Policy and Oversight Report

Contract Audit Directorate

Evaluation Report on the
DoD Block Change Modifications

Report Number PO 97-012 March 14, 1997

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Acronyms

ACO	Administrative Contracting Officer
DCAA	Defense Contract Audit Agency
DCMC	Defense Contract Management Command
IPT	Integrated Product Team
ISO	International Organization for Standardization
MDA-TAMS	McDonnell Douglas Aerospace Tactical Aircraft and Missile Systems
MIL-STD	Military Standard
OSD	Office of the Secretary of Defense
SPI	Single Process Initiative
TI	Texas Instruments, Inc.
USD(A&T)	Under Secretary of Defense for Acquisition and Technology

INSPECTOR GENERAL
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March 14, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Evaluation Report on the DoD Block Change Modifications (Report No. PO 97-012)

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

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The comments received from the Army were fully responsive. The comments from the Defense Logistics Agency were partially responsive; however, the comments from the Defense Contract Audit Agency and the Navy were not responsive. As a result of management comments and additional evaluation work, we revised Finding B and Recommendations B.1., C.1., and C.2. The revisions are shown at the end of each finding and recommendation.

We request that management provide comments in response to the final report by May 15, 1997. Comments must describe actions taken or planned and provide completion dates for those actions.

We appreciate the courtesies extended to the evaluation staff. Questions on the evaluation should be directed to Ms. Bonnie B. Weiss, Program Director, at (703) 604-9183 (DSN 664-9183) or Ms. Veronica H. Harvey, Project Manager, at (703) 604-9189 (DSN 664-9189). See Appendix D for the report distribution. The inside back cover lists the evaluation team members.

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Office of the Inspector General, DoD

Report No. PO 97-012
(Project No. 6OC-5029)

March 14, 1997

DoD Block Change Modifications

Executive Summary

Introduction. The purpose of the single process initiative is to enable contractors to propose single or common processes that will meet the needs and requirements of multiple military and commercial customers. The initiative was conceived by the Government Industry Quality Liaison Panel and endorsed by the Secretary of Defense on December 6, 1995. The Secretary directed "that block changes to the management and manufacturing requirements of existing contracts be made on a facility-wide basis, to unify management and manufacturing requirements within a facility, wherever such changes are technically acceptable to the Government." Use of single or common processes is intended to help reduce contractor operating costs and contribute to cost, schedule, and performance benefits for the Government.

The Secretary designated the administrative contracting officer as the single point of contact for this effort. The Defense Contract Management Command, Defense Logistics Agency, is facilitating the initiative at contractor facilities by working with contractor officials in identifying potential single processes.

We performed this evaluation in conjunction with our participation on the DoD Single Process Management Team. The Commander, Defense Contract Management Command, requested our participation on the Management Team on December 11, 1995. He established the Management Team to facilitate the initiative within the Department.

Evaluation Objectives. The primary objective of our review was to evaluate DoD implementation of the single process initiative, including the approval process and results being achieved.

Evaluation Results. Our review of four contract administration offices disclosed that the single process initiative has the highest level of management attention at the Defense Contract Management Command and Component levels. Management Councils and administrative contracting officers were generally complying with the prescribed block change process; however, we identified six conditions warranting management attention.

o The 120-day timeframe for execution of block change modifications may not provide sufficient time for proper evaluation of contractor concept papers, especially in cases where additional cost or technical information is required or where consideration is an issue (Finding A).

o The DoD Component implementing guidelines do not address how the Military Departments and the Defense Contract Management Command should coordinate concept paper review and approval of block changes with Special Program Offices responsible for compartmented programs and contracting activities responsible for the administration of retained contracts (Finding B).

o Management Council technical subject matter experts did not always adequately document the results of their evaluations to demonstrate the technical merits of the concept papers or the reasonableness of proposed implementation costs (Finding C).

o The Defense Contract Audit Agency auditors did not always perform adequate or independent reviews of proposed implementation costs (Finding D).

o The administrative contracting officers did not always obtain legal reviews before executing block change modifications (Finding E).

o The administrative contracting officers did not always adequately document the basis for consideration before issuing block change modifications (Finding F).

Recommendations in this report, if implemented, will result in significant operational improvements and cost reductions throughout the Department, including savings or cost avoidances on special access and classified programs and contracts retained by the Military Departments for administration.

Summary of Recommendations. We recommend that the Under Secretary of Defense for Acquisition and Technology emphasize that administrative contracting officers have the flexibility to obtain needed cost or technical data where required to negotiate block changes; the DoD Components revise single process initiative implementing guidelines to include specific two-way coordination procedures that would ensure proper dissemination of block change information among authorized DoD officials, including Special Program officials responsible for compartmented programs and contracting activities responsible for the administration of retained contracts; the Director, Defense Logistics Agency, ensure that Management Councils and administrative contracting officers follow the prescribed block change process and regulatory guidelines; and the Director, Defense Contract Audit Agency, issue a Memorandum for Regional Directors reminding field contract auditors of the intent of the integrated product team approach and the requirements of the Defense Contract Audit Agency Manual Appendix D.

Management Comments. The Department of the Army concurred and has initiated action to implement our recommendations specific to the Army Service Acquisition Executive.

The Defense Logistics Agency concurred with recommendations relating to legal sufficiency reviews and documentation of consideration determinations in block changes. It partially concurred with recommendations relating to Management Council technical evaluation of concept papers and preparation of summary documentation of its technical and cost considerations on the common process factory. The Defense Logistics Agency disagreed that the soldering issues at Texas Instruments need to be elevated to higher management because such issues were resolved at the Management Council level; however, the Agency agreed to remind Management Councils to elevate disagreements and advised that additional guidance on elevating issues has been published. The Agency nonconcurred with recommendations relating to the need for coordination procedures of block changes with Special Access Program offices, technical guidance on soldering issues, and process documentation of the common process factory concept paper. It maintained that "definitive SPI guidance" has been disseminated within classified channels. The Agency also stated, "it would be inappropriate for the DCMC Commander to issue technical guidance on soldering issues as the primary responsibility rests with the technical experts within the buying commands." It also indicated that it would be contrary to the tenets of acquisition reform to request the contractor for further documentation of the processes.

The Defense Contract Audit Agency nonconcurred with our recommendations and stated that it has issued guidance for coordinated audit planning between regular "DCAA offices and Field Detachment offices" at contractors with significant unclassified and special access program work and extensive guidance to the field regarding the review of cost/benefit analyses. The Agency also maintained that its auditors have complied with established procedures.

The Navy nonconcurred with requiring Component Team Leaders to document coordination efforts with their respective Special Access Program focal points and administrative contracting officers responsible for retained contracts. The Navy maintained that "inserting the Component Team Leaders into the coordination process with Special Access Program offices increases the risk of compromising the content of those programs."

The Under Secretary of Defense for Acquisition and Technology and the Air Force Service Acquisition Executive did not respond to a draft of this report. See Part I for a discussion of management comments and Part III for the complete text of those management comments.

Evaluation Response. The Army comments were responsive; the Defense Logistics Agency comments were partially responsive. As a result of these comments, we revised certain draft findings and recommendations. The other management comments were generally nonresponsive. The revisions are shown at the end of each finding and recommendation and additional responses are required. We request that the Under Secretary of Defense for Acquisition and Technology; the Air Force and Navy Service Acquisition Executives; the Director, Defense Logistics Agency; and the Director, Defense Contract Audit Agency, comment on the unresolved recommendations by May 15, 1997.

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Part I - Evaluation Results

Evaluation Background

On June 29, 1994, the Secretary of Defense issued a memorandum directing the Military Departments to use performance specifications to the maximum extent practicable and to use military specifications only by specific waiver. While his memorandum encouraged the development of a streamlined procurement process to modify existing contracts, it was not directive in nature. Consequently, contractors were faced with the possibility of maintaining two processes: commercial standards for new programs and military specifications for existing contracts.

On December 6, 1995, the Secretary of Defense directed that block changes to management and manufacturing requirements of existing contracts be made facility-wide to replace Government-unique military specifications and standards with single or common processes wherever such changes are technically acceptable to the Government. The Under Secretary of Defense for Acquisition and Technology (USD[A&T]) issued additional guidance December 8, 1995, directing the use of an expedited, streamlined approach for reviewing contractor single process initiative (SPI) concept papers and executing block changes. The block change approach involves consolidating or eliminating multiple processes, specifications, and standards in all contracts facility-wide, rather than contract-by-contract. He designated the Commander, Defense Contract Management Command (DCMC), to manage this initiative for the Department.

At the direction of the Commander, DCMC, a SPI Management Team was established to facilitate the initiative within the Department. The Management Team comprises representatives from the Office of the Deputy Under Secretary of Defense (Acquisition Reform); the Office of the Director, Defense Procurement; the Military Departments; the Defense Contract Audit Agency (DCAA); Defense Logistics Agency; and the Office of Inspector General, DoD.

See Appendix B for our comments on subcontracting and consideration issues.

Evaluation Objectives

The primary objective of this project was to evaluate DoD implementation of the single process initiative, including the approval process and results being achieved. Specifically, at each site visited, we evaluated the adequacy of DoD SPI guidelines, reviewed technical and cost considerations made before executing block change modifications to ensure that the administrative contracting officers (ACOs) and other responsible officials complied with DoD policy and regulations, and determined the level of support DCAA provided to the DCMC.

See Appendix A for our scope and methodology.

Finding A. The DoD Single Process Initiative Implementing Guidance

The 120-day timeframe for execution of block change modifications may not provide sufficient time for proper evaluation of contractor concept papers, especially in cases where additional cost or technical information is required or where consideration is an issue. We attribute this condition to the general acceptance of existing guidance restricting the block change process to 120 days. As a result, the SPI guidance could restrict the independent decisionmaking authority of the Management Councils and ACOs in implementing the block change process. Further, Defense contractors may selectively interpret the guidance in their favor and submit incomplete or no-cost block change proposals.

The USD(A&T) 120-Day Block Change Process Guidance

The December 8, 1995, USD(A&T) memorandum prescribes an aggressive 120-day block change process. A block change is a contract modification that implements a single or common process across all contracts at a contractor facility. The submission and review of contractor concept papers under the prescribed streamlined approach generally follow three major steps: Proposal Development-Concept Paper Submission, Review and Approval Cycle-Customer Notification and Agreement-Resolution of Differences, and Modification Issuance-Negotiation of Consideration. Although Office of the Secretary of Defense (OSD) and DCMC Headquarters officials have clarified that the 120-day process is merely a goal, ACOs and Management Councils stated that they are sometimes pressured to meet the prescribed timeframe. At one location, an ACO received an electronic mail from a DCMC official admonishing her for not moving forward with the process within the prescribed timeframe.

Proposal Development-Concept Paper Submission (30 days). The contractor is responsible for initiating this voluntary process by submitting a concept paper or proposal to the cognizant DCMC ACO or Management Council. The contract administration offices are responsible for informing industry early in the process about the SPI approach and advising contractors on how to prepare the concept papers. The concept paper should identify specifically the existing contractual requirement that it proposes to replace and identify the customers impacted. It should also describe the proposed process including a brief summary of the process, a summary of the proposed metrics that will be used to measure effectiveness and compliance, an assessment of the changes required in Government oversight, a schedule of the transition process, and a rough order of magnitude cost/benefit analysis estimate, including current and future cost savings.

The guidance states that there is a presumption against getting certified cost or pricing data, which OSD officials said should provide some cover to ACOs who

are concerned about being second-guessed later about not getting enough data. It also states that the details in contractor concept papers and rough order of magnitude estimates of the costs and benefits are intended to just be sufficient to allow an informed and rapid judgment by the ACO on whether proposed block changes can be approved at no-cost. Management officials from OSD and DCMC have directed Management Councils and ACOs "not to get bogged-down" in excruciatingly detailed fact gathering that would delay execution, as the savings to be recovered will probably be small compared to the cost avoidance or future savings to the Government. Consequently, ACOs and auditors have been reluctant to obtain additional technical or cost data. Further, in addressing replacement of multiple Government-unique management and manufacturing systems with common, facility-wide systems, the memorandum stated,

> Contractors will, however, in most cases incur transition costs that equal or exceed savings in the near term. We expect that cases where this does not hold true are in the minority, mostly dealing with high value, long-term contracts. . . . the specific shift from MIL-Q-9858A [Quality Program Requirements] to ISO 9000 [International Organization for Standardization] does not in itself result in significant contractor savings in most contracts, and hence can be made on an expedited basis.

These assertions can be interpreted to mean that consideration is not an issue when, in fact, this determination should be made by the ACO on a case-by-case basis.

