

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**CONTROL OF OVER AND ABOVE WORK FOR CONTRACT
DEPOT MAINTENANCE**

Report Number 93-005

October 15, 1992

Department of Defense



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

October 15, 1992

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on the Control of Over and Above
Work for Contract Depot Maintenance
(Report No. 93-005)

We are providing this final report for your information and use. Comments from the Navy and Air Force on the draft of this report were considered in preparing this final report. The audit evaluated the management of over and above clauses in weapon systems repair and overhaul contracts.

A draft of this report was provided to the addressees for comments on June 18, 1992. The Navy and Air Force concurred with the recommendation and appropriate actions are being taken. Formal comments were not received from the Army for inclusion in this report. DoD Directive 7650.3 requires that all recommendations be resolved promptly; therefore, comments are requested from the Army by December 14, 1992. This report identifies no quantifiable monetary benefits.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Dennis Payne at (703) 692-3414 (DSN 222-3414) or Mr. Joseph Austin at (703) 692-3417 (DSN 222-3417). The distribution of this report is listed in Appendix C.

A handwritten signature in cursive script, reading "E. Jones", is positioned above the typed name.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosure

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force
Assistant Secretary of Defense (Production and Logistics)

Office of the Inspector General, DoD

AUDIT REPORT NO. 93-005
(Project No. 1LB-0049)

October 15, 1992

CONTROL OF OVER AND ABOVE WORK FOR
CONTRACT DEPOT MAINTENANCE

EXECUTIVE SUMMARY

Introduction. Contracts for weapon systems maintenance, repair, and overhaul commonly include over and above work clauses that provide for contract modifications to allow the contractor to repair components that need work exceeding the scope of the basic contract.

Objective. Our audit objective was to determine the effectiveness of the management of over and above clauses in weapon systems repair and overhaul contracts.

Audit Results. An excessive quantity of low value over and above work requests was being processed. Eighty-five percent of the requests for the eight contracts reviewed were for less than \$1,000. As a result, opportunities to reduce the contractor and DoD administrative costs required to prepare and process these requests were missed.

Internal Controls. The internal controls applicable to processing and approving over and above work requests were deemed to be effective in that no material deficiencies were disclosed during the audit. Additional details are provided in the Internal Controls section in Part I of this report.

Potential Benefits of Audit. The potential monetary benefits could not be quantified. Additional details on the other benefits are included in Appendix A.

Summary of Recommendations. We recommended that the Military Departments reduce the use of over and above contract modifications on weapon system repair and overhaul contracts by expanding the scope of work included within the basic contract provisions to include all low valued labor tasks required to meet the applicable weapon system repair and overhaul specifications.

Management Comments. The Assistant Secretary of the Navy (Research, Development, and Acquisition) and the Deputy Assistant Secretary of the Air Force for Acquisition concurred with the recommendation. Actions taken and planned are responsive to our recommendation.

Informal comments received from the Army requested that we redirect the recommendation from the Assistant Secretary of the Army (Research, Development, and Acquisition) to the Assistant Secretary of the Army (Installations, Logistics, and Environment). This final report accommodates this request.

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This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Information Officer, Audit Planning and Technical Support Directorate, at (703) 614-6303 (DSN 224-6303).

PART I - INTRODUCTION

Background

Contracts for weapon systems maintenance, repair, and overhaul commonly include over and above clauses that provide for contract modifications to allow the contractor to repair components that need work exceeding the scope of the basic contract. The contracts typically include firm fixed prices, established through competition, for work covered by the scope of the basic contract. The price for over and above work is usually determined through negotiations between the contractor and government contracting officer and not through competition.

Objective

Our audit objective was to determine the effectiveness of the management of over and above clauses in weapon systems repair and overhaul contracts.

Scope

Review of guidance. We reviewed the Military Departments' and Defense Contract Management Command's guidance on managing over and above clauses in weapon systems repair and overhaul contracts to determine if the applicable policies and procedures for controlling over and above work were adequate.

Review of practices and procedures. We evaluated the effectiveness of the Government and contractor practices and procedures for requesting, processing, and approving over and above work requests during FY 1991 for the following eight judgmentally selected repair and overhaul contracts.

