

June 4, 2002



Acquisition

Contract Administration Services
Function at Edwards Air Force Base
(D-2002-097)

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Acronyms

AFB	Air Force Base
AFMC	Air Force Materiel Command
CAS	Contract Administration Services
DCMA	Defense Contract Management Agency
DMRD	Defense Management Report Decision



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-4704

June 4, 2002

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE CONTRACT MANAGEMENT
AGENCY

SUBJECT: Report on Contract Administration Services Function at Edwards Air
Force Base (Report No. D-2002-097)

We are providing this report for your information and use. We conducted the audit in response to allegations made in a complaint to the Defense Hotline. Because this report contains no recommendations, no written response to this report was required, and none was received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the audit staff. Questions should be directed to Mr. Joseph P. Doyle at (703) 604-9349 (DSN 664-9349) (jdoyle@dodig.osd.mil) or Mr. Michael J. Tully at (703) 604-9347 (DSN 664-9347) (mtully@dodig.osd.mil). See Appendix B for the report distribution. The team members are listed inside the back cover.

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Office of the Inspector General of the Department of Defense

Report No. D-2002-097

June 4, 2002

(Project No. D2002CK-0008)

Contract Administration Services Function at Edwards Air Force Base

Executive Summary

Who Should Read This Report and Why? DoD civilian and military personnel who administer and/or provide oversight of the contract administration services function at the Air Force Flight Test Center, Edwards Air Force Base, California (the Flight Test Center) and the Defense Contract Management Agency. This report provides management the results of the review to determine whether the contract administration services function at the Air Force Flight Test Center, Edwards Air Force Base should be transferred to the Defense Contract Management Agency.

Background. The audit was performed in response to allegations made to the Defense Hotline regarding the Flight Test Center. The allegations were that the Flight Test Center is not in compliance with Defense Management Report Decision 916, which directed that all military contract administration service organizations be put under the Defense Contract Management Agency; the transfer of the contract administration services function to the Defense Contract Management Agency would ensure the availability of experienced staff; and the transfer of the contract administration services function to the Defense Contract Management Agency from the Flight Test Center would save the Air Force an estimated \$1.5 million per year.

Results. Air Force retention of the contract administration services at the Flight Test Center was appropriate and the allegations were not substantiated. The Air Force decision to retain the contract administration function at the Flight Test Center is not in violation of Defense Management Report Decision 916. The Flight Test Center only administers that portion of contracts that pertain to developmental flight test activities and only for the duration of the developmental test. The Defense Contract Management Agency performs only acceptance testing and has no experience in supporting developmental flight-testing. The Defense Contract Management Agency officials acknowledged that they cannot ensure the availability of experienced staff. In addition, officials at the Flight Test Center stated that the transfer of the function would increase potential safety and program cost risk if there are delays or impacts to flight test schedules. The alleged costs avoidance were an unsubstantiated estimate that 25 Flight Test Center employees would be transferred to the Defense Contract Management Agency at an average annual personnel cost of \$60,000. If these functions were transferred from the Flight Test Center, the costs to perform the function would transfer from the Air Force to the Defense Contract Management Agency and DoD would realize no cost reduction for the contract administration services function.

Therefore, there is no valid reason to transfer the contract administration services function from the Flight Test Center to the Defense Contract Management Agency.

Management Comments. We provided a draft of this report on April 30, 2002. Because this report contains no recommendations, no written response to this report was required, and none was received. Therefore, we are publishing this report in final form.

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Background

The audit was performed in response to allegations made to the Defense Hotline regarding the Air Force Flight Test Center, Edwards Air Force Base (AFB), CA (the Flight Test Center). The allegations were that:

- the Flight Test Center is not in compliance with Defense Management Report Decision (DMRD) 916, which directed all military contract administration service organizations to be put under the Defense Contract Management Agency (DCMA);
- the transfer of the contract administration services (CAS) function to DCMA will ensure the availability of experienced staff support; and
- the transfer of CAS function to DCMA from the Flight Test Center would save the Air Force an estimated \$1.5 million per year.