Approval Cycle-Customer Notification and Agreement-Resolution of Differences (60 days). The local DCMC Management Council is responsible for ensuring that the interests of the contractor's entire customer base are considered. The Management Council should be established immediately as concept papers are received. The intent is to bring key customers and contractor representatives together with the contract administration office and the DCAA to help facilitate the communication, coordination, and approval process. The key customers, notionally comprised of customers who represent 80 percent of the total dollar value of contracts, should be represented on the Council. The Management Council is responsible for reviewing and evaluating the concept paper and providing recommendations of approval to the ACO. Early lessons-learned disclosed that the contractors' key customers through their respective Component Team Leaders need to be active participants in the evaluation to ensure the success of the initiative. The Component Team Leaders are responsible for coordinating and facilitating consensus among all their respective Component's affected programs and obtaining the necessary programmatic authorizations.

The process is designed to default in favor of moving toward single or common processes. While customers must be assured that any changes to existing contracts will meet their technical needs, no approval requirements exist above the appointed decisionmakers and no one has the ability to "veto" the action. Majority rules unless an individual or a program manager appeals the decision of the Management Council and the ACO. To settle differences, the SPI block change implementation structure facilitates communication among the parties

and allows resolution of disagreements among the program managers within and among Components. The Management Council is required to elevate problems and concerns immediately once an individual or a Component is not clearly on the "bandwagon" or that a potential impediment exists. The successive levels of the conflict resolution are Management Council; Component Team Leader, responsible for coordinating the block change proposal; Component Acquisition Executive (for internal Component disagreements); and Defense Acquisition Executive (for cross-Component disagreements). Since conflict resolution has to occur within 120 days and a perceived "stigma" is attached to a Management Council that cannot resolve disagreements locally, only one disagreement or problem has been escalated to date since the implementation of the SPI.

Modification Issuance-Negotiation of Consideration (30 days). After the ACO approves the concept paper based on the recommendations of the Management Council, the affected contracts will be modified to authorize immediate use of the single or common processes. The auditor and the ACO should also ensure that the contractor immediately incorporate the savings into forward pricing rates after the block change modification is executed. When the concept paper cost/benefit analysis discloses substantial cost savings on fixed price contracts and the ACO decides to obtain monetary consideration, the contractor will be required to submit an equitable adjustment proposal supported by certified cost of pricing data if $500,000 or more. The proposal will represent the consideration owed the Government for deleting contractual requirements. However, OSD management officials' frequently repeated sentiments that SPI will probably not provide savings initially, but in the long term, and that they expect most modifications will be made without monetary consideration being required or sought, have resulted in a bias against seeking consideration even in cases where it was appropriate to do so. At one DCMC location, the ACO initially determined the contractor's rough order of magnitude estimate was inadequate because it included a net savings to the Government. Because the process of submitting a cost-benefit analysis supported by certified cost or pricing data was identified as a barrier to implementing the initiative, the USD(A&T) memorandum requires contractors to submit a formal equitable adjustment proposal only when significant savings on existing contracts are expected. Consequently, contractors have interpreted the USD(A&T) guidance to mean that most block changes should be pursued as no-cost changes and that contractors should not be burdened with having to provide and support detailed estimates. Recent DCMC statistics support this conclusion. Most concept papers submitted to the DCMC have been proposed on a no-cost settlement basis. As of September 23, 1996, 109 contractors have submitted 399 concept papers proposing to modify 499 processes. However, ACOs have only requested 54 equitable adjustment proposals and only 37 proposals have been submitted by the contractors. Of the 37 proposals, only 16 have been definitized for a total of $6.082 million in additional goods and services as consideration. Finally, the guidance stipulated that the negotiation of equitable adjustments should not delay the modification of contracts. However, it failed to clarify that when such an event becomes necessary, the block change modification should, as a minimum, identify the contractor's proposed consideration and the definitization schedule.

Summary

We support the intent of moving the SPI process as quickly as possible. However, some concept papers may take more time to evaluate because of the number and complexity of the processes involved, while others may only involve one simple process that will not take the full 120 days to evaluate and approve. It is imperative that Management Councils and ACOs are afforded some flexibility to ensure that the technical and cost evaluations are not compromised. The ACO and the Management Council must thoroughly review and evaluate the technical merits of the concept papers as well as the proposed implementation costs, estimated savings on existing contracts, and future cost avoidances without feeling "boxed-in" or limited by the 120-day timeframe. The restrictions and presumptions contravene the spirit and intent of the Federal Acquisition Regulation 1.102, "Statement of Guiding Principles for the Federal Acquisition System." The principles state in part,

> The vision for the Federal Acquisition system is to deliver on a timely basis the best value product or service to the customer, while maintaining the public's trust and fulfilling public policy objectives. Participants in the acquisition process should work together as a team and should be empowered to make decisions within their area of responsibility.

The ACOs and DCAA auditors have been generally reluctant in requesting contractors for additional technical or cost data because of OSD and DCMC officials' statements that there will not be savings initially, but in the long term, and the expectation that, in most cases, the ACOs will be able to approve a change to management and manufacturing processes on a no-cost basis.

Management Councils and ACOs should be given wide latitude in determining the amount of technical and cost data and appropriate consideration needed before approving a block change.

Management Comments on the Finding and Evaluation Response

Unsolicited DCAA Comments. The DCAA nonconcurred that the ACOs and DCAA auditors have been discouraged from requesting contractors for additional technical or cost data and stated that it found no evidence in the draft report that supports this conclusion.

Evaluation Response. Our draft report cites DCMC statistics that support this observation. Finding C and D cite specific examples. Also, informal discussions with the ACOs and auditors disclosed that they were generally concerned with the frequently repeated sentiments from management officials directing them not to get "bogged-down" in excruciatingly detailed fact gathering that would delay execution; that there will not be savings from the

SPI initially, but in the long term; and that the details in contractor concept papers and rough order of magnitude estimates of the costs and benefits are intended to just be sufficient to allow an informed and rapid judgment by the ACO. We reported this observation because we want DoD management officials to be sensitive to the concerns and dilemmas of the ACOs and auditors in implementing earlier guidelines.

Recommendation and Evaluation Response

A. We recommend that the Under Secretary of Defense for Acquisition and Technology emphasize that the 120-day timeframe is merely a goal and administrative contracting officers have the flexibility to obtain needed cost or technical data where required to negotiate block changes.

Evaluation Response. The Under Secretary of Defense for Acquisition and Technology did not comment on the recommendation. We request that the Under Secretary provide comments in its response to the final report.

Finding B. Coordination of Block Changes With Special Program Offices and Contracting Activities That Retained Contract Administration

The SPI Management Councils did not always coordinate or communicate the results of the review and approval process of concept papers with Special Program offices responsible for "compartmented programs" [special access and classified programs] and contracting activities responsible for the administration of retained contracts. This condition is due to the lack of specific procedural guidance at the Headquarters level for coordinating concept paper review and approval of block changes that could impact compartmented programs and non-DCMC administered contracts. As a result, the objectives of the SPI may have been jeopardized because the Government may not have realized the savings and cost avoidances on special access program, classified, and non-DCMC administered contracts.

Block Change Process Applicable to All DoD Programs

The block change process applies to all DoD programs. The streamlined block change approach was developed to:

o maximize savings on existing long-term contracts,

o facilitate the greatest return on investments through immediate conversion to single process facilities, and

o ensure that conversion to performance specifications and conversion to plant-wide processes are complementary.

As the managing official for the initiative, the Commander, DCMC, issued additional guidance December 11, 1995, to contract administration offices to implement the initiative. In addition, the Military Departments, the Defense Logistics Agency, and the DCAA issued procedural guidance to their respective field activities. Overall, the supplemental guidelines are consistent with the Secretary of Defense and Under Secretary of Defense for Acquisition and Technology policy memorandums of December 6 and 8, 1995. They establish the authority, roles, and responsibilities for review, approval, and implementation of contractor SPI concept papers within their respective organizations. However, the guidelines did not provide specific communication and coordination procedures for the review and approval of block changes among local Management Councils, Special Program offices, and contracting activities that retained contract administration. Of the four DCMC field offices visited, we only saw evidence of such coordination occurring at one location as a result of the followup efforts of the DCAA auditors at Texas Instruments.

The DoD Component guidance should include specific two-way coordination procedures that would ensure that all SPI players involved properly disseminate salient information on block changes to authorized Government representatives so they can take timely and appropriate action. DoD management failure to provide for a two-way communication and coordination process of pertinent SPI information can compromise the SPI goals of unifying management and manufacturing processes facility-wide and maximizing savings and cost avoidances for the Government and the contractor.

Summary

The absence of a two-way coordination and communication process for SPI-related matters among authorized Government officials, including those responsible for the administration of compartmented programs and retained contracts indicates additional guidance is needed. For these Government officials to make informed decisions regarding the technical merits and cost benefits of the concept papers, they must properly exchange pertinent information amongst themselves. To maximize the savings on existing as well as future contracts at a facility, Special Program Offices responsible for special access program and classified contracts and contracting offices responsible for retained contract administration should also issue block change modifications and negotiate equitable adjustments, as appropriate. As a result of management comments, we revised our finding to better describe the two-way coordination process. To properly direct the recommendation for desired results, we broadened the reference to special access programs to also include classified programs by using the term "compartmented programs."

Management Comments on the Finding and Evaluation Response

DLA Comments. The DLA nonconcurred and stated that "definitive SPI guidance" has been disseminated within classified channels and "block changes have been and are being executed." Moreover, the Director, Special Programs, DLA, has been established as the focal point for classified SPI issues.

Evaluation Response. Our draft report did not state that definitive SPI guidance was not disseminated within classified channels or that block changes were not being executed. We only reviewed the four DCMC field offices that issued the first four SPI block changes and found no evidential data, except at DCMC Texas Instruments, that the local Management Councils coordinated or communicated the results of their evaluations of contractor concept papers with Special Program offices or with contracting activities administering retained

contracts. Because the single process initiative is applicable to all DoD programs, we cited the need for procedural guidance at Headquarters level to ensure that a two-way coordination process is established within the DoD infrastructure.

Recommendations, Management Comments, and Evaluation Response

Revised and Unresolved Recommendations. As a result of management comments and additional evaluation work, we revised draft Recommendation B.1. to clarify the nature of the actions needed to improve existing single process initiative coordination procedures.

B.1. We recommend that the Director, Defense Logistics Agency, require the DoD Single Process Initiative Management Team to establish two-way coordination procedures for the proper dissemination of pertinent block change information between the local Management Councils and the designated focal points of Special Program offices and contracting offices responsible for the administration of retained contracts. As a minimum, the two-way coordination procedures should ensure that pertinent information on block changes is properly disseminated and acted upon as appropriate by the cognizant contract administration and audit offices.

DLA Comments. The Defense Logistics Agency nonconcurred with our previous recommendation, stating that "definitive SPI guidance has been disseminated within classified channels and block changes have been and are being executed."

DCAA Comments. The Defense Contract Audit Agency nonconcurred with our previous recommendation, maintaining that it has "issued guidance for coordinated audit planning between regular DCAA offices and Field Detachment offices at contractors with both significant unclassified and special access program work."

Evaluation Response. The Defense Logistics Agency and Defense Contract Audit Agency comments were nonresponsive to our previous recommendation. At issue here is not the lack of definitive single process initiative guidance within the classified channels, rather, the lack of DoD procedural guidelines at Headquarters level that will ensure a two-way coordination process among authorized DoD officials. To maximize the benefits to the Department, authorized DoD representatives have to properly exchange and disseminate pertinent but filtered information on the block change process. In reviewing the four Defense Contract Management Command field offices, we found no supporting data that three Management Councils coordinated and communicated the results of their evaluations of contractor concept papers with designated focal points of Special Program offices and contracting activities administering retained contracts. The single process initiative is applicable to all DoD programs; therefore, Headquarters level must address the need for specific

procedural guidance for a two-way coordination process that would properly disseminate block change information among authorized DoD officials without compromising or jeopardizing compartmented programs. We request that the Directors reconsider their positions and provide additional comments on the revised recommendation.

B.2. We recommend that the DoD Service Acquisition Executives require Component Team Leaders to document coordination efforts with their respective Special Program Office focal points and administrative contracting officers responsible for retained contracts to ensure that block change modifications are issued as appropriate.

Army Comments. The Army concurred and has initiated corrective action. The target date for completion is March 28, 1997.

Navy Comments. The Navy nonconcurred, stating that Navy policy is to limit the visibility and awareness of Special Access Programs to only those individuals who have a need to know and have the proper clearance. The Navy indicated that "inserting the Component Team Leaders into the process of coordinating the review and approval of concept papers with Special Access Programs increases the risk of compromising the content of those programs."

Evaluation Response. The Army comments are responsive. The Navy comments are nonresponsive. The Air Force did not comment on the recommendation. The issue is the need for procedural guidance at the Headquarters level that will ensure a two-way coordination or proper dissemination of pertinent but filtered information on block changes that may impact compartmented programs as well as contracts that the Military Departments retained for administration. Our intent is not to encourage the wanton dissemination of proprietary or classified information. We request the Navy reconsider its position and the Air Force provide comments in its response to the final report.

Finding C. Management Council Technical Evaluation of Concept Papers

The Management Council at DCMC Texas Instruments, Inc. (TI) did not always adequately perform technical evaluation of concept papers and failed to resolve or elevate Component disagreements because Management Council members did not fully comply with prescribed technical guidelines. As a result, the objective of the SPI to eliminate multiple processes at a contractor facility was not fully achieved. Texas Instruments now has to maintain multiple soldering processes facility-wide to accommodate the different soldering requirements of its key customers.

