, technical data, and hardware incorporated in this SOW.

3. Specific Requirements: The contractor shall review and update existing technical data in the Army MARC Maintenance Data Base utilizing Sample Data Collection (SDC), Subject Matter Expert (SME) panels, and Provisioning Master Record (PMR) retrievals and will fill all data elements/fields utilizing various sources to include, but not limited to TMs, FMs, ARs, MAC charts, Mil. Specs., Mil Standards or MSC Subject Knowledgeable Experts (SKE).

a. All data collection meetings will be conducted at the contractor's, subcontractor's, or government facilities as identified by the Government.

b. All MBD verification/validation (V/V) meetings will be conducted at the contractor's, subcontractor's, or government facilities as identified by the Government, utilizing Government furnished SMEs.

c. Any required data void meetings will be conducted at Government facilities utilizing Government furnished Subject Knowledgeable Experts (SKEs).

d. All changes incurred in MBD at any meeting will be documented by contractor personnel with an audit trail for those changes established.

e. All data collected will be provided to the Government IAW AR 570-2, Supplement 1, Appendix G, MARC MBD format.

f. Data deliverable will be forwarded to the Commander, U.S. Army Troop Support Command, ATTN: AMSTR-MSE (Mr. Dennis Hardesty), 4300 Goodfellow Blvd., St. Louis, MO 63120-1798, who will accomplish necessary coordination for acceptance. Submissions will include, but not limited to:

(1) IBM PC compatible microcomputer floppy diskette per PCCN prior to SMEP changes - 1 each.

(2) Hard copy of SMEP report with review changes - 1 each.

(3) IBM PC compatible microcomputer floppy diskette per PCCN after SMEP V/V with changes incorporated - 1 each.

(4) Hard copy of Appendix G Roll-up - 1 each.

(5) IBM compatible microcomputer floppy diskette of validated Appendix G Roll-up - 1 each.

(6) Magnetic 9 track, 1600 BPI tape of AR 570-2, Supplement 1, Appendix G formatted Roll-up to MRSA - 1 each.

(7) Audit trail report of changes identified in the MICOM SME data void working group and the Logistics Center's SME panel V/V - 1 each.

g. The contractor/subcontractor will accomplish these requirements utilizing but not limited to the following steps.

(1) Review data currently available and apply to TMMDP.

(2) Enhancement/implementation of TMMDP program, as necessary to accomplish this effort.

(3) Produce hard copy data void MICOM SME panel working group reports.

(4) Document data changes, source, and reason into TMMDP.

(5) Produce hard copy Logistics Center's SME panel V/V reports.

(6) Document data to include changes, source, and reason.

(7) Establish audit trail for data, changes, sources, and reasons.

(8) Produce magnetic tape in AR 570-2, Supplement 1, Appendix G, format.

(9) Provide IBM PC floppy diskettes for all data files.

(10) Provide all floppy diskette deliverables in a 3 ring hard binder.

4. Schedules and Equipment: The attached listing of MICOM POCN equipment and the below delivery schedule will be adhered to without any slippages impacting MARC requirement.

| SCHEDULED SMEP DATE | SCHEDULED DELIVERY DATE | NOMENCLATURE | POCN |
|---|---|---|---|
| FEB 88 | MAR 88 | MULTIPLE LAUNCH ROCKET SYSTEM | 35 |
| MAR 88 | APR 88 | CHAPARRAL MISSILE SYSTEM | 31 |

Figure 1-1, next under, graphically presents the work schedule for this Statement of Work.

Special Note: The above schedule is predicated on the contractor's receipt of the Delivery Order by September 10, 1987.

5. Access to Classified Materials: The contractor or subcontractor having an authorized Industrial Clearance will be authorized access to classified information on an "as needed basis". The restrictions on access are stated in the attached DD Form 254.

6. Government Furnished Services, Equipment, and Supplies: The Government will furnish the below listed services, equipment, and supplies.

a. Limited access to Government Data Banks.

b. Referenced technical publications and documents.

c. Personnel to fill the requirements on SKE and SME panels.

d. Technical representatives upon request of the contractor.

e. Facilities, equipment, and services when SKE or SME panels are concerned at a Government site.