CONTRACTS REVIEWED

<u>Military Department</u>	<u>Contractor</u>	<u>Contract Number</u>	<u>Weapon System</u>
Army	Boeing	DAAJ09-89-C-A010	CH-47 Helicopter
Navy	Lockheed	N68520-90-D-0056	C-9 Aircraft
Navy	Southwest	N62791-91-C-0093	CG-30 Ship
Navy	Marine Continental	N62791-91-C-0024	CG-29 Ship
	Maritime		
Air Force	PEMCO	F09603-87-C-0567	C-130 Aircraft
Air Force	PEMCO	F34601-90-C-0286	KC-135 Aircraft
Air Force	Kovatch	F09603-88-D-2947	Peacekeeper Vehicle
Air Force	Kovatch	F09603-87-D-1068	Aviation Fire Truck

The contracts were selected from listings provided by the Defense Contract Management Command and the Navy Supervisor of Shipbuilding, Conversion, and Repair. The contracts were judgmentally selected from these listings to provide a representative sample of Army, Navy, and Air Force contracts that used over and above clauses for the repair and overhaul of land, sea, and aviation weapon systems.

During FY 1991, the contractors submitted 43,579 requests for over and above labor tasks, valued at \$50.8 million, for these eight contracts. We statistically selected for review 545 of the over and above work requests, valued at \$3.4 million. The statistical sample was used to obtain a representative sample of requests for review. The sample results are not projectable beyond the individual contracts reviewed. No consolidated universe of all over and above requests submitted under DoD maintenance, repair, and overhaul contracts existed. Over and above work requests involving the acquisition of materials and supplies were not reviewed.

Engineering assistance. Engineering specialists from the Office of the Inspector General, DoD, assisted the auditors in evaluating the processing of over and above work requests. This included an evaluation of the potential for reducing the costs of over and above labor tasks by developing engineered labor standards.

Auditing standards. This economy and efficiency performance audit was made from July 1991 through March 1992 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. Activities visited or contacted during the audit are listed in Appendix B.

Internal Controls

We evaluated the internal controls established by the Military Departments and the Defense Contract Management Command for processing and approving over and above work requests. For the eight contracts reviewed, the internal controls were deemed to be effective in that no material deficiencies were disclosed by the audit.

Prior Audits and Other Reviews

The Office of the Assistant Inspector General for Investigations issued fraud prevention survey report, "Aircraft Programmed Depot Level Maintenance (Project No. 8632010)," April 23, 1986. The scope of the survey covered an evaluation of the over and above work performed under a contract awarded to Grumman Aerospace

Corporation, Stuart, Florida, for the repair and overhaul of the OV-1 Mohawk aircraft. The report concluded that a large portion of the over and above tasks were for low value repetitive tasks. To reduce the administrative costs required to process and approve these low value tasks, the Assistant Inspector General for Investigations recommended that future contracts include these low value repetitive tasks in the basic contract price. Actions have been taken to implement the recommendation.

Other Matters of Interest

Engineering specialists from the Office of the Inspector General, DoD, evaluated the potential for reducing the costs of over and above labor tasks by developing engineered labor standards. Engineering labor standards are developed through a series of physical observations of the work tasks accompanied by detailed analyses designed to determine the most efficient and effective method of performing a labor task. Because of the high cost of developing engineered labor standards, their use is generally limited to high cost and high volume labor tasks. Only 4 of the 43,579 over and above work requests included in our review were for more than \$100,000. These tasks were also low volume tasks occurring only one to four times during FY 1991. We concluded that while there may be limited instances in which it would be beneficial to engineer over and above labor tasks, the general lack of high cost and high volume over and above labor tasks limits the cost-effectiveness of developing engineered labor standards for these tasks.

PART II - FINDING AND RECOMMENDATION

PROCESSING LOW VALUE OVER AND ABOVE WORK REQUESTS

An excessive quantity of low value over and above work requests were being processed. Eighty-five percent of the requests for the eight contracts reviewed were for less than \$1,000. This was caused primarily by contracting officers narrowly defining the scope of work included in the basic contract provisions. As a result, opportunities to reduce the number of over and above work requests submitted by contractors and the related contractor and DoD administrative costs required to prepare and process these requests were missed.