Single Process Initiative Guidance

The Defense Contract Management Command issued SPI guidance that states,

> As a minimum, the proposals should detail the proposed processes, rough order of magnitude cost benefit analysis . . . planned transition approach, technical feasibility, cost effectiveness, and program risk, impact on such areas as quality, maintenance, and life cycle cost . . . common process should be sufficiently defined, structured, and documented to permit full evaluation.

The guidance further states under the Internal Government Resolution Process,

> The objective of this process is to resolve disagreements, facilitate consensus, elevate, and resolve issues. . . . If there is disagreement among the Components, the issue must be raised to a level within the Department as designated by the DAE [Defense Acquisition Executive].

Common Process Factory Block Change at Texas Instruments, Incorporated

The Management Council at DCMC TI accepted the concept paper on the common process factory initiative on January 26, 1996. The concept paper identified 38 base specifications (65 variants) related to electronic assembly and categorized them into 13 categories or processes. Top 8 of the 13 are solder, quality, electrostatic discharge sensitive device protection, inspection, encapsulation, factory environment, calibration, and work quality standards. These eight processes represent the majority of the potential savings (90 percent or $11.5 million yearly). The resultant block change modification deletes 19 different military specific and substitutes the TI Standard Procedure 14-21. The contractor did not submit an adequate concept paper to permit a full technical

evaluation. For example, TI did not adequately document the processes and the Corporate ACO did not require TI to correct the deficiencies. Also, the Council did not provide appropriate technical guidance for the implementation of the Joint Industry Standard, "Requirements for Soldered Electrical and Electronic Assemblies" (ANSI/J-STD-001A), and did not elevate the soldering technical issues to higher management for resolution. According to ANSI/J-STD-001A,

> Class 2 is for Dedicated Service Electronic Products . . . high performance and extended life is required, and for which uninterrupted service is desired but not critical. Class 3 is for High Performance Electronic Products. . . . continued performance is critical . . . equipment downtime cannot be tolerated, end-use environment may be uncommonly harsh, and equipment must function when required.

The Navy and the Air Force agreed without documented technical justification to use Class 2 solder processing techniques at TI. The U.S. Army Missile Command did not agree to Class 2 and preferred Class 3; however, the Missile Command did not provide the Management Council documentation justifying the need for Class 3 from a performance or reliability standpoint. Although the contractor claimed Class 3 will have significant additional cost over standard processing, the Corporate ACO did not request TI to provide cost supporting data. We also learned that the Army only attended the last Management Council meeting on March 6, 1996, to jointly resolve their differences with the Navy and the Air Force on soldering requirements. In an attempt to implement a single soldering process without delay, the Management Council and the Corporate ACO agreed that the customer and TI would jointly decide on the individual class. This agreement resulted in the Management Council decision to change the criteria for Process Factory Standard Procedure 14-21 for soldering. Initially, the soldering procedure stated,

> Soldering will be performed to ANSI/J-STD-001. Class 2 is the preferred class for deliverable product. . . . NOTE: There is a class 3 option available in ANSI/J-STD-001. This class should be used only when design considerations dictate. This class will have significant additional cost over Texas Instruments Standard processing and verification.

The Council modified the process to: "Soldering will be performed to ANSI/J-STD-001. . . . Class is to be jointly determined by the customer and Texas Instruments."

The contractor's estimates of instant contract savings, implementation costs, and future cost avoidance were completed on a company-wide basis. Texas Instruments did not identify the source of the savings and implementation costs for each proposed process change. The contractor estimated total annual savings/cost avoidance for the eight processes at $11.5 million. This amount included $8.4 million cost avoidance by consolidating specifications for assembly support labor. Cost avoidance produced by processing differences (primarily solder-related, wetting criteria, lower rework, training, and

recertification) was estimated at $2.4 million. An additional $0.7 million cost avoidance resulted from space savings due to the common process factory conversion.

Texas Instruments estimated implementation costs at $10.8 million for the 18 months, from July 1995 through December 1996. These costs were estimated by an implementation team consisting of TI and DCMC TI personnel. The estimated costs were purely the judgment of the personnel associated with the common process factory team. No historical costs were available for this kind of effort on which to base the estimate. The contractor's rough order of magnitude stated that estimated implementation costs during the implementation period will not be offset by the estimated costs savings until September 30, 1997. According to the contractor, additional cost savings on existing contracts and cost avoidance on future contracts will begin to accrue to the Government after September 30, 1997. Despite the lack of reasonably specific data, the DCMC technical evaluator concluded, "The rationale TI used during the evaluation process of the common process factory initiative appears to be based on sound engineering concepts. Evaluation of TI's figures for McKinney realizes approximately $8446K."

The "$8446K" refers to a portion of the TI estimated savings. Our review found no evidence that the DCMC actually reviewed the savings, all or in part, or the implementation costs that TI estimated to mostly offset the savings. Therefore, we have reservations on the validity of the claimed implementation costs, but also we cannot reach a conclusion on this matter without the contractor developing underlying support.

In comparison, technical evaluations and costs considerations of concept papers at DCMC Raytheon and DCMC Lockheed-Martin Fort Worth were documented.

Block Change at Raytheon Electronic Systems

We evaluated 12 of the 32 processes in the concept paper, "DoD/Raytheon Streamlining for Evaluation of Block Change Modification Project." A block change modification implementing 12 of the 32 processes was executed by an authorized representative of Raytheon Electronics Systems and the Principal ACO February 7, 1996. The Principal ACO subsequently issued a superseding block change modification signed April 17, 1996, to incorporate program-specific changes requested by Navy customers such as the U.S. Navy Trident Programs and the Navy Program Executive Offices for the Theater Air Defense and Tactical Aircraft.

The block change modification involved soldering requirements, class II engineering changes, test reduction, document disclosure (standard missile excluded), test station certification, material review board presentation, cost performance and contract cost data reporting, calibration, and rescreening. The 12 common processes approved affected 884 DoD contracts and have an

estimated cost savings of approximately $6.8 million of which $4.9 million is for soldering. All Military Departments agreed on ANSI/J-STD-001 Class 3 solder. The Management Council team reviewed and approved all 12 processes with adequate supporting documentation.

The Raytheon Company reported implementation costs of $321,000 and an estimated net cost savings $6.5 million. The Principal ACO and Raytheon subsequently signed a modification June 7, 1996, to definitize consideration at $5.082 million. Based on unliquidated obligations, $2.693 million (53 percent) was allocated to the Army, $1.271 million (25 percent) went to the Navy, and $1.118 million (22 percent) went to the Air Force. The Management Council decided that the negotiated consideration shall be provided primarily to the Tri-Services in the form of additional goods and services in the administrative modifications to the applicable contracts as determined by the Principal ACO. However, the contractor shall submit a check, payable to the U.S. Treasury for a nominal amount, not to exceed $5,000, as consideration for all contracts that were not modified to incorporate consideration in the form of goods and services. Our review of the Management Council technical evaluation of the Raytheon Electronics Systems concept paper concluded that the block change process was adequately implemented at DCMC Raytheon. The contractor submitted a reasonably detailed rough order of magnitude estimate that enabled the Management Council to validate the implementation costs, related savings, and net cost impact on existing contracts. The Management Council at DCMC Raytheon followed the technical guidance, documented lessons-learned, and aggressively corrected earlier communication and coordination problems.

Block Changes at Lockheed-Martin Tactical Aircraft Systems

We evaluated two block changes at the Lockheed-Martin Tactical Aircraft Systems, Fort Worth, Texas. The first block change modification signed May 21, 1996, incorporated and implemented the contractor's International Organization for Standardization (ISO) "Quality Management System" (ISO 9001) versus the Military Standards (MIL-STDs), "Quality Program Requirements" (MIL-Q-9858A); "Inspection System Requirements (MIL-I-45208); "Calibration System Requirements" (MIL-STD-45662); "Corrective Action and Disposition System for Nonconforming Materials" (MIL-STD-1520C); and "Supplier Quality Assurance Requirements" (MIL-STD-1535). The ISO 9001 defines a basic quality system that is the internationally accepted quality management standard. The requirements are aimed primarily at preventing nonconformity at all stages from design to servicing and implementing the means to prevent its recurrence. The second block change modification signed May 31, 1996, authorized the implementation of a Lockheed-Martin standard software development process as a specific replacement for DoD and Military Standards, "Defense System Software Development" (DoD-STD-2167A); "Defense System Software Quality Program" (DoD-STD-2168); "Software Development Integrity Program" (MIL-STD-1803); specific software portions of "Technical Reviews and Audits for System Equipments and Computer Program" (MIL-STD-1521B); and related

software development process specifications in certain existing contracts with Lockheed-Martin. The contractor will implement a company process based on Core Business Manual 4004, "Software Development Process Standard," for development, testing, delivery, and support of software products. It establishes the basic responsibilities, procedures, key activities, and products for development of technical software used internally or developed for delivery at Lockheed-Martin. The company standard process outlines in-process as well as end-product metrics for software that have been successfully applied across multiple programs.

Estimated Implementation Costs and Cost Savings Resulting From ISO 9001. The initial technical analysis report was initially determined inadequate because it addressed only the Council review findings on the contractor's ISO 9001 Quality Assurance Manual. It did not address the reasonableness of proposed implementation costs. In accordance with a DCMC "SWAT" [Quick-Reaction] Team recommendation, the lead technical representative from DCMC Lockheed-Martin corrected the deficiency and issued a technical analysis report on May 14, 1996, that addressed the reasonableness of proposed implementation costs. Cost savings result from changes in procedures, inspections stamps, calibration, internal audit, and management review board. The contractor estimated total cost savings of $2.6 million and implementation cost of $2.3 million, leaving a delta of $300,000. Cost implementation of $2.3 million included management responsibility, quality system (manual), internal audits, ISO implementation, and ISO registration. The ACO Memorandums for Record May 16 and June 28, 1996, stated that monetary consideration was not pursued because application of the projected savings of $300,000 to the 2,349 active contracts valued at approximately $41 billion would result in insignificant savings of $127.71 per contract. The ACO determined that the risk to the Government was low because most contracts at Lockheed-Martin are flexibly priced. Therefore, the Department will recover the majority of the savings realized through the fixed-price incentive contracts, with a usual share line of 70/30 and the F-22 cost-type subcontract. The remaining contracts are firm-fixed price and are not a significant part of the business base.

Estimated Implementation Costs and Cost Savings Resulting From the Single Process Software. The DCMC technical analysis reviewed the proposed implementation costs, which are the primary cost drivers. The estimated costs for tasks to be performed to implement the new methodology for software development were compared to the previous costs for implementing their standard methodology and the yearly improvement plan. Based on this comparison, the DCMC technical subject matter expert determined the costs to be reasonable and supported. The contractor rough order of magnitude reflected an estimated savings of approximately $645,000 on existing contracts, which is offset by estimated implementation costs of approximately $706,000. Since the contractor did not request changes to estimated cost, fee, target cost, target price, or ceiling price for any of the affected contracts, the ACO determined no consideration is warranted for this block change. Although future contracts are not guaranteed, the contractor estimated potential savings

of approximately $18 million based primarily on winning the contract for the Joint Advanced Strike Technology [JAST] program, which is developing a future Joint Strike Fighter for the U.S. Air Force, Navy, Marine Corps, and the British Royal Navy.

Summary

The Management Council team at Texas Instruments did not adequately implement the single process initiative in processing the common process factory concept paper. The Council did not completely follow the DCMC technical guidance. The Council also allowed the Military Departments the option to use Class 2 or Class 3 solder in their respective contracts, thus undermining the intent of the SPI. As a result, the Military Departments may have more than one version of the soldering process. The Management Council Team at TI did not resolve the technical issues at field level and did not elevate the issue in accordance with prescribed internal Government resolution process. The objective of this process is to resolve disagreements, facilitate consensus, elevate decision authority, and re-emphasize the overall goal and objective of the SPI. In the instant case, the Management Council should have elevated the disagreements on soldering among the Components. Additionally, TI did not adequately document and support the processes, including proposed implementation costs.

On the other hand, the Management Councils at DCMC Raytheon and DCMC Lockheed-Martin Fort Worth provided adequate technical guidance for the implementation of concept papers and the block change modifications. The Management Councils reviewed, approved, and adequately documented the cost considerations and technical merits of the concept papers in accordance with the SPI technical guidance. The Councils took immediate action to correct identified deficiencies. The concept papers included appropriate technical and cost documentation for implementation. As a result, the intent of the single process initiative mutually benefited the contractors and the Government. The block change process allowed the contractors to consolidate facility-wide requirements of the existing contracts and resulted in instant significant savings for the Raytheon contracts. The single processes implemented at Raytheon and Lockheed-Martin Fort Worth should reduce overall costs of future contracts.