Air Force Flight Test Center, Edwards Air Force Base, CA. The Flight Test Center is the Air Force Materiel Command (AFMC) center of excellence for research, development, and test and audit of aerospace systems for the United States and its allies. The Flight Test Center Contract Management Division performs CAS on various contracts applicable to developmental flight testing. Secondary delegations are used by DCMA to transfer responsibility for certain CAS functions to offsite locations, such as Edwards AFB. The Contract Management Division also performs property administration functions on some contracts issued by the Flight Test Center. As of November 6, 2001, the Flight Test Center had 12 quality assurance personnel, 6 property management personnel, 2 contract administration personnel, and 1 safety liaison person.

Defense Management Report Decision 916. This decision, "Streamlining Contract Management," approved by the Deputy Secretary of Defense in November 1989, consolidated CAS under the, Defense Contract Management Command within the Defense Logistics Agency, except CAS performed at the Army ammunition plants and by the Navy Supervisor of Shipbuilding, Conversion, and Repair. The DMRD states, in part, that all DoD CAS functions, including those CAS functions, currently performed by the Defense Logistics Agency and the Military departments, will be consolidated.

In March 2000, Defense Contract Management Command became the DCMA, an autonomous agency. DCMA provides pre-contractual advice services during the acquisition phase to help construct effective solicitations, identify potential performance risks, select capable contractors, and write contracts that are easily administered, thereby reducing the risk of costly modifications. After the contract is awarded, DCMA oversees contractor systems and operations to ensure that the product, cost, and schedule is in compliance with the terms and conditions of the contract. This includes on-site surveillance and program-specific concerns that cannot be monitored by offsite buying agencies.

Prior Studies. Since 1995 two studies were performed to determine whether the administrative duties performed by the Flight Test Center should be transferred to the DCMA. In 1995, the Defense Logistics Agency and AFMC jointly conducted a study and recommended that the functions at the Flight Test Center be considered for transfer to the DCMA. The recommendation was not accepted at the October 1995 AFMC Visions VI Executive Conference because the current support was responsive, and any benefits from a transfer would be minimal. Further, if DCMA performed the CAS functions, it would be administered from a location other than Edwards AFB, and response time could be unacceptable. In 1999, the Flight Test Center performed a study. The study found no compelling reasons or convincing evidence to support a decision one way or another and recommended that the Flight Test Center weigh the transfer of the function in terms of cost, control, and customer services to determine if action should be taken to transfer the function. The decision was made not to transfer the function to DCMA, but stated that the issue should be addressed at a future date.

Objective

The overall objective was to determine the validity of the allegations made to the Defense Hotline. Specifically, we determined whether the contract administration services function at the Flight Test Center should be transferred to the Defense Contract Management Agency. See Appendix A for a discussion of the audit scope and methodology, and a list of prior coverage related to the audit objective.

Allegations Involving Contract Administration Services Function

The allegations were not substantiated. The Air Force decision to retain the contract administration function at the Flight Test Center is not in violation of DMRD 916. The Flight Test Center only administers that portion of the contract applicable to developmental flight test activities and only for the duration of the developmental test. DCMA performs only acceptance testing and has no experience in supporting developmental flight testing. DCMA officials acknowledged that they cannot ensure the availability of experienced staff. In addition, officials at the Flight Test Center stated that transfer of the function would increase potential safety and program cost risk if there are delays or impacts to flight test schedules. The alleged costs avoidance were an unsubstantiated estimate that 25 Flight Test Center employees would be transferred to the DCMA at an average annual personnel cost of \$60,000. If these functions were transferred from the Flight Test Center, the costs to perform the function would transfer from the Air Force to the DCMA, and DoD would realize no cost reduction for the CAS function. Therefore, there is no valid reason to transfer the CAS function from the Flight Test Center to DCMA.

Compliance with Defense Management Report Decision 916

Allegation. The Flight Test Center is not in compliance with DMRD 916, which directed all military CAS organizations be put under the DCMA.

Audit Results. The allegation was not substantiated. The Flight Test Center performs its functions through secondary delegations of administrative duties from DCMA. The Flight Test Center only administers that portion of contracts that pertain to flight test activities at Edwards AFB for the duration of the contract flight test stage. An official at DCMA-West stated he is not aware of any regulation or directive being violated by the Flight Test Center.