DISCUSSION OF DETAILS

Background

Contract administration responsibilities. Contract administration responsibilities for the eight contracts reviewed were assigned to either the Defense Contract Management Command of the Defense Logistics Agency or the Navy Supervisor of Shipbuilding, Conversion, and Repair. General contract administration guidance for processing and approving contract modifications, including those related to over and above work requests, is contained in Part 43 of the Federal Acquisition Regulation. This guidance requires the contractor to notify the government administrative contracting officer when the repair of a particular item will exceed the scope of the original contract. The notification must contain a description of the work and, unless already established by the contract provisions, a definitive cost estimate. The regulation requires the government administrative contracting officer to review the proposal to determine the reasonableness of the request and the proposed cost. If determined to be reasonable, and if funds are available, the contracting officer may approve a contract modification.

Implementing procedures. Internal control procedures for implementing Part 43 of the Federal Acquisition Regulation for over and above work requests are contained in Defense Logistics Agency Manual 8200.5, "In-Plant Quality Evaluation," Part 19, and in Supervisor of Shipbuilding San Diego Instruction 4265.1B, "Field Negotiation Change Orders." Although there are some variations between these documents, they established the following general procedures for requesting, processing and approving over and above work requests.

o The contractor prepares and submits to the government administrative contracting officer a separate over and above work request for each weapon system repair and overhaul task that the

contractor believes should be performed that is not within the contract's basic scope of work. The request must, unless the cost is already established by the contract provisions, contain a detailed cost estimate including detailed labor hour estimates.

- o The government quality assurance representative reviews the request, assesses the need for the work, and makes a preliminary determination whether the task is included within the contract's basic scope of work.

- o The government industrial specialist reviews the estimated labor hours and assesses their reasonableness.

- o The government pricing specialist reviews the contractor's cost estimate and assesses its reasonableness. (For the contracts reviewed, the cost for a limited number of high value tasks was preestablished in the contract provisions.)

- o The government administrative contracting officer reviews the request and the advice provided by the government quality assurance representative, government industrial specialists, and government pricing specialist; makes a determination on whether the task is included within the contract's basic scope of work; negotiates any disputes with the contractor; and either approves or disapproves the request.

- o Government clerical personnel enter each approved request into either a manual or automated management control system, and prepare the contract modification incorporating the over and above work for the administrative contracting officer's approval. Usually several approved over and above work requests are consolidated into a single contract modification.

Processing of Low Value Over and Above Work Requests

Value of over and above work requests. Contractors submitted 43,579 work requests valued at \$50.8 million for over and above labor tasks for the eight contracts reviewed during FY 1991. The value of these requests ranged from \$11 to \$495,400. Although requests under \$1,000 accounted for only 18 percent of the total dollar value of requests submitted, these low value requests accounted for 85 percent of the total requests submitted. The average value of these low value requests was only \$245, and the labor tasks ranged from approximately 2 hours to 10 hours. An additional 11 percent of the requests was for tasks between \$1,000 and \$5,000. Only 4 percent of the 43,579 requests were for more than \$5,000. The following table further illustrates the low value of these over and above work requests.

**VALUE OF FY 1991 OVER AND ABOVE WORK REQUESTS
FOR REVIEWED CONTRACTS**

<u>Value Range</u>	<u>Requests</u>		<u>Dollar Value</u>		<u>Average Value (b)/(a)</u>
	<u>Number (a)</u>	<u>Percent</u>	<u>Amount (b)</u>	<u>Percent</u>	
Over \$5,000	1,738	4	\$30,661,156	60	\$17,642
\$1,000 - \$5,000	4,958	11	11,126,824	22	2,244
Under \$1,000	<u>36,883</u>	85	<u>9,020,829</u>	18	245
	<u>43,579</u>		<u>\$50,808,809</u>		

Administrative cost to process low value requests.