Management Comments on the Finding and Evaluation Response

DLA Comments. The DLA partially concurred with our finding relating to the Management Council technical evaluation of concept papers. The Agency confirmed that the Management Council at Texas Instruments did not elevate the soldering issues to higher management but did not think it necessary to elevate the solder issues because the Management Council resolved such issues. The Agency also agreed that the contractor did not submit a fully compliant SPI

concept paper. However, the DLA indicated that it would not add value and would be contrary to the tenets of acquisition reform to require TI to submit an adequate SPI concept paper since TI initially submitted the common process factory initiative under the auspices of the Reinvention Laboratory. The Agency also stated that it would not be able to provide additional comments on behalf of the "Services" regarding whether they adequately documented their technical justifications.

Evaluation Response. The DLA comments are partially responsive. The Management Council did not resolve the inter-Component disagreement on the solder class issue that should have been elevated in accordance with the SPI implementing guidelines. We disagree that requiring the contractor to submit a fully compliant concept paper would add no value and would be contrary to the tenets of acquisition reform. The Management Council must have the contractor's process documentation or references that enabled the Government to explicitly approve the common process factory as being a functional equivalent of the former Government specifications or standards to protect the interest of the Government. We also maintain that as the lead agency for the SPI, the DCMC has the authority to require its customers to provide adequate technical justification before accepting and implementing proposed block changes. The letters from the DoD Components do not provide adequate technical documentation for the approved processes.

Unsolicited DCAA Comments. The DCAA took exception to Finding C. where we stated that we found no evidence that the DCMC actually reviewed the savings, all or in part, or the implementation costs. The Agency maintained that its auditors specifically reviewed the TI cost/benefit analysis, discussed the estimates with the contractor, requested additional data as needed, and provided the financial input that the Corporate ACO needed to make a decision.

Evaluation Response. We directed the observation to DCMC TI, not DCAA, because we saw no evidence that the Corporate ACO performed and documented his independent review and analysis (underscored for emphasis) of estimated savings and implementation costs.

Recommendations, Management Comments, and Evaluation Response

Revised and Unresolved Recommendations. As a result of management comments, we revised Recommendations C.1. and C.2. to clarify the nature of the actions needed to improve the single process initiative process. We request that the Director consider the revised recommendations and provide additional comments in the final report.

C. We recommend that the Director, Defense Logistics Agency:

1. Request the Defense Contract Management Command Texas Instruments, Inc., obtain from its Army, Navy, and Air Force customers the technical justifications for multiple solder classes.

DLA Comments. The Defense Logistics Agency nonconcurred with our previous recommendation, stating that "it is inappropriate for the DCMC Commander to issue technical guidance on soldering issues, as the primary responsibility for this rests with the buying commands." Moreover, formal guidance of this type may undermine the single process initiative by being too restrictive to address the many individual technical conditions that could likely surface at various contractor facilities.

Evaluation Response. The Defense Logistics Agency comments are partially responsive. We agree that the primary responsibility for issuing technical guidance on soldering rests with the buying command; however, we disagree that it is inappropriate for the Commander, DCMC, to provide technical assistance or guidance particularly when it becomes apparent that a Management Council is experiencing difficulties in reaching a consensus. In the instant case, the local Management Council decided not to elevate the inter-Component disagreements on the solder classes, even though several Council members suggested otherwise. The Council deferred its concerns for fear of impeding acquisition reform. The goal of DCMC Texas Instruments and the contractor was to be the recognized "SPI leaders" in the DoD by executing the first block change modification; elevating the issue would have prevented the Council from achieving this goal. Our evaluation of the common process factory initiative disclosed that Texas Instruments clearly preferred its customers to go with class 2. The Navy and the Air Force readily agreed with the contractor without providing adequate technical justification. The Army preferred class 3 but also failed to provide technical justification. The contractor claimed that class 3 would cost more; however, TI failed to provide the Management Council additional cost data to support its position. As the lead agency for the initiative, it was within the Defense Contract Management Command mandate to provide technical assistance or guidance when it became apparent that the Management Council could not reach a consensus. To allow multiple soldering classes at Texas Instruments without adequate technical justification could contravene the objectives of the single process initiative. As a result of the Agency comments, we revised Recommendation C.1. to emphasize that for purposes of the initiative, the Army, Navy, and Air Force customers need to provide adequate technical justification for the option of using multiple solder classes at Texas Instruments facility-wide.

2. Require the Management Council at Defense Contract Management Command Texas Instruments, Inc., to provide or obtain the contractor's process documentation that enabled the Government to explicitly approve the common process factory as being a functional equivalent of the former military specifications or standards.

DLA Comments. The Defense Logistics Agency nonconcurred with our previous recommendation, stating that the Government and contractor have

reached a complete understanding of what was proposed under the common process factory concept paper. It maintained that when submission of "SPI concept papers became a requirement in December 1995, TI was already eight months into this effort under the auspices of the Reinvention Laboratory." The Agency also claimed that the technical aspects of the common process factory had been explained to the "DCMC TI major customers" and the Management Council during that period and further documentation "would not add value and would be contrary to the tenets of acquisition reform."

Evaluation Response. The Defense Logistics Agency comments are nonresponsive. We cannot accept the Agency position that it would be contrary to the tenets of acquisition reform to require the contractor to provide technical documentation that detail the processes involved, associated metrics, and the consequent changes in the Government's involvement in the process. Good business sense is to protect the Government's interest in its contractual relationships by ensuring that accepted concept papers stand up for technical accuracy with sound technical support. This practice would preclude future misunderstandings during the implementation of these processes particularly when the original evaluators of the concept papers are no longer available. We were well aware that Texas Instruments initially submitted its concept paper under the auspices of the Reinvention Laboratory; so did Raytheon Electronic Systems. However, Raytheon provided an adequate concept paper with supporting technical documentation for its proposed processes. Texas Instruments did not. Acquisition reform is not designed to only benefit industry; it is also intended to benefit the U.S. taxpayers.

3. Require the Management Council to prepare a summary documentation of its technical and cost considerations and conclusions on the common process factory initiative and to remind the Council of the requirement to elevate unresolved disagreements on technical issues to the appropriate chain of command.

DLA Comments. The Defense Logistics Agency partially concurred, stating that a "DCAA audit report" issued after the initial Inspector General review serves as the Management Council summary documentation of its technical and cost considerations and conclusions and further documentation would serve no purpose. The Agency agreed to remind Management Councils to elevate disagreements and advised that additional guidance on elevating issues has been published in various forms.

Evaluation Response. The Defense Logistics Agency comments are partially responsive. Guidance on elevating issues has been published in various forms, such as Single Process Initiative Information Sheets, OSD, and DCMC policy guidance that can be found on the DCMC home page under SPI (http://www.dcmc.dcrb.dla.mil). We do not agree that the "DCAA audit report" issued after our initial visit serves as the Management Council summary documentation of its technical and cost considerations and conclusions on the common process factory initiative. The "DCAA audit report" is an advisory report that documents the results of the Defense Contract Audit Agency review and evaluation of the contractor rough order of magnitude cost estimate for the implementation of the common process factory initiative and the potential cost

savings and cost avoidances. Also, the "DCAA report" is not a product of an audit performed in accordance with Generally Accepted Government Auditing Standards and therefore, does not reflect an audit opinion based on an examination of sufficient, competent, and relevant evidential matter. The report merely presents the results of certain procedures that could be applied to a broad base estimate of costs and in no way reflects a summary that documents all of the technical and cost considerations and final conclusions of the Management Council.

Finding D. Defense Contract Audit Agency Support of the Single Process Initiative

The Defense Contract Audit Agency field auditors at Texas Instruments and Lockheed-Martin Fort Worth did not initially provide adequate and independent financial advisory services needed to evaluate the contractors' cost/benefit analyses, including proposed implementation costs. The DCAA field auditors at TI and Lockheed did not always adequately and independently evaluate contractor rough order of magnitude estimates of implementation costs at these locations. As a result, the ACOs may not have had sufficient information to make informed decisions for approving the block changes, such as whether the change should be on a no-cost basis or whether detailed proposals should be required from the contractors. Therefore, DoD may have missed opportunities to save significant costs on existing contracts impacted by the SPI.

Guidance on Review of Contractor Cost/Benefit Analysis

The USD(A&T) guidance, dated December 8, 1995, states that the level of detail in the cost/benefit analysis should be sufficient to allow an informed, rapid judgment by the ACO on whether the proposed change can be approved on a no-cost, block change basis. This guidance is augmented by DCAA guidelines that encourage use of the integrated product team (IPT) approach and cycle time techniques in reviewing the rough order of magnitude cost/benefit analysis. This cost/benefit analysis should be a general dollar magnitude estimate of the implementation cost, the savings on the contractor's existing major contracts, and future savings to be reflected in the contractor's forward pricing rates. The IPT approach envisions that before the contractor prepares the analysis, the team will provide the contractor with input in the expected format and supporting data for the costs/benefit analysis.

Review of Block Change Concept Papers by the DCAA

The primary role of DCAA auditors under this initiative is to provide financial advisory services needed to evaluate the cost/benefit analysis. The extent of review effort was dictated to a great extent by the level of detail in the rough order of magnitude estimates of implementation costs and savings for each concept paper. For example, at Raytheon, the auditors were able to verify the accuracy of implementation costs because the contractor submitted the estimates using Federal Acquisition Regulation Part 15.804-6 procedural requirements and, therefore, used established estimating practices. Conversely, because of

the more general level of detail in their estimates, the auditors at TI and Lockheed-Martin Fort Worth could do little more than to ensure that the contractor fully considered the impact of the proposed change on all Government contracts and incorporate the results of the technical review.

At TI, the DCAA memorandum to the ACO on the results of its review, dated March 18, 1996, states, "Our review incorporated input from the DCMC technical specialist that the contractor's interpretation of the technical aspects of the concept paper is proper." In reviewing the ISO 9001 concept paper at Lockheed-Martin, the DCAA wrote the ACO on May 1, 1996, stating that "The technical review did not take exception to the technical aspects of the ROM [rough order of magnitude]." In both instances, the DCAA auditors knew the limitations of the technical reviews but did not convey their concerns to the ACOs.

As discussed in Finding E, we recognized that DCAA auditors at TI subsequently requested additional data that resulted in the contractor identifying $286,480 in expected cost savings as a result of the common process factory block change. We also noted that subsequent to the issuance of the DCAA memorandum at Lockheed-Martin, a DCMC "SWAT" [Quick-Reaction] team review of the ISO 9001 concept paper noted that the initial ISO 9001 Technical Brief did not address the Council review findings on the reasonableness of proposed implementation costs. As a result, a technical analysis report was issued May 14, 1996, to supplement the ISO 9001 Technical Brief. In addition, subsequent discussions with the Resident Auditor at Lockheed-Martin July 9, 1996, disclosed that with or without a technical analysis report, he had sufficient data in the rough order of magnitude to conclude that the risk to the Government as a result of the ISO 9001 block change was low because most contracts at Lockheed-Martin are flexibly priced. For the ISO 9001 proposal, the costs were to flow into overheads, which would then be spread to all contracts.

As the independent audit advisor to the ACO, the DCAA report needs to inform the ACO of limitations that could impact the results of its review. Although the DCAA memorandums on the results of review of SPI concept papers state that the auditors did not perform an audit in accordance with the Government Auditing Standards, their efforts represent financial advisory service to the ACO and, as such, need to express an independent, objective viewpoint.

Audit guidance in the DCAA Contract Audit Manual, Appendix D, states that the auditor's responsibility is to examine the technical evaluation report and have a reasonable understanding of the work performed, the data relied on, and the impact of the results on proposed costs. The guidance also states, "The work of a specialist should be used unless findings are obviously unrealistic, or procedures used appear inadequate." If the auditor cannot rely on the results of the technical review and does not obtain sufficient evidential matter to formulate an opinion, the Government Auditing Standards require that the auditor's opinion be qualified.

Influence of DoD Guidance

Because the process of submitting a proposal supported by cost or pricing data was identified as a barrier to implementing the initiative, the USD(A&T) provided guidance on December 8, 1995, that required contractors to submit a formal equitable adjustment proposal only when significant savings on existing contracts are expected. Further, the guidance stated that the negotiation of equitable adjustments should not delay the modification of contracts. Otherwise, the ACO decision to approve process changes should be based on a "cost-benefit analysis adequate to determine the rough order of magnitude of the costs and benefits to the contractor of the proposed system changes including any impact on the cost of performance of existing contracts."

However, the USD(A&T) guidance states that contractors will "in most cases incur transition costs that equal or exceed savings in the near term." [Emphasis added.] We believe contractors and ACOs are interpreting this guidance to mean that these changes should be pursued as no-cost changes and that contractors should not be burdened with having to provide and support detailed estimates. Consequently, contractors lack incentive to provide additional cost data and are reluctant to submit equitable adjustment proposals if they would have to offer substantial consideration.

Although DoD established an expedited, streamlined approach intended to implement technically feasible changes quickly, contract modifications must be executed when implementation costs do not equal or exceed savings in the near term.