Since 1995, two studies have been performed to determine whether the CAS functions should be transferred to DCMA. During 1995, the Defense Logistics Agency and AFMC jointly conducted a study to determine if CAS functions at AFMC Test Centers should be transferred to DCMA. The recommendation to transfer CAS functions to DCMA was not accepted at the AFMC Visions VI Executive Conference in October 1995, because the current support was responsive, and any benefits were considered minimal. In 1999, the Flight Test Center performed a study. The study found no compelling reasons or convincing evidence to support a decision one way or another and recommended that the Flight Test Center weigh the transfer of the function in terms of cost, control, and customer service to determine if action should be taken to transfer the function. The Flight Test Center Commander decided not to transfer CAS functions to DCMA, but stated that the issue should be addressed at a future date.

Availability of Experienced Staff Support

Allegation. Transfer of the CAS functions to DCMA will ensure availability of experienced staff.

Audit Results. The allegation was not substantiated. The Director of Contracting, Flight Test Center stated that DCMA had no experience in the oversight of developmental flight tests on an installation that has a substantial number and variety of air vehicles. Developmental flight test support on an installation is not a core competency for DCMA. The flight test environment requires several specialty skills including flight safety, environmental control, software engineering, and flight operations. The skills are not readily available within DCMA. DCMA officials acknowledged that they cannot ensure the availability of experienced staff. DCMA generally performs only functional test/check flight acceptance testing and establishes the aircraft profile.

The Director of Contracting, Flight Test Center stated that if the CAS functions were transferred to DCMA, their local offices would be too far away from the base to be responsive in a developmental flight test environment. Additionally, there is an increased potential safety and program cost risk if there are delays or impacts to flight test schedules. Flight test environments require “real time” support, which is currently set at the 30-minute response time. Response time is crucial because it could affect performance and safety issues. In addition, the Flight Test Center had concerns that it will lose policy control over the Government Flight Representatives responsibilities. Finally, DCMA stated the Edwards Air Force Base Commander is best equipped to determine what processes to take in determining the safety, quality analysis, and property requirements.

Estimated Costs Avoidance Per Year

Allegation. Transfer of the CAS function to DCMA would save the Air Force an estimated \$1.5 million per year because DCMA would not charge the Air Force for the services.

Audit Results. The allegation was not substantiated. The \$1.5 million alleged costs avoidance were an estimate based on assuming that 25 Flight Test Center employees would be transferred to the DCMA at an average annual employee cost of \$60,000. Any potential costs avoidance were offset by the increased potential safety and program cost risk if there were delays or impacts to flight test schedules. Delays in flight test schedules can be measured in increased mission impact, increased operational costs, and potential loss of life in combat situations. Because DCMA is not a fee for service organization, the costs to perform the CAS function would transfer from the Flight Test Center to DCMA, and DoD would realize no cost reduction for the CAS function.

Appendix A. Scope and Methodology

Scope

Work Performed. We reviewed background information, previous studies, and DoD directives and interviewed DCMA and Air Force personnel. We visited DCMA, Alexandria, VA; Edwards AFB, CA; and DCMA-West, Los Angeles, CA; to obtain information and documentation relative to the allegations made to the Defense Hotline regarding performance of the CAS function at the Air Force Flight Test Center.

Limitations to Scope. The scope of the audit was limited to reviewing background information, previous studies, and DoD directives and interviewing DCMA and Air Force personnel. Due to the specific nature of the allegations, we did not review the management control program at any of the DoD organizations visited.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Contract Management high-risk area.

Methodology

Use of Computer-Processed Data. We did not use computer-processed data in the performance of the audit.

Use of Technical Assistance. We did not use technical assistance in the performance of the audit.

Audit Dates and Standards. We performed this audit from October 2001 through March 2002 in accordance with generally accepted government auditing standards.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available upon request.

Prior Coverage

During the last 5 years, the Inspector General of the Department of Defense has issued one audit report relative to this subject audit. The Inspector General of the Department of Defense report can be accessed from the internet at <http://www.dodig.osd.mil/audit/reports>.

Inspector General of the Department of Defense (IG DoD)

IG DoD Report No. PO 98-604, "Consolidation of DoD Contract Administration Services," January 15, 1998

Appendix B. Report Distribution

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Auditor General, Department of the Air Force
Commander, Air Force Flight Test Center, Edwards Air Force Base

Other Defense Organizations

Director, Defense Contract Management Agency
Director, Defense Contract Management Agency-West

Congressional Committees and Subcommittees, Chairman, and Ranking Minority Member

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Government Reform

Team Members

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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