Sufficient records were not available to determine the actual amount of administrative time and related cost spent preparing and processing low value over and above work requests. Cognizant government contract administrative personnel estimated that the amount of contractor and government administrative time required to fully accomplish all requirements for preparing and processing low value over and above work requests under \$1,000 could range from 36 minutes to 12 hours. This variance depends on the complexity of the tasks and whether disputes arise during the review process over the need for the work or its costs.

We believe that the 36 minute to 12-hour estimate to fully accomplish all administrative processing requirements for over and above work requests under \$1,000 is realistic. However, at an average administrative labor cost of \$44 per hour this represents an administrative cost of between \$26 and \$528 to prepare and process over and above work requests that were valued at an average of only \$245. The \$44 labor rate represents the composite average labor rate, including fringe benefits and overhead costs, for the contractor and government personnel involved in processing and approving over and above work requests during FY 1991 for the eight contracts reviewed. For the 36,883 over and above work requests under \$1,000 on the contracts we reviewed, this represents an administrative cost of between \$959,000 and \$19.5 million. Considering that these low value requests under \$1,000 amounted to only \$9.0 million, expending the amount of time and related administrative costs required to fully accomplish all requirements appears to be inefficient and uneconomical.

Reducing Administrative Processing Costs

Narrow scope of work definitions. The major impediment to reducing the number of low value over and above work requests and the related administrative costs required to process the requests was the narrowly defined scope of work included by contracting

officers in the basic contract provisions. Contracting officers did not fully consider during the contract award process the amounts and types of low value tasks required to meet applicable weapon system repair and overhaul specifications. This impediment was exemplified by Air Force contract F09603-87-C-0567 for depot maintenance of the C-130 aircraft. For instance, four over and above work requests included in our review provided for the inspection and reinstallation of parts, such as batteries, that were removed during maintenance operations. This occurred because the basic scope of work in this contract was narrowly defined to include only the removal of these parts and not their inspection and reinstallation. This impediment is further illustrated by a provision in this contract that required the contractor to weigh and balance the aircraft, but did not specifically provide for the jacking of the aircraft, which was required to accomplish this task. Once again this narrow scope of work definition led to the cost of preparing and processing over and above work requests. Similar conditions were found on the other seven contracts reviewed.

Historical experience. For the eight contracts reviewed, the contractors had from 2 years to 26 years of experience providing repair and overhaul work for the covered weapon systems. These years of historical experience provided a considerable amount of information on the amounts and types of low value tasks required to accomplish basic repair and overhaul work for the covered weapon systems. If the scope of work covered by the basic contract provisions for these eight contracts were expanded by the contracting officer to include low value tasks required to meet the applicable weapon systems repair and overhaul specifications instead of narrowly defining the specific tasks covered, the need for low value over and above work requests could have been reduced or eliminated. This would also have reduced the FY 1991 contractor and DoD administrative costs needed to prepare and process over and above work requests under these contracts. An added advantage of including low value tasks within the scope of the basic contract is that their costs would have been subjected to the cost reduction effects of price competition from other competing vendors.

Expanded scope being tested. In response to concerns with the excessive costs required to process low value over and above work requests, at the time of audit a contracting officer was testing the concept of expanding the scope of the work covered by the basic contract provisions under contract F34601-90-C-0286 with PEMCO Aeroplex Inc., for the repair and overhaul of the KC-135 aircraft. In FY 1991, the contractor submitted 10,345 over and above work requests valued at \$15.1 million. Of the 10,345 requests, 8,494 (82 percent) valued at \$2.8 million were for tasks valued at less than \$1,000.

The contracting officer amended this contract for FY 1992 to eliminate all over and above work requests requiring 10 or fewer hours of labor effort. Any work requiring 10 or fewer hours would be considered part of the basic statement of work. Based on historical information available, the basic contract price was increased by \$244,000 to compensate the contractor for the estimated cost of performing these low value tasks. This action resulted in a 72-percent reduction in the number of over and above work requests under \$1,000 from an average of 708 per month during FY 1991 to an average of 195 per month during the first 6 months of FY 1992. Although sufficient information was not available at the time of audit to fully assess the effectiveness of this test, we believe that this is a step in the right direction and should produce administrative cost savings.