Summary

At both TI and Lockheed-Martin, the proposed estimated implementation costs mostly offset the proposed estimated savings. The field auditors did not initially qualify their reports to indicate limitations placed on their review or extent of reliance on the DCMC technical inputs. We questioned why the DCAA and DCMC representatives did not request greater detail so that a better review could be performed. The contractors were not asked to do so as they would be unwilling to participate in the SPI if they would have to expend the effort necessary to provide detailed proposals. The value of the DCAA review of concept papers is limited, almost perfunctory, unless it includes objective examination of meaningful evidential matter and technical evaluation input.

Management Comments on Finding and Evaluation Response

DCAA Comments. The DCAA disagreed that it did not always adequately and independently evaluate contractor rough order of magnitude estimates. The Agency also disputed that the DCAA auditors at TI and Lockheed-Martin knew the limitations of the technical reviews but did not convey their concerns to the ACOs.

Evaluation Response. We maintain that the field offices had earlier problems with the implementation of SPI. During our initial visit at DCMC TI, the auditors expressed some concerns about requesting additional cost data from TI because of the repeated statements from DoD management officials not to get bogged down with fact gathering that inordinately delays execution as the savings to be recovered will in all likelihood be small in comparison to the cost avoidance or savings to the Government. The auditors told us that they were not sure how much additional cost data they should request from the contractors so they would not be accused of bogging down the process. As stated in the TI field audit office response, we encouraged the auditors to get as much data as they needed to provide a sound financial advisory report to the Corporate ACO. Although we noted some early limitations of the initial advisory reports, the draft report acknowledged that the auditors issued supplemental reports after obtaining additional cost or technical data. A certain amount of uncertainty is to be expected in the implementation of any new process. The recommendation is intended to make DCAA Headquarters sensitive to the concerns of the auditors resulting from the early feedback from DCAA participation in the initiative.

Recommendation, Management Comments, and Evaluation Response

D. We recommend that the Director, Defense Contract Audit Agency, issue a Memorandum for Regional Directors reminding field auditors of the intent of the integrated product approach in reviewing concept papers to ensure the contractor submits supporting data for the cost/benefit analysis that allows full evaluation of proposed implementation costs and savings and requirements of the Defense Contract Audit Agency Manual Appendix D, "Technical Specialist Assistance."

DCAA Comments. The Defense Contract Audit Agency nonconcurred, maintaining that it has issued extensive guidance to the field regarding the review of cost/benefit analyses and that its auditors have complied with the requirements in Appendix D, "Technical Specialist Assistance," of the Defense Contract Audit Agency manual. The Agency referenced additional audit guidance issued August 6 and December 26, 1996, providing additional guidance on reviewing and reporting the results of its analyses of contractor cost/benefit analyses submissions.

Evaluation Response. The additional guidance the Defense Contract Audit Agency issued after our field visits satisfy the intent of our recommendation. The additional guidance issued August 6 and December 26, 1996, provide extensive guidance on DCAA participation and review of contractor cost/benefit analyses submitted under the single process initiative.

Finding E. Legal Sufficiency Reviews

The Corporate ACO at DCMC Texas Instruments, Inc., and the Divisional ACO at DCMC McDonnell Douglas Aerospace Tactical Aircraft and Missile Systems (MDA-TAMS) did not obtain legal sufficiency reviews before issuing block change modifications. The Corporate ACO and Divisional ACO believed that legal sufficiency reviews were not necessary because the block changes did not involve the negotiation of equitable adjustment proposals. As a result, a block change modification (ARZ999) on TI contracts has allowed the contractor to unilaterally substitute subsequent revisions of Standard Procedure 14-21 as the revisions become effective without prior Government approval and could result in increased costs to the Government. Also, failure to obtain legal sufficiency reviews on the advance quality system block change modification on MDA-TAMS contracts with the Naval Air Systems Command and Aeronautical Systems Command contributed to the delays in executing similar block change modifications on MDA-TAMS contracts with the smaller buying commands.

Legal Sufficiency Reviews of Block Change Modifications

The DoD-wide impact of block change modifications and the nature of the changes make it imperative for ACOs to seek legal advice on such potential issues as authority to execute the block change modifications, adequacy of consideration, fiscal law constraints, and applicability of the Truth in Negotiations Act. Obtaining legal sufficiency reviews before issuing block change modifications can help avoid subsequent disputes and ensure that, in the event of a contract dispute, the Government has a legally sound position for the action taken.

Texas Instruments, Inc. The Corporate ACO issued the ISO-9001 block change modification on October 13, 1995, for all open Army, Navy, Air Force, and Defense Logistics Agency contracts under the auspices of the Reinvention Laboratory Program. The modification authorized the use of an ISO 9001-based quality system that would replace all contract requirements specifying MIL-Q-9858A quality system. The Corporate ACO issued the no-cost block change modification without legal review. He believed legal review was not necessary because monetary consideration was not an issue.

The Corporate ACO also executed block change modifications ARZ998 and ARZ999 dated April 4, 1996, for all open Army, Navy, Air Force, and Defense Logistics Agency contracts. The modifications were the first signed under the DoD single process initiative. Block change modification ARZ998 concerns the use of paint and primer materials in the metals fabrication process. It deletes four different military specifications and substitutes the contractor's single process specifications for alternative coatings. This modification is a

result of partnering efforts by TI and the Joint Logistics Commanders' Joint Group on Acquisition Pollution Prevention. The Corporate ACO did not obtain legal sufficiency review for this modification. Block change modification ARZ999 implements the TI common process factory initiative. The modification included a statement that allows TI to "substitute subsequent revisions to Standard Procedure 14-21 at their discretion, as the revisions become effective." As discussed in Finding C, we are concerned because this proviso allows the contractor to unilaterally revise its processes without Government review and approval. We are equally concerned that the Council agreed to the revision of section 6.3, Soldering, of Standard Procedure 14-21 (March 18, 1996) to accommodate the U.S. Army Missiles Command concerns about incorporating Class 2 soldering specifications. The section now includes the statement "Class is to be jointly determined by customer and TI." This revision now gives TI customers the option to specify Class 3 soldering specifications in follow-on contracts in lieu of Class 2, which the Navy and Air Force found technically acceptable. In spite of the Army concerns with the proposed soldering change and possible legal ramifications of the substitution language, the Corporate ACO, again, did not obtain legal advice before issuing the block change modification.

McDonnell Douglas Aerospace Tactical Aircraft and Missile Systems. The Divisional ACO for MDA-TAMS issued a block change modification for Naval Air Systems Command and the Aeronautical Systems Command contracts August 22, 1995, under the auspices of the Reinvention Laboratory Program. The block change authorized the use of an advanced quality system as a specific replacement for MIL-Q-9858 and MIL-STD-1520 requirements and related quality specifications in existing Aeronautical Systems Command and Naval Air Systems Command contracts. The Divisional ACO issued the no-cost modification without benefit of legal review. The DCMC MDA did not think legal review was necessary because the language in the block modification paralleled the language in a C-17 modification that authorized the implementation of an advanced quality system using ISO 9000 quality standards in accordance with the C-17 Omnibus Agreement May 1994.

During the briefing March 4, 1996, we learned that absent delegation authority from the smaller buying commands to execute the advanced quality system block change modifications, management decided that the Systems ACOs at DCMC MDA would issue separate block change modifications as the delegations were received. The DCMC and MDA officials advised that the following buying commands had not delegated authority: Phillips Lab, Kirtland Air Force Base, New Mexico; Oklahoma City Air Logistics Center, Oklahoma; Tinker Air Force Base, Oklahoma; San Antonio Air Logistics Center, Texas; Kelly Air Force Base, Texas; Naval Sea Systems Command, Washington, D.C.; and Naval Inventory Control Point, Philadelphia, Pennsylvania. Officials from DCMC and MDA-TAMS agreed with the evaluation team that delaying the execution of the block change modifications at these locations is diminishing the potential savings to the Government. Subsequent followup with the Systems ACOs June 17, 1996, disclosed that the block change modifications have not been executed. Had the Management Council engaged legal participation early in the process, further delays in the execution of the block changes might have been avoided. After the issuance of the SPI directive

December 8, 1995, the need for specific delegation authority from the buying commands became a moot point. The Systems ACOs should have immediately issued the block change modifications.

Legal Advisors Members of "SWAT" [Quick-Reaction] Teams

The DCMC Headquarters has established "SWAT" or quick-reaction teams at the district level to assist Management Councils and ACOs in reviewing concept papers and cost proposals. The "SWAT" teams are comprised of DCMC technical, legal, and business experts including DCAA auditors who can give advice or go on site to assist in the analyses and negotiations of concept papers. The DCMC hosted a March 25, 1996, SPI videoteleconference that reminded Management Councils to engage legal counsel early in the process to resolve legal ramifications and to review block change modifications for legal sufficiency before issuance. DCMC District management have also reminded ACOs of the need for early legal participation and involvement in the process.

Summary

The absence of documented criteria for legal review of block change modifications indicates a need for improvement in the SPI process. Given the recency and high visibility of the initiative and the legal ramifications that can ensue as a result of the block changes, the DCMC Commander should reemphasize the need for legal review of block changes before approval and issuance of the modifications even though the Districts have issued reminders regarding early legal involvement.

Recommendations, Management Comments, and Evaluation Response

E. We recommend that the Director, Defense Logistics Agency:

1. Issue a memorandum reminding administrative contracting officers of the need for early legal involvement in the process and legal review of all contract modifications resulting from the single process initiative before Government approval.

DLA Comments. The Defense Logistics Agency concurred and said that the Single Process Initiative Management Team has issued a "SPI Information Sheet on Consideration that calls for coordination with legal." In addition, "SPI road

show briefings, and other promotional/training materials contain instructions for administrative contracting officers to obtain legal review of concept papers."

Evaluation Response. The Defense Logistics Agency comment is responsive and actions taken satisfy the intent of the recommendation.

2. Direct the immediate review of the block change modifications issued to McDonnell Douglas Aerospace Tactical Aircraft and Missile Systems and Texas Instruments for legal sufficiency.

DLA Comments. The Defense Logistics Agency concurred and indicated that "legal sufficiency reviews of the DCMC MDC and DCMC TI block changes were performed following the OIG, DoD visit."

Evaluation Response. The Defense Logistics Agency comments and corrective actions taken are responsive and meet the intent of the recommendation.

3. Provide the Assistant Inspector General for Policy and Oversight the status of the advanced quality system block change modifications for the above listed buying commands.

DLA Comments. The Defense Logistics Agency concurred and advised that a block change modification to MDA-TAM contracts was signed November 25, 1995, for an advance quality system.

Evaluation Response. Although the Defense Logistics Agency concurred, its comments were not fully responsive. The Agency did not provide the status of the advance quality system block change modifications that were pending for the other buying commands cited in the draft finding. The Divisional ACO for MDA-TAMS only issued the November 25 block change modification for the Naval Air Systems Command and the Aeronautical Systems Commands contracts. The Systems administrative contracting officers responsible for the other buying commands had not executed the advance quality system block change modifications. We request the Defense Logistics Agency provide additional comments on Recommendation E.3. by May 15, 1997.

Finding F. Documentation of Consideration Determinations in Block Changes

Some DCMC ACOs did not document the rationale for their decisions on consideration in a timely or adequate manner. The Corporate ACO for TI did not document the basis for his consideration decisions because he determined no value was added by documenting his decisions. The Divisional ACO at MDA-TAMS did not prepare the required documentation in a timely manner. As a result, the documentation requirements prescribed at Federal Acquisition Regulation 15.807, "Prenegotiation Objectives" and Federal Acquisition Regulation 15.808, "Price Negotiation Memorandum" were not followed.

No-Cost Settlement of Advance Quality System Deployment at MDA-TAMS

The Divisional ACO at MDA-TAMS concurred with the contractor that the advanced quality system deployment at MDA would not result in price changes to existing contracts and that savings, net of implementation costs, will be in follow-on proposals and negotiations. The contractor proposed implementation cost of $11.2 million. A June 1995 MDA-TAMS advanced quality system briefing reflected peak annual savings of $52 million to occur in the third year after plant-wide implementation. The Divisional ACO did not document his rationale for issuing the August 22, 1995, no-cost block change modification until February 23, 1996.

No-Cost Settlement of ISO 9001 Deployment at DCMC TI

The Corporate ACO for TI determined that the October 13, 1995, quality system conversion block change modification authorizing the use of ISO-9001 quality to replace all contract requirements specifying MIL-Q-9858A did not warrant any increase or decrease in the contract prices or change in delivery schedules. He also determined that advantages and potential cost savings would be realized on future contracts; therefore, monetary consideration for this block change would not be required.