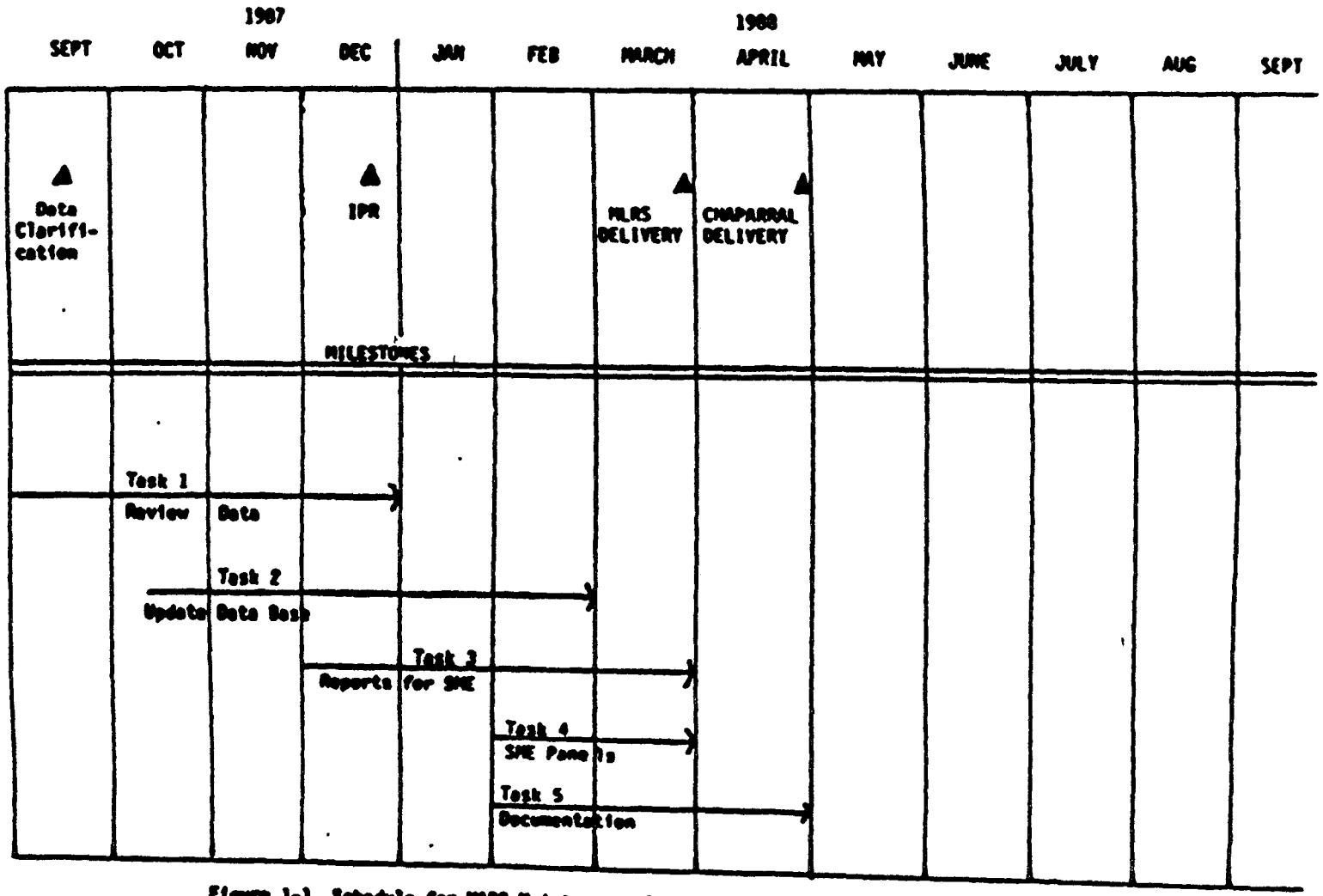


Figure 1-1 Schedule for MARC Maintenance Data Update MICOM MLRS and Chaparral

## SCHEDULE OF LABOR DOLLARS OVERPAID

| Prime/Sub Contractor | Contract Number | Labor Category Billed | Hourly Rate Billed | Labor Category Qualified | Hourly Rate of Category Qualified | Difference of Hourly Rates | Number of Personnel Affected | Number of Hours Affected | Total Labor Dollars Overpaid |
|---|---|---|---|---|---|---|---|---|---|
| Prime | DAAK01-86-D-0071 | Engineer Technician | * | Equipment Specialist | * | * | 21 | * | $ 41,484.13 |
| Sub | DAAK01-86-D-0071 | Staff Researcher | * | Support Researcher | * | * | 3 | * | 25,876.45 |
| Sub | DAAK01-86-D-0071 | Associate Researcher | * | Staff Researcher | * | * | 5 | * | 36,261.79 |
| Sub | DAAK01-86-D-0071 | Senior Researcher | * | Associate Researcher | * | * | 1 | * | 184.96 |
| Prime | DAAK01-89-D-0001 | Engineer Technician | * | Equipment Specialist | * | * | 1 | * | 15,514.42 |
| Sub | DAAK01-89-D-0001 | Staff Researcher | * | Support Researcher | * | * | 2 | * | 7,297.64 |
| Sub | DAAK01-89-D-0001 | Associate Researcher | * | Staff Researcher | * | * | 1 | * | 1,671.00 |
| Sub | DAAK01-89-D-0001 | Senior Researcher | * | Associate Researcher | * | * | 1 | * | 17,261.48 |
| | Totals | | | | | | | 28,385.50 | $145,551.87 |

* Contractor proprietary data deleted.

## SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

| Recommendation Reference | Description of Benefit | Amount and/or Type of Benefit |
|---|---|---|
| 1., 3., and 4. | Compliance with Acquisition Regulations. Correct deficiencies that contribute to improper award and inappropriate administration of two time-and-materials contracts. | Nonmonetary |
| 2. | Economy and Efficiency. Future cost avoidance by competing future Manpower Analysis Requirements Criteria requirements. | Undeterminable: Monetary benefits cannot be calculated. |
| 5. | Economy and Efficiency. Refund as a result of U.S. Army Troop Support Command overpaying contractor personnel that did not possess the qualifications required by the contract at the labor rate paid. | Questioned Cost: One-time collection of $145,552 under appropriations 2172020, 2182020, and 2192020 to be initiated by U.S. Army Troop Support Command. |

## ACTIVITIES VISITED OR CONTACTED

Department of the Army

Commander, U.S. Army Materiel Command
Commander, U.S. Army Troop Support Command

Contractors

American Technical Institute, Division of American Educational Complex, Killeen, TX
BDM International, Incorporated, McLean, VA

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
U.S. ARMY CONTRACTING SUPPORT AGENCY
5109 LEESBURG PIKE
FALLS CHURCH, VIRGINIA 22041-3201

REPLY TO
ATTENTION OF
SFRD-KAS

10 SEP 1990

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, ATTN: CONTRACT MANAGEMENT DIRECTORATE, 400 ARMY NAVY DRIVE, ARLINGTON, VIRGINIA 22202

SUBJECT: Report on the Audit of Administration of Time-and-Materials Contracts at the U.S. Army Troop Support Command (Project No. OCF-0018)

1. Reference your memorandum of July 31, 1990, subject as above. The following comments are provided for your consideration in preparing the final report:

- Recommendation 1. Terminate the appointment of the contracting officer assigned to contracts DAAK01-86-D-C071 and DAAK01-89-D-D001 and assign the contracts to a new contracting officer.

  Action Taken - Concur. The termination of the appointment and the assignment of a new contracting officer will take effect as of October 1, 1990.

- Recommendation 2. Solicit and competitively award a separate contract for future Manpower Analysis Requirement Criteria requirements.

  Action Taken - Concur. The requirer of this effort has been informed of the action to cease placing delivery orders for this effort. A memorandum requesting the necessary documents to institute a new competitive contract will be forwarded by August 31, 1990. The partial Termination for Convenience of this effort will be effected by September 14, 1990.

- Recommendation 3. Assign a Contracting Officer's Representative and request the Defense Contract Audit Agency to track and maintain surveillance of the contractor's performance and costs on contracts DAAK01-86-D-C071 and DAAK01-89-D-D001. The responsibilities of the Contracting Officer's Representative should include verifying the qualifications of contractor personnel used, and the validity and reasonableness of labor and other direct costs charged to both contracts.

Action Taken - Concur. A surveillance plan, to include Contracting Officer's Representative appointment, Defense Contract Audit Agency, and Defense Contract Administration Services Management Area involvement, will be implemented by October 31, 1990.

- Recommendation 4. Discontinue the practice of acquiring nonexpendable equipment under contract DAAK01-89-D-D001 unless the items are incorporated into deliverable end products.

  Action Taken - Concur. This practice has been discontinued.

- Recommendation 5. Initiate action to obtain a refund of $145,552 from American Technical Institute for overpayment of personnel who did not possess the qualifications required for the labor categories invoiced on contracts DAAK01-86-D-C071 and DAAK01-89-D-D001.

  Action Taken - Concur. Action to obtain a refund of $145,552 from the contractor will be initiated by letter to be forwarded by September 28, 1990.

  Concur with the potential monetary benefits. However, the final amount received from the contractor may vary from the estimated amount due to disputes which may arise with regard to the interpretation of the qualifications required for the labor categories.

2. POC for this action is Mr. William A. Kley, 756-7574.

NICHOLAS R. HURST
Brigadier General, GS
Director, U. S. Army Contracting Support Agency

CF:
SARD-ZE
SAIG-PA
AMCIR-A

## AUDIT TEAM MEMBERS

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Jerry Hall, Auditor
Edward Lustberg, Auditor
Carey Campbell, Auditor

## FINAL REPORT DISTRIBUTION

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Assistant Secretary of Defense (Production and Logistics)
Deputy Assistant Secretary of Defense (Procurement)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Assistant Secretary of the Army (Research, Development and Acquisition)
U.S. Army Materiel Command
U.S. Army Troop Support Command

Non-DoD Activities

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