RECOMMENDATION FOR CORRECTIVE ACTION

We recommend that the Assistant Secretary of the Army (Installations, Logistics, and Environment); Assistant Secretary of the Navy (Research, Development, and Acquisition); and the Assistant Secretary of the Air Force (Acquisition) provide guidance to contracting officers to reduce the use of over and above contract modifications on weapon system repair and overhaul contracts by expanding the scope of work included within the basic contract provisions of weapon system repair and overhaul contracts to include all low value labor tasks required to meet the applicable weapon system repair and overhaul specifications. Where sufficient historical information is available, this should, at a minimum, include all low value tasks valued at less than \$1,000.

MANAGEMENT COMMENTS

Formal comments were not received from the Army for inclusion in this report. The draft report addressed the recommendation to the Assistant Secretary of the Army (Research, Development, and Acquisition). The representative of the Assistant Secretary of the Army (Research, Development, and Acquisition) requested that in the final report the recommendation be redirected to the Assistant Secretary of the Army (Installations, Logistics, and Environment). This final report accommodates this request.

The Assistant Secretary of the Navy (Research, Development and Acquisition) concurred with the recommendation and stated that the Navy routinely includes frequently occurring over and above work in statements of work for maintenance and repair contracts. In an effort to reduce the administrative costs needed to prepare and process over and above work requests, the Navy issued a memorandum to procurement activities stating that contracting officers should reduce the use of over and above contract

modifications by expanding the scope of work for tasks valued at less than \$1,000 when sufficient historical data are available. The complete text of the Navy's comments is in Part IV of this report.

The Assistant Secretary of the Air Force for Acquisition concurred with the intent of the recommendation. The Air Force Materiel Command will draft a new provision to include in Section I of solicitations and contracts for overhaul and repair efforts stating that low dollar value over and above tasks will be considered as part of the basic statement of work. The anticipated completion date is February 28, 1993. The complete text of the Air Force's comments is in Part IV of this report.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The Navy and Air Force's comments to the recommendation are responsive and additional comments are not required. The Assistant Secretary of the Army (Installations, Logistics, and Environment) is requested to provide comments by December 14, 1992.

PART III - ADDITIONAL INFORMATION

APPENDIX A - Summary of Potential Benefits Resulting from
Audit

APPENDIX B - Activities Visited or Contacted

APPENDIX C - Report Distribution

APPENDIX A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Type of Benefit</u>
Recommendation	<u>Economy and Efficiency.</u> Number of over and above work requests will be reduced resulting in lower administration costs.	<u>Funds Put to Better Use.</u> Monetary benefits cannot be quantified.

APPENDIX B: ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Deputy Assistant Secretary of Defense (Logistics), Office of the Assistant Secretary of Defense (Production and Logistics), Washington, DC

Department of the Army

Chief of Staff for Logistics, Office of the Deputy Chief of Staff for Logistics, Washington, DC
Army Materiel Command, Alexandria, VA
Aviation Systems Command, St. Louis, MO
Communications-Electronics Command, Ft. Monmouth, NJ
Depot Systems Command, Chambersburg, PA

Department of the Navy

Office of the Assistant Secretary of the Navy (Research, Development, and Acquisition), Arlington, VA
Naval Air Systems Command, Arlington, VA
Naval Sea Systems Command, Arlington, VA
Naval Aviation Depot Operations Center, Patuxent River, MD
Naval Air Test Center, Patuxent River, MD
Supervisor of Shipbuilding, Conversion, and Repair, San Diego, CA

Department of the Air Force

Deputy Chief of Staff (Logistics and Engineering), Washington, DC
Air Force Logistics Command, Wright Patterson Air Force Base, OH
Oklahoma City Air Logistics Center, Tinker Air Force Base, OK
San Antonio Air Logistics Center, Kelly Air Force Base, TX
Warner Robins Air Logistics Center, Robins Air Force Base, GA