During our initial visit March 5, 1996, the Corporate ACO advised that the common process factory block change would not result in instant savings. He also advised that the Resident DCAA office was reviewing the rough order of magnitude estimate on the common process factory initiative. The TI rough order of magnitude asserted that estimated implementation cost of $10.9 million

during the July 1995 through December 1996 implementation period would not be offset by the estimated cost savings until September 30, 1997. Subsequent discussions with the DCAA auditors disclosed that a closer scrutiny of available data might identify instant savings on existing contracts with significant levels of deliveries beyond September 30, 1997. The contractor subsequently identified $154,000 estimated savings on four post-September 30, 1997, contracts and $132,480 on classified contract(s). On April 4, 1996, the Corporate ACO signed block change modification ARZ999 authorizing TI to substitute the common processes in the most current revision of the Standard Procedure 14-2. As of our May 28, 1996, follow-up review, the modifications definitizing the consideration on the four impacted contracts had not been finalized.

The Corporate ACO signed block change modification ARZ998 April 4, 1996, authorizing the implementation of the TI paint alternative initiative. Again, he determined no monetary consideration was warranted because any short-term savings to existing contracts were offset by $35,915 in implementation costs.

On all three occasions, the Corporate ACO failed to document the basis for his consideration determinations. He advised that no value was added to documenting his decisions because he had the advisory reports of DCAA on the rough order of magnitude cost/benefit analyses and the top level approvals of the Military Department key customers for the concept papers. Although some DoD officials are encouraging DoD contracting and contract management officials to think "outside the box," the rudiments of contract administration remain unchanged: the basis for contracting officer decisions and determinations must be documented.

In comparison, we found adequate and timely documentation of consideration decisions at DCMC Raytheon and DCMC Lockheed-Martin Fort Worth.

Summary

Consideration issues and determinations, including no-cost settlements, must be adequately addressed in the ACO decision paper or business clearance supporting the block change. For such modifications, the Government must obtain consideration in exchange for surrendering its rights to have the contractually required performance. Such consideration may be monetary or nonmonetary depending on the particular facts of a given case. For those technically acceptable concept papers that result in significant net savings on existing contracts, the ACO should request the contractor to submit a formal proposal for equitable adjustment. The ACO block change modification decision must document that the costs avoided by the contractor in the Government's deletion of the military specifications and standards are "reasonably related to . . . the increased cost of operation" by the contractor. If the ACO negotiates equitable downward adjustments to specific contracts, the modification decision or business clearance must document the basis for the equitable adjustments.

Recommendation, Management Comments, and Evaluation Response

F. We recommend that the Director, Defense Logistics Agency, issue a memorandum reminding administrative contracting officers of the requirement to document consideration issues, including the results of the review of implementation costs and savings estimates, in the block change modification decision or business clearance supporting the approval of the block change.

DLA Comments. The Defense Logistics Agency concurred and advised that the "SPI Management Team has issued a SPI Information Sheet entitled--Consideration--Applying it to the Single Process Initiative." The document reminds administrative contracting officers that they must adhere to requirements in applicable laws, regulations, and policies when negotiating consideration.

Evaluation Response. The Defense Logistics Agency comments are responsive and satisfy the intent of the recommendation.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

We reviewed DoD use of the block changes, including the review and approval process and results being achieved at four DCMC contract administration offices and their respective Resident DCAA Offices. Initial field work began the week of March 3, 1996, when the Office of the Inspector General evaluation team attended SPI briefings by contract management and contractor officials at the DCMC McDonnell Douglas and DCMC Texas Instruments, Inc. We chose these facilities because they have set the pace for the implementation of common processes and performance specifications on a facility-wide basis. Subjects of the briefings were the two block change modifications executed at these facilities under the auspices of the Reinvention Laboratory Program. We subsequently reviewed block changes at DCMC Raytheon the week of April 29, 1996, and DCMC Lockheed-Martin Fort Worth, May 29 through 30, 1996. We conducted a followup review of the common factory process initiative at DCMC Texas Instruments, Inc., May 28, 1996.

We visited or contacted individuals and organizations within DoD and Defense contractors. Details are available on request.

Methodology

Our review focused on identifying implementation deficiencies of the DoD block change process. We developed specific plans for evaluating the implementation of the block change process. We reviewed:

o DoD Component implementing guidelines for adequacy and consistency with the Secretary of Defense and Under Secretary of Defense for Acquisition and Technology policy memorandums,

o contractor/customer/contract administration office early interface at the four DCMC activities,

o concept paper/proposal review and approval including supporting technical and cost considerations, and

o Management Council oversight.

See Appendix C for a summary of potential benefits associated with the evaluation.

Appendix B. Other Matters of Interest

Subcontracting Issues

The DCMC leadership clearly recognized the need for developing policy and procedural guidance regarding subcontractor participation in the block change process. Therefore, on March 28, 1996, the Commander, DCMC, chartered an integrated product team (IPT), which comprised representatives from each of the Military Departments, the DCMC, and industry to investigate and recommend methods for incorporating the SPI into the subcontracts of Government prime contractors. The USD(A&T) SPI guidance did not address an approach to modify subcontracts for those contractors who also perform as prime contractors and propose to implement the SPI throughout its facilities. Since the ACO for the prime contractor does not have privity of contract with its subcontractors, that ACO cannot change subcontracts that are necessary for the prime contractor to implement single or common processes facility-wide. Only the prime can change its subcontracts.

The IPT met on several occasions with industry representatives to discuss the various issues and develop alternative approaches. The IPT recommended that prime contractors use a parallel processing method for implementing the SPI where prime contracts and subcontracts need to be modified for use of common processes facility-wide. Parallel processing involves the concurrent review and approval of prime and subcontract block changes by Government customers. Parallel processing allows for concurrent coordination with all affected parties, both Government and prime contractor during the first and only cycle. Customer approvals are obtained concurrently during this single cycle. Using the 120-day block change process, the ACO will modify the prime contracts and the prime contractors will modify their subcontracts.

The IPT also offered an alternate approach, serial processing; however, this approach was not the preferred method. The IPT defines this approach as a method whereby approval for a change is obtained initially for Government prime contracts followed by approval for subcontract changes under Government prime contracts. While this approach would reduce initial coordination efforts, it would not use the current block change process.

The Commander, DCMC, issued the IPT final report on June 28, 1996, requesting the comments of the USD(A&T). On September 3, 1996, the USD(A&T) signed a memorandum providing policy and procedural guidance endorsing the IPT-recommended parallel processing approach for dealing with specification and process changes for prime contractors that are also subcontractors to other contractors. We commend DCMC leadership in recognizing early the need for policy and procedural guidance regarding prime and subcontractor relationships in the SPI.

Consideration Issues

The USD(A&T) implementing guidance of December 8, 1996, raised numerous questions and concerns about the appropriateness of seeking consideration when a SPI concept paper is approved and a block change modification is issued. Many Defense contractors have interpreted his guidance on consideration in their favor and have referenced the USD(A&T) memorandum to justify the rough order of magnitude no cost impact, particularly when submitting concept papers relating to ISO 9000/9001 quality systems.

Concerns raised by the Office of Inspector General, DoD; Management Councils; the ACOs; and the DCAA prompted the SPI Management Team to issue additional guidance on March 26, 1996. The guidance reiterated a statement made by the USD(A&T) during a Lockheed-Martin Common Processes Conference on January 18, 1996: "It's my intention to obtain consideration when there are one-sided savings in the process." This statement by the USD(A&T) reiterates the fact that the Government is entitled to consideration when savings are one-sided; therefore, each case must be evaluated on its own merits to determine whether the Government is entitled to share in the immediate savings on existing contracts.

Common Law Requirement for Consideration. Case law provides that consideration is an element of a contract. It must exist to grant legal authority to enter into subsequent contract modifications. Contracting officers or Government agents may not authorize work that obligates the Government to pay a claim not otherwise enforceable against it; no Government official may waive contractual rights without adequate consideration. However, while consideration must be mutually agreed to by the competent parties, the adequacy of the consideration obtained is a matter of contractual judgment.

Comptroller General Decisions on Consideration. The Comptroller General, General Accounting Office, has been frequently requested to rule on whether the Government may be legally permitted to modify or issue payment for performance that varies from that which was originally in the contract. The General Accounting Office generally states the rule as: "No officer or agent of the Government of the United States has the authority to waive contractual right which have accrued to the United States or to modify existing contracts to the detriment of the Government without adequate legal consideration or a compensating benefit flowing to the Government."

Office of Inspector General Comments on Consideration. Consideration is a fundamental aspect of contract law. The requirement to obtain consideration for Government contract modifications stems from general contract principles and from the concept that a contracting officer cannot relinquish the Government's rights without receiving something in return. Consideration can take many forms, including increases in quality or improved delivery schedules. A promise to forbear from exercising a right, such as a claim, may also constitute consideration. Frequently, consideration takes the form of a reduction in the contract price, in which event DoD procedures allow for a corresponding reduction in funds obligated under a contract.

Modifications to the terms of performance, offered as consideration, may be acceptable if within the scope of the underlying contract. This determination requires a case-by-case analysis of contractual requirements and the proposed change, as scope determinations tend to be fact-specific. Government requests for additional goods and services as consideration may raise problems in some cases, such as whether a modification is in or out of scope affects funding and competition issues. Significant increases in the quantity of major items or changes in the nature or type of services to be provided may generate protests from other contractors based on failure to compete or may run afoul of congressional program limitations.

An additional problem may occur if overall costs savings are applied, not pro rata to each affected contract, but only to selected contracts. For example, cost savings realized over many contracts may, if aggregated, be sufficient to fund an additional item under one of the affected contracts. If the consideration is applied to only one contract, then funds obligated or expended on other affected contracts may be overstated in comparison with the newly reduced costs, in effect shifting funds, potentially augmenting appropriations and violating the "purpose" statute, 31 U.S. Code 1301.

Further, refunds or adjustments are normally credited to the appropriation charged with the expenditure. If that appropriation is still current, then the funds remain available for further obligation. If the appropriation is expired, the funds must be deposited in the expired account. If the appropriation is closed, then the refund must be deposited as miscellaneous receipts.

Consideration may be offered under many scenarios for the execution of block changes. Some of these scenarios would be problematic, and each would be fact-specific and require analysis.

Appendix C. Summary of Potential Benefits Resulting From Evaluation

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
A.	Program Results. Provides adequate assurances that Government interests are protected.	Undeterminable because benefits may be tangible or intangible.
B.1.	Program Results. Helps ensure that impacted contracts of compartmented programs incorporate approved block changes.	Undeterminable because benefits may be tangible or intangible.
B.2.	Program Results. Helps ensure that impacted contracts retained for administration by the Military Departments incorporate approved block changes.	Undeterminable because benefits may be tangible or intangible.
C.1., 2., and 3.	Program Results and Management Controls. Ensures consistent Management Council compliance with SPI technical guidelines and establishes audit trail of technical considerations and recommendations.	Undeterminable because benefits may be tangible or intangible.
D.	Management Controls and Economy and Efficiency. Ensures use of IPT approach in reviewing contractor cost/benefit analysis and independent review of contractor cost/benefit analysis.	Undeterminable because benefits may be tangible or intangible.
E.	Program Results. Ensures legal sufficiency reviews of block change modifications.	Undeterminable because benefits may be tangible or intangible.
F.	Program Results and Management Controls. Establishes an audit trail of ACO costs considerations.	Nonmonetary.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Deputy Under Secretary of Defense (Acquisition Reform)
  Director, Defense Logistics Studies Information Exchange
  Director, Defense Procurement
Under Secretary of Defense (Comptroller)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Assistant Secretary of the Army (Research, Development, and Acquisition)
  Commander, U.S. Army Missile Command
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Assistant Secretary of the Navy (Research, Development, and Acquisition)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Acquisition)
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
  Commander, Defense Contract Management Command

Non-Defense Federal Organizations and Individuals

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

Part III - Management Comments

Department of the Army Comments

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH DEVELOPMENT AND ACQUISITION
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

REPLY TO
ATTENTION OF

23 JAN 1997

SARD-PI

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, AUDIT POLICY AND OVERSIGHT, ATTN: MR. DONALD E. DAVIS, 400 ARMY NAVY DRIVE, ARLINGTON, VIRGINIA 22202-2884

SUBJECT: DoD Block Change Modifications (Project No. 60C-5029)

Reference your memorandum dated October 23, 1996, subject as above.

We have reviewed the proposed draft evaluation report and have no objection to its content. Our comments are addressed to those recommendations specific to the Service Acquisition Executive. We concur with the recommendations and our actions and timelines are set forth in the enclosure.

We appreciate the opportunity to comment on the draft report.

Kenneth J. Oscar
Deputy Assistant Secretary of the Army
(Procurement)

Enclosure

Printed on Recycled Paper

ACTIONS TO BE TAKEN AND PROPOSED TIMELINES FOR RECOMMENDATIONS CITED IN DRAFT DODIG REPORT (PROJECT NO. 60C-5029)

RECOMMENDATION B.2. That the DoD Service Acquisition Executive require Component Team Leaders to document coordination efforts with their respective Service Special Access Program focal points and Administrative Contracting Officers responsible for retained contracts to ensure that block change modifications are issued as appropriate.

ACTION and TIMELINE: HQDA will ensure that appropriate focal points in the Special Access Program are kept informed and updated regularly on the Army's Single Process Initiative Program.