Defense Agency

Defense Logistics Agency, Alexandria, VA
Defense Contract Management Command, Alexandria, VA
Defense Contract Management Command International, Wright-Patterson Air Force Base, OH
Defense Contract Management District, Mid-Atlantic, Philadelphia, PA
Defense Contract Management District, North Central, Chicago, IL
Defense Contract Management District, Northeast, Boston, MA

APPENDIX B: ACTIVITIES VISITED OR CONTACTED (cont'd)

Defense Contract Management District, South, Marietta, GA
Defense Contract Management District, West, El Segundo, CA
Defense Contract Management Area Operations, Reading, PA

Non-DoD Activities

Boeing Helicopter Company, Philadelphia, PA
Continental Maritime of San Diego, Inc., San Diego, CA
Kovatch Truck Center, Nesquehoning, PA
Lockheed Aeromod Center, Greenville, SC
PEMCO Aeroplex Inc., Birmingham, AL
PEMCO Aeroplex Inc., Dothan, AL
Southern Aero Corporation, Ozark, AL
Southwest Marine, Inc., San Diego, CA

APPENDIX C: REPORT DISTRIBUTION

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Inspector General, Department of the Army
Auditor General, U.S. Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and
Comptroller)
Air Force Audit Agency

Defense Agencies

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

Non-DoD Activities

Office of Management and Budget
National Security Division, Special Projects Branch
U.S. General Accounting Office
NSIAD Technical Information Center
NSIAD Director for Logistics

APPENDIX C: REPORT DISTRIBUTION (cont'd)

Chairman and Ranking Minority Member of the following
Congressional Committees and Subcommittees:

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

PART IV - MANAGEMENT COMMENTS

Department of the Navy Comments

Department of the Air Force Comments



THE ASSISTANT SECRETARY OF THE NAVY
(Research, Development and Acquisition)
WASHINGTON, D.C. 20350-1000

AUG 26 1992

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: REPORT ON THE AUDIT OF CONTROL OF OVER AND ABOVE WORK FOR
CONTRACT DEPOT MAINTENANCE (PROJECT NO. 1LB-0049)

Ref: (a) DoDIG Memo of 18 June 1992, subject as above

Encl: (1) DoN Response to Draft Audit Report 1LB-0049
(2) ASN(RD&A) APIA memo dated 19 August 92, Subj: Control
of Over and Above Work for Contract Depot Maintenance

I am responding to the request forwarded by reference (a)
for comments on the draft audit report concerning control of over
and above work for contract depot maintenance.

The Department of the Navy's response is provided at
enclosure (1). We concur with the recommendation on page 16 of
the report. The enclosure (2) memo has been forwarded to our
procurement activities emphasizing the need to reduce over and
above work requests where practicable.


Gerald A. Cann

Copy to:
NAVINGEN
NAVCOMPT (NCB-53)

MANAGEMENT COMMENTS: DEPARTMENT OF THE NAVY (cont'd)

Department of the Navy Response
to
DoDIG Draft Audit Report of 18 June 92 (1LB-0049)
on
Control of Over and Above Work for Contract Depot Maintenance

Recommendation - Assistant Secretary of the Navy (RD&A) provide guidance to contracting officers to reduce the use of over and above contract modifications on weapon system repair and overhaul contracts by expanding the scope of work included within the basic contract provisions of weapon system repair and overhaul contracts to include all low value labor tasks required to meet the applicable weapon system repair and overhaul specifications. Where sufficient historical information is available, this should, at a minimum, include all low value tasks valued at less than \$1,000.

Navy Position - Concur. Where there is adequate performance and cost history available, the Navy routinely includes frequently occurring over and above work in the statements of work (SOW) for maintenance and repair contracts. However, the complex and often unpredictable nature of maintenance and repair efforts, make such inclusions infrequent. In an effort to emphasize the need to reduce over and above work requests where practicable, we have forwarded a memo to our procurement activities (enclosure (2)).

Although we concur with the report's overall recommendation, we have the following concerns with its findings and conclusions:

1. The report assumes that the contractors would be able to submit firm-fixed-price (FFP) proposals for solicitations containing expanded specifications. Even with adequate performance and cost history, an expanded scope of work may force contractors who are willing to accept a FFP contract into inflating their proposed prices for the expanded work. Also, expanded specifications may prompt contractors to request a cost type contract instead of one that is fixed priced. This would shift the risk of contract performance from the contractor to the Government.