The Army will use the Single Process Initiative Website and an update to the Component Team Leader's Guidebook to advise Army Component Team Leaders of the importance of ensuring that all Army customers, including Special Access Program customers, as well as those holding contracts not administered by DCMC are involved in the SPI Block Change process.

Target date for completion of these actions is March 28, 1997.

RECOMMENDATION C.3. Require the Management Council to prepare summary documentation of its technical and cost considerations and conclusions on the common process factory initiative and to remind the Council of the requirement to elevate unresolved disagreements on technical issues to the appropriate chain of command.

ACTION and TIMELINE. HQDA will advise all Army Component Team Leaders of the requirement for Management Councils on which they participate to prepare file documentation of technical and cost considerations and conclusions on concept papers and proposals submitted for evaluation and review. Component Team Leaders will be reminded that in accordance with previous guidance, they are encouraged to elevate unresolved technical issues to the Office of the Deputy Assistant Secretary Of the Army (Procurement). The Army SPI Website and Component Team Leader Guide will be updated to reflect this advisory. Target completion date is March 28, 1997.

Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

FEB 7 1997

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DRAFT REPORT ON THE AUDIT OF DON BLOCK CHANGE MODIFICATIONS (PROJECT NO. 60C-5029)

Ref: (a) DODIG memo of 23 Oct 96

Encl: (1) ASN(RDA) Comments to Draft DoDIG Report of 23 October 1996 on DoD Block Change Modifications Project No. 60C-5029)

I have reviewed the findings and recommendations contained in reference (a). Comments are provided in enclosure (1) for the finding and recommendation that directly relate to the Single Process Initiative.

M. F. Sullivan
RADM, SC, USN
Principal Deputy

Copy to:
ASN(FM&C)
NAVINSGEN

ASN(RD&A) Comments to Draft DODIG Report of 23 October 1996
on
DoD Block Change Modifications (Project No. 60C-5029)

Finding B:

The DCMC ACOs, DCAA auditors, and Component Team Leaders did not always coordinate the review and approval process of concept papers with Special Access Program (SAP) offices and contracting activities responsible for the administration of retained contracts. This condition is attributable to the lack of specific DoD Component coverage for coordinating concept paper review and approval of block changes that could impact SAPs and non-DCMC administered contracts. As a result, the objectives of the SPI may have been jeopardized because the Government may not have realized the savings and cost avoidances on SAP and non-DCMC administered contracts.

Recommendation B.2:

I recommend that the DoD Service Acquisition Executives require component Team Leaders to document coordination efforts with their respective Service Special Access Program focal points and administrative contracting officers responsible for retained contracts to ensure that block change modifications are issued as appropriate.

ASN(RD&A) Position:

I do not concur with the recommendation to require the Component Team Leaders to document coordination efforts with their Service Special Access Program focal points. The Department of the Navy policy is to limit the visibility and awareness of the Special Access Programs to only those individuals who have a need to know and have the proper clearance. Inserting the Component Team Leaders into the process of coordinating the review and approval of concept papers with Special Access Programs increases the risk of compromising the content of those programs. The Department of the Navy's Central Office for Special Access Programs has designated a liaison for addressing overall contract administration issues with the Defense Contract Management Command (DCMC) and a point of contact for the Single Process Initiative (SPA). The Central Office staff, including the liaison and the SPI point of contact, has been briefed on the policy and implementation guidance on the SPI, and is currently coordinating the review and approval of any concept papers affecting Special Access Program contracts directly with the appropriate DCMC field office. The Central Office for Special Access Program contracts are included, where appropriate, in block change modifications.

ENCLOSURE(1)

Defense Contract Audit Agency Comments

DEFENSE CONTRACT AUDIT AGENCY
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PSP 730.4.15 4 February 1997

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL,
AUDIT POLICY AND OVERSIGHT

SUBJECT: Draft Report on the Evaluation of Department of Defense Block Change Modifications (Project No. 60C-5029)

As requested, we have reviewed the subject draft report and are providing comments on your findings and recommendations related to DCAA.

In summary, we disagree with your draft findings and recommendations relating to DCAA. Enclosure 1 contains our detailed comments. We shared the draft report with our field audit offices (FAOs) cognizant of the contractors visited by your office. The FAOs strongly disagree with your findings. They believe that they are doing a good job reviewing the cost/benefit analyses and, in many cases, the FAOs received a positive impression from your auditors at the exit conferences regarding the work performed. For several of the findings related to DCAA, this draft report was the first time the FAOs were informed that the IG has perceived problems with their work. Enclosure 2 includes the FAO comments on your draft report.

In connection with the implementation of the single process initiative, we have issued several audit guidance memorandums to assist our auditors in reviewing the financial aspects of the submitted concept papers. Our FAOs have been doing an excellent job of reviewing the financial aspects of those papers and providing appropriate recommendations to administrative contracting officers. Enclosure 3 includes copies of the audit guidance memorandums.

The FAOs that you visited indicated to us that your reviewers apparently have concerns that general dollar magnitude estimates of costs and savings are insufficient to make a determination on implementing changes under the single process initiative. The FAOs indicated that an IG recommendation may be forthcoming to require more detailed data to support the initial cost/benefit analysis.

This concern may be a result of a misunderstanding of the process. The purpose of the initial cost/benefit analysis is to develop a general dollar magnitude of implementation costs and savings information to assist in making a determination if the process change should be implemented (i.e., from a financial aspect, do the benefits exceed the costs?). If the process is approved and implemented, more detailed data will be required to make equitable adjustments

PSP 730.4.15
SUBJECT: Draft Report on the Evaluation of Department of Defense Block Change Modifications (Project No. 60C-5029)

on existing contracts, if the administrative contracting officer determines that potential savings significantly exceed costs on these contracts. More detailed data will also be required in forward pricing proposals for future contracts, to show the costs and savings as a result of the new process.

Your staff may direct any questions regarding this memorandum to David Eck, Chief, Special Projects Division, or Thomas Cline, Program Manager, Special Projects Division at (703) 767-3290 or fax (703) 767-3234. Our e-mail address is *psp@hq1.dcaa.mil.

Robert Di Mucci
FOR Lawrence P. Uhlfelder
Assistant Director
Policy and Plans

Enclosures
1. Response to Recommendations for DCAA
2. DCAA Field Audit Offices Comments
3. DCAA Guidance
4. DCAA Audit Planning Manual

2

COMMENTS ON AND RESPONSE TO RECOMMENDATIONS IN DRAFT IG REPORT ON DEPARTMENT OF DEFENSE BLOCK CHANGE MODIFICATIONS

Recommendation A.

We recommend that the Under Secretary of Defense for Acquisition and Technology emphasize that the 120-day timeframe is merely a goal and administrative contracting officers have the flexibility to obtain needed cost or technical data required to negotiate block changes.

DCAA Response

The recommendation does not require an action by DCAA. However, in your summary for Finding A, you state "The ACOs and DCAA auditors have been discouraged from requesting contractors for additional technical or cost data . . . ." We do not concur with this observation and find no evidence in your draft report that supports this conclusion. Our auditors have reviewed the financial information provided with contractors' block change concept papers and have requested additional data in situations when considered necessary. See the FAOs' comments on this issue in Enclosure 2. For example, the auditors at Texas Instruments requested additional information from the contractor regarding contracts with significant levels of performance beyond the implementation phase of the contractor's block change proposal. As a result of the auditor's independent review of the cost/benefit analysis and request for more supporting data, additional savings of $621,480 were identified.

Recommendation B.1.

We recommend that the Commander, Defense Contract Management Command, establish joint procedures with the Defense Contract Audit Agency for coordinating the review and approval of concept papers with Special Access Program Offices. As a minimum, the administrative contracting officers and auditors should be required to document coordination efforts with Defense Contract Management Command and Defense Contract Audit Agency Special Access Program focal points to ensure that classified contracts are also modified as appropriate to authorize the use of approved block changes.

ENCLOSURE 1
Page 1 of 4

Final Report Reference

DCAA Response

We do not concur with the recommendation as it relates to DCAA. DCAA has issued guidance for coordinated audit planning between regular DCAA offices and Field Detachment offices at contractors with both significant unclassified and special access program work. This guidance is contained in the DCAA Audit Planning Manual, which is issued each year for the audit planning process. The section of the Audit Planning Manual relevant to coordination with the Field Detachment (Section 3-600) is included in Enclosure 4. This guidance provides for a comprehensive, coordinated and integrated audit approach of contractor operations by both the regular DCAA auditors and the Field Detachment. Because of close and effective relationships established by both offices as a result of this guidance, initiatives such as the single process initiative are effectively coordinated.

Revised Recommendation B.1.

In addition, the draft report does not include any specific examples where there was a detrimental lack of coordination of block changes with appropriate special access program offices. The FAO comments included in Enclosure 2 state that there is effective coordination with appropriate special access programs when necessary. For example, at Texas Instruments the special access program has an observer that attends the management council meetings.

Recommendation C.3

C. We recommend that the Commander, Defense Contract Management Command:

3. Require the Management Council to prepare a summary documentation of its technical and cost considerations and conclusions on the common process factory initiative and to remind the Council of the requirement to elevate unresolved disagreements on technical issues to the appropriate chain of command.

DCAA Response

The recommendation does not require an action by DCAA. However, in your discussion of the block change process for Texas Instruments for Finding C, you state "Our review found no evidence that the DCMC actually reviewed the savings, all or in part, or the implementation costs . . . ." We do not concur with this observation and consider it to be factually incorrect. As discussed in Enclosure 2, our auditors at Texas Instruments (as the financial advisors for the ACO in the block change process) did review the savings and implementation costs and provided the results of the review to DCMC. Specifically, our auditors reviewed the contractor's cost/benefit analysis, discussed the estimates with the contractor's representative, requested additional data as needed, and provided the financial input that the ACO needed to make a decision on the block change.

ENCLOSURE 1
Page 2 of 4

Recommendation D

We recommend that the Director, Defense Contract Audit Agency, issue a Memorandum for Regional Directors reminding field auditors of the intent of the integrated product approach in reviewing concept papers to ensure the contractor submits supporting data for the cost/benefit analysis that allows full evaluation of proposed implementation costs and savings and requirements of the Defense Contract Audit Agency Manual Appendix D, "Technical Specialist Assistance."

DCAA Response

We do not concur with the recommendation. DCAA has issued extensive guidance to the field regarding the review of cost/benefit analyses, and our auditors have complied with the requirements in the Contract Audit Manual Appendix D, "Technical Specialist Assistance." We issued audit guidance to the field on 30 January 1996, 16 February 1996, 6 August 1996 and on 26 December 1996 (see Enclosure 3), providing our auditors with guidance on their participation in the single process initiative. This guidance provides a description of DCAA's role in the block change process, suggested elements for an adequate cost/benefit analysis, and guidelines for reviewing and reporting on the results of a cost/benefit analysis. It includes guidelines that the auditor should obtain sufficient information to allow for an adequate evaluation of the proposed implementation costs and savings.

This recommendation appears to be based on two allegations regarding DCAA's financial advisory services, which are discussed below.

Allegation: The DCAA field auditors at Texas Instruments and Lockheed Martin Fort Worth did not always adequately and independently evaluate contractor rough order of magnitude estimates.

We do not agree with this allegation. The draft report does not provide any specific examples where our auditors did not adequately and independently review the estimates. As discussed in Enclosure 2 and summarized below, our auditors did perform adequate and independent reviews.

At Texas Instruments, the estimates of implementation costs, instant savings on current contracts, and savings on future contracts were prepared on a company-wide basis because of the large number of contracts at that location (approximately 800 contracts). The cost/benefit analysis is not required to address costs and savings on a contract by contract basis unless savings on existing contracts are significant. Our memorandum to the ACO on the cost/benefit analysis provided information on the basis of the contractor's estimates and the availability of cost data to support the estimates. During the audit and prior to your reviewer's visit, the audit office requested additional data to review the savings estimates. This additional data was provided after your visit, and resulted in an increase to the savings estimate. DCAA's independent review and

ENCLOSURE 1
Page 3 of 4

report did provide the ACO with the information needed to make a judgment on the adequacy of the contractor's rough order of magnitude estimates.

Our Lockheed Martin office in Ft. Worth, Texas, provided your reviewers with examples of the data submitted to support the contractor's rough order of magnitude estimates. Your reviewer stated at the exit conference that the data was adequate. Furthermore, your draft report states in Finding C that "the Management Councils at DCMC Raytheon and DCMC Lockheed-Martin Fort Worth . . . reviewed, approved and adequately documented the cost considerations and technical merits of the concept papers . . . ." Our field office provided you with documentation to support our input in the management council's review process.

Allegation: DCAA did not express concerns about limitations of technical reviews to the ACOs.