2. The report concludes that an excessive quantity of over and above work requests are processed, and that this is caused primarily by contracting officers narrowly defining the scope of work included in the basic contract provisions. One must then conclude that contract specifications that are narrowly defined increase the amount of over and above work requests processed. Such conclusions are not supported by facts. Developing design specifications has evolved over many years in the Government's attempt to perform ship and aircraft repair using FFP type contracts. Based on experience, the number of over and above work requests is driven by the quality of the specification. It may be more beneficial to focus on improving specification quality rather than expanding the scope of work included in the basic contract provisions.

Enclosure (1)

MANAGEMENT COMMENTS: DEPARTMENT OF THE NAVY (cont'd)



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(Research Development and Acquisition)
WASHINGTON D C 20350-1000

19 AUG 1992

MEMORANDUM FOR DISTRIBUTION

Subj: CONTROL OF OVER AND ABOVE WORK FOR CONTRACT DEPOT
MAINTENANCE

Encl: (1) DoDIG Memo of 18 June 1992, subject as above

The enclosure (1) Department of Defense Inspector General Draft Audit Report recommends that the military departments reduce the use of over and above contract modifications in weapon systems repair and overhaul contracts.

Contracting officers should reduce the use of over and above contract modifications on weapon system repair and overhaul contracts by expanding the scope of work for tasks valued at less than \$1,000.00 where sufficient historical information is available. Such an expansion of the contract's scope of work would be counterproductive if there is little historical information on repair and overhaul cost and performance. Absent this history, contractors are reluctant to propose on solicitations which include low valued tasks. Those who do propose usually inflate their prices to cover the contingencies which may occur in the repair/overhaul effort, and the government ends up paying a higher price for the work.

By expanding the scope of work to include low value tasks under \$1,000.00 the majority of over-and-above work requests will be reduced. This will also significantly reduce the administrative costs needed to prepare and process over-and-above work requests under these contracts.

W.R. Morris
RADM, SC, USN
Deputy for Acquisition, Policy,
Integrity and Accountability

Distribution:
COMNAVSEASYS COM (02)
COMNAVAIRSYS COM (02)
COMNAVSUPSYS COM (02)
COMNAVFACENG COM (02)
COMSPAWARSYS COM (02)
DIRSSP (SPN)
COMSC (N10)
DC/SI&L HQMC (MC-LB)
CGMARCORSYS COM (CT)
CNR (15)
COITACEN (00)

ENCLOSURE(a)

MANAGEMENT COMMENTS: DEPARTMENT OF THE NAVY (cont'd)

Copy to:
NAVINGEN
NAVCOMPT (NCB-53)

ENCLOSURE(2)

MANAGEMENT COMMENTS: DEPARTMENT OF THE AIR FORCE



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

OFFICE OF THE ASSISTANT SECRETARY

AUG 20 1992

SAF/AQC
Pentagon RM 4C323
Washington DC 20330-1000

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of Control of Over and Above Work for Contract
Depot Maintenance (Project No. 1LB -0049, dated June 18,1992) -
INFORMATION MEMORANDUM

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide Air Force comments on the subject report.

We have completed our review of the draft report of audit and concur in the findings and the intent of the recommendation. The Air Force Materiel Command (AFMC) will draft a new provision to include in Section I of solicitations and contracts for overhaul and repair efforts that states that low dollar over and above tasks will be considered as part of the basic statement of work.

As this new provision will have a significant impact upon industry, the proposed change must be published in the Federal Register to allow industry and other interested parties to submit written comments on the proposed change. The anticipated completion date for drafting the new provision and the implementing policy and for submitting it for public comment is February 28, 1993.

A handwritten signature in black ink, appearing to read "Ira L. Kemp".

IRA L. KEMP
Assistant Deputy Assistant
Secretary (Contracting)
Assistant Secretary (Acquisition)

cc: SAF/AQXA

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