We do not agree with this allegation. Your draft report narrative for this allegation states "In both instances (Texas Instruments and Lockheed Martin), the DCAA auditors knew the limitations of the technical reviews but did not convey their concerns to the ACOs." Our follow-up with the FAOs cognizant of these two contractors, as discussed in Enclosure 2, found that the auditors followed the guidance on technical assistance as described in the DCAA Contract Audit Manual, Appendix D-200, and the technical reviews did not have "limitations." The auditors requested needed technical assistance, received and evaluated the technical reviews, and found the reviews to be adequate. The auditors met with the technical specialists and discussed the assumptions and estimates in their respective contractor concept papers, gained an understanding of the work performed by the technical specialists, and subsequently incorporated the results of the technical reviews into their reports. These are the major procedures that need to be performed to comply with the requirements of DCAA Contract Audit Manual Appendix D.

ENCLOSURE 1
Page 4 of 4

Defense Logistics Agency Comments

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

REPLY
REFER TO

30 DEC 1996

DDAI

MEMORANDUM FOR THE ASSISTANT INSPECTOR GENERAL FOR AUDIT, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on DoD Block Change Modifications, 6OC-5029

Enclosed is our response to your request of 23 October 1996. Should you have any questions, please contact Dave Stumpf, 767-6266.

OLIVER E. COLEMAN
Acting Chief
Internal Review Office

cc:
AQ

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Final Report Reference

AUDIT TITLE: DoD Block Change Modifications, 6OC-5029

FINDING B: COORDINATION OF BLOCK CHANGES WITH SPECIAL ACCESS PROGRAM OFFICES AND CONTRACTING ACTIVITIES THAT RETAINED CONTRACT ADMINISTRATION. The DCMC ACOs, DCAA auditors and Component Team Leaders did not always coordinate the review and approval process of concept papers with Special Access Program (SAP) offices and contracting activities responsible for the administration of retained contracts. This condition is attributable to the lack of specific DoD Component coverage for coordinating concept paper review and approval of block changes that could impact SAPs and non-DCMC administered contracts. As a result, the objectives of the SPI may not have realized the savings and cost avoidances on SAP and non-DCMC administered contracts.

Revised Finding B.

DLA COMMENTS: Nonconcur

Definitive SPI guidance has been disseminated within classified channels and block changes have been and are being executed. A representative from the Directorate of Special Programs is a member of the DCMC SPI Management Team. Moreover, the Director of Special Programs, DLA, has been established as the focal point for classified SPI issues and can provide further information on SPI related guidance to appropriately cleared personnel.

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RECOMMENDATION B.1: Recommend that the Commander, Defense Contract Management Command (DCMC), establish joint procedures with the Defense Contract Audit Agency (DCAA) for coordinating the review and approval of concept papers with Special Access Program Offices. As a minimum, the administrative contracting officers and auditors should be required to document coordination efforts with DCMC and DCAA Special Access Program focal points to ensure that classified contracts are also modified as appropriate to authorize the use of approved block changes.

DLA COMMENTS: Nonconcur

Revised Recommendata B.1.

As stated above under Finding B, definitive SPI guidance has been disseminated within classified channels and block changes have been and are being executed. A Special Programs representative is a member of the DCMC SPI Management Team and the Director of Special Programs, DLA, has been established as the focal point for classified SPI issues. Further information on SPI related guidance can be obtained by appropriately cleared personnel.

DISPOSITION:
( ) Action is Ongoing. Estimated completion Date:
(X) Action is Considered Complete.

MONETARY BENEFITS: N/A
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED

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FINDING C: MANAGEMENT COUNCIL TECHNICAL EVALUATION OF CONCEPT PAPERS. The Management Council at DCMC Texas Instruments, Inc. (TI), did not always adequately perform technical evaluation of concept papers and failed to resolve or elevate Component disagreements because Management Council members did not fully comply with prescribed technical guidelines. As a result, the objective of the SPI to eliminate multiple processes at a contractor facility was not fully achieved. Texas Instruments now has to maintain multiple soldering processes facility-wide to accommodate the different soldering requirements of its key customers.

DLA COMMENTS: Partially Concur

TI recognized from the beginning that they would have to maintain multiple solder classes to meet customers needs and system applications. Their proposal comprehended this by proposing a single commercial solder spec, ANSI/J-STD-001, with the option to choose class 1, 2, or 3, depending on the specifics of the customers' system requirements. The contractor believed it is not the government's call to force contractors to adopt a single process or multiple processes. The purpose of acquisition reform is to give contractors the freedom to choose processes that make the most sense for his business and product mix.

With regard to the Management Council's (MC) technical evaluation, there were numerous meetings discussing this proposed change during the May 95 to Apr 96 time frame. All technical issues were thoroughly discussed and understood by all parties. When submission of SPI concept papers became a requirement in December 1995, TI was already eight months into this effort under the auspices of the Reinvention Laboratory. The technical aspects of the common process factory had been explained to DCMC TI, major customers, and the MC during that period. To regress by requiring TI to recreate a fully compliant SPI concept paper at that point was unnecessary, would not add value and would have been contrary to the tenets of acquisition reform.

The MC did not elevate technical issues to higher management for resolution because such issues were resolved at the MC level. The Navy, Air Force and Army all provided letters to the MC and DCMC ACO agreeing to the technical aspects of the common process factory changes. These letters were adequate technical justification for DCMC personnel to accept and implement the proposed changes. DCMC is unable to provide additional comments on behalf of Services regarding whether or not they adequately documented their technical justification. However, we know that each services' soldering expert met on several occasions to discuss/resolve these highly technical issues. Their letters to DCMC TI indicated their agreement with the technical aspects of the proposed changes.

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RECOMMENDATION C: Recommend that the Commander, Defense Contract Management Command:

1. Provide technical guidance on soldering technical issues through the Single Process Initiative Management Team.

2. Require the Management Council at Defense Contract Management Command Texas Instruments, Inc., to request the contractor to properly document the common process factory concept paper in accordance with the single process initiative technical guidance.

3. Require the Management Council to prepare summary documentation of its technical and cost considerations and conclusions on the common process factory initiative and to remind the Council of the requirement to elevate unresolved disagreements on technical issues to the appropriate chain of command.

DLA COMMENTS:

1. Nonconcur. It is inappropriate for the DCMC Commander to issue technical guidance on soldering issues, as the primary responsibility for this rests with the technical experts within the buying commands. Moreover, formal guidance of this type may undermine the SPI process by being too restrictive to address the many individual technical conditions that could likely surface at various contractor facilities. It seems preferable to allow the component team members on the MC to address these situations as they perform their technical reviews.

2. Nonconcur. As discussed previously, the government and contractor have reached a complete understanding of what was proposed, and subsequently modified, to allow TI to achieve a common process factory. Further documentation of the processes would not add value and would be contrary to the tenets of acquisition reform.

Revised Recommendations C.1. and C.2.

3. Partially concur. A DCAA audit, that includes technical review by DCMC, was issued subsequent to the initial IG review. This report documents the technical/cost considerations and conclusions agreed to by the MC. Further documentation would serve no purpose. The MC understands the requirement and procedure to elevate unresolved disagreements on technical issues. Guidance on elevating issues has been published in various forms, such as SPI Information Sheets, OSD and DCMC policy that can be found on the DCMC home page under SPI (http://www.dcmc.dcrb.dla.mil).

DISPOSITION:
( ) Action is Ongoing. ECD:
(X) Action is Considered Complete

MONETARY BENEFITS: N/A
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

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FINDING E: LEGAL SUFFICIENCY REVIEWS. The Corporate ACO at DCMC Texas Instruments, Inc., and the Divisional ACO at DCMC McDonnell Douglas Aerospace Tactical Aircraft and Missile Systems (MDA-TAMS) did not obtain legal sufficiency reviews before issuing block change modifications. The Corporate ACO and Divisional ACO believed that legal sufficiency reviews were not necessary because the block changes did not involve the negotiation of equitable adjustment proposals. As a result, a block change modification (ARZ999) on TI contracts has allowed the contractor to unilaterally substitute subsequent revisions of Standard Procedure 14-21 as the revisions become effective without prior Government approval and could result in increased costs to the Government. Also, failure to obtain legal sufficiency reviews on the advance quality system block change modification on MDA-TAMS contracts with the Naval Air Systems Command and Aeronautical Systems Command contributed to the delays in executing similar block change modifications on MDA-TAMS contracts with the smaller buying commands.

DLA COMMENTS: Concur

Early on, DCMC TI performed only limited legal reviews on modifications executed to implement the contractor's proposed changes. DCMC TI now obtains full legal sufficiency reviews on all SPI modifications. Moreover, in accordance with the DoD IG report, DCMC TI also submitted already executed block change modifications to their Office of Counsel for legal sufficiency reviews.

DCMC MDC-St Louis has legal representation in attendance at all monthly and corporate level SPI meetings. The Divisional ACO coordinates with the DCMC lawyer on all legal matters and contract language prior to initiating any block changes. The Advance Quality System example cited in the IG report occurred under the auspices of the Reinvention Laboratory.

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RECOMMENDATION E: Recommend that the Commander, Defense Contract Management Command:

1. Issue a memorandum reminding administrative contracting officers of the need for early legal involvement in the process and legal review of all contract modifications resulting from the single process initiative before Government approval.

2. Direct the immediate review of the block change modifications issued to McDonnell Douglas Aerospace Tactical Aircraft and Missile Systems and Texas Instruments for legal sufficiency.

3. Provide the Assistant Inspector General for Policy and Oversight the status of the advanced quality system block change modifications for the above listed buying comments.

DLA COMMENTS:

1. Concur. A letter was issued dated Apr 19, 1996, entitled Single Process Initiative, Statutory Changes or Regulatory Deviations, which recommended Legal Counsel review for such cases. The SPI Management Team has also issued an SPI Information Sheet on Consideration that calls for coordination with Legal. This information is located on the DCMC home page (http://www.dcmc.dcrb.dla.mil). In addition, SPI Road show briefings and other promotional/training materials contain instruction for ACOs to obtain Legal review of concept papers.

2. Concur. Additional legal reviews of the DCMC MDA-St Louis block changes were performed following the DoD IG visit. The DACO and Legal Counsel determined that the consideration required to institute changes to the already agreed upon modifications far outweighed the benefits of the original action.

As recommended by the DoD IG report, DCMC TI has submitted the already executed block change modifications for legal sufficiency reviews.

3. Concur. A Modification to McDonnell Douglas' contracts was signed on 25 Nov 1995 for an advanced quality system. This concept was originally proposed under the Reinvention Laboratory process prior to instituting SPI. During the Reinvention Laboratory review process, each listed buying command coordinated the proposal with their Legal offices. The proposal was also coordinated with DCMC's Legal office. All legal representatives agreed with the new proposed process and contract language. No consideration was sought resulting from the change. Subsequent to the IG review, the DACO and DCMC Legal again looked at the consideration issue and came to the conclusion that if the modification was opened for renegotiation, the government would likely absorb additional costs to implement the new process. Thus, it was deemed not worthwhile to pursue this matter further.

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MONETARY BENEFITS: N/A
DLA COMMENTS:
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AMOUNT REALIZED:
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FINDING F: DOCUMENTATION OF CONSIDERATION DETERMINATIONS IN BLOCK CHANGES. Some DCMC ACOs did not document the rationale for their decisions on consideration in a timely or adequate manner. The Corporate ACO for TI did not document the basis for his consideration decisions because he determined no value was added by documenting his decisions. The Divisional ACO at MDA-TAMS did not prepare the required documentation in a timely manner. As a result, the documentation requirements prescribed at Federal Acquisition Regulation 15.807, "Pre-negotiation objectives" and Federal Acquisition Regulation 15.808, "Price negotiation memorandum" were not followed.

DLA COMMENTS: Concur

Consideration both in MDA's and TI's case was thoroughly and adequately addressed, however, the documentation relating to consideration determinations may not have been timely or prepared in accordance with FAR 15.807 and 15.808. Documentation collected to support TI's negotiations/determinations for consideration was in the form of DCAA and technical reviews and was not compiled in the manner prescribed by the FAR. MDA prepared such documentation but did not prepare it in a timely manner. Subsequent to the DoD IG review, DCMC issued guidance to reinforce current law, regulation, and policy relating to the proper treatment of consideration. This information can be found on the DCMC home page under SPI (http://www.dcmc.dcrb.dla.mil).

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RECOMMENDATION F: Recommend that the Commander, Defense Contract Management Command, issue a memorandum reminding administrative contracting officers of the requirement to document consideration issues, including the results of the review of implementation costs and savings estimates, in the block change modification decision or business clearance supporting the approval of the block change.

DLA COMMENTS: Concur

The SPI Management Team has issued an SPI Information Sheet entitled "Consideration--Applying it to the Single Process Initiative" (Attachment A). This document reminds ACO's that they must adhere to requirements contained in applicable laws, regulations, and policies when reviewing/negotiating consideration. Additionally, on 19 Nov 96, the DCMC Commander issued a memo directing ACOs to ensure cost benefit analyses are contained in contractor concept papers, they should be reviewed in conjunction with DCAA, and the results of such reviews reported to DCMC Hqs (Attachment B).

DISPOSITION:
( ) Action is Ongoing. ECD:
(X) Action is Considered Complete

MONETARY BENEFITS: N/A
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