Audit Report

COOPERATIVE ENGAGEMENT CAPABILITY PROGRAM
OFFICE USE OF DEFENSE CONTRACT MANAGEMENT
COMMAND RESOURCES

Report No. 99-071 January 27, 1999

Office of the Inspector General
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January 27, 1999

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Cooperative Engagement Capability Program Office Use of Defense Contract Management Command Resources (Report No 99-071)

We are providing this report for review and comment. This report is the first in a series of reports addressing the Defense Contract Management Command support of system acquisition program managers. Management comments on a draft report were considered in preparing this report.

Comments on the draft report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional response is necessary.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. John E. Meling at (703) 604-9091 (DSN 664-9091), email (jmeling@dodig.osd.mil) or Mr. Harold C. James at (703) 604-9093 (DSN 664-9093), email (hjames@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 99-071 **January 27, 1999**
Project No. 8AE-0025.00

Cooperative Engagement Capability Program Office Use of Defense Contract Management Command Resources

Executive Summary

Introduction. This is the first in a series of reports addressing the Defense Contract Management Command's support to system acquisition program managers. The report discusses how the Navy's Cooperative Engagement Capability Program Office used Defense Contract Management Command resources at the Contract Administration Office Clearwater, Florida.

Audit Objective. The primary audit objective was to evaluate Defense Contract Management Command field office support to system acquisition program managers. We also reviewed the effectiveness of management controls applicable to the audit objective.

Audit Results. The Cooperative Engagement Capability Program Office did not make optimum use of resources at the contract administration office to support its program. The program office reliance on Navy technical agents limited the contract administration office in its ability to provide the contract administration support agreed to in the memorandum of agreement. Also, the program office could put to better use up to $51.6 million of funds that it budgeted for in the Future-Years Defense Plan to pay the Navy technical agents.

Summary of Recommendations. We recommend that the Program Manager for the Cooperative Engagement Capability Program and the Commander, Contract Administration Office Clearwater, Florida, revise the memorandum of agreement to assign the responsibility for evaluating program status on the low-rate initial production contract to the contract administration office; place the program integrator at the contract administration office on the distribution list for program documentation; and, limit the roles of the Navy technical agents to those activities that the contract administration office cannot perform.

Management Comments. The Deputy Assistant Secretary of the Navy (Planning, Programming and Resources), Office of the Assistant Secretary of the Navy (Research, Development and Acquisition), responding for the Program Manager, Cooperative Engagement Capability Program, concurred with revising the memorandum of agreement. Specifically, the Program Manager, Cooperative Engagement Capability Program, revised the memorandum of agreement to give the Contract Administration Office the responsibility for evaluating contractor progress on all program contracts. The Deputy Assistant Secretary concurred with, and the program manager has completed action on, placing the contract administration office program integrator on the distribution list for program correspondence. He nonconcurred with limiting the role of the Navy technical agents to those activities that the contract administration office cannot perform, stating that this would limit the contracting officer's discretion. However, the

program manager revised the memorandum of agreement to increase contract administration office support to the program office and to define the roles of the technical agents.

The Deputy Director, Defense Logistics Agency, responding for the Commander, Defense Contract Management Command, Contract Administration Office Clearwater, Florida, concurred with all the recommendations.

Audit Response. The Navy's actions meet the intent of the recommendations because the actions increase the role of the Contract Administration Office in providing contract administration support to the Cooperative Engagement Capability Program and better define the roles of the Navy technical agents. The Navy and the Defense Contract Management Command worked together effectively in formulating the revised memorandum of agreement.

Table of Contents

Executive Summary i

Part I - Audit Results

Audit Background 2
Audit Objective 2
Maximizing the Use of Defense Contract Management Command Resources 3

Part II - Additional Information

Appendix A. Audit Process
Scope and Methodology 12
Management Control Program Review 13
Summary of Prior Coverage 13
Appendix B. Contract Administration Functions 14
Appendix C. Program Integration Process 15
Appendix D. Management Comments to the Finding and Audit Response 17
Appendix D. Report Distribution 19

Part III - Management Comments

Department of the Navy Comments 22
Defense Contract Management Command Comments 26

Part I - Audit Results

Audit Background

This report discusses how the Navy's Cooperative Engagement Capability Program Office uses Defense Contract Management Command (the Command) resources at the Contract Administration Office Clearwater, Florida.

Contractor Surveillance. The contract administration office, in support of the program office, reviews contracts by performing the contract administration services defined in the Federal Acquisition Regulation, Part 42, "Contract Management." Part 42 states that contract administration offices should assume the surveillance role for logistics, contract administration, manufacturing, and quality assurance functions. The Command established program support teams at contractor facilities to provide better support for specific acquisition programs. Program support teams usually consist of specialists in the areas of program integration (the team leader), contract administration, quality assurance, logistics, manufacturing, software, and earned value.

Cooperative Engagement Capability Program. Raytheon E-Systems, Saint Petersburg, Florida, is developing the Cooperative Engagement Capability System (the System) to enable the Navy to share air, land, and sea warfighting information among multiple anti-air warfare platforms within a theater. The System is comprised of the processor, the data distribution system, and the interfaces between the processor and the ship's weapon systems. The Navy plans to purchase 220 sets of the System to outfit various ships and surveillance aircraft. The Army and the Air Force are also evaluating the System for use on their anti-air warfare platforms. The Navy estimates that the System will cost about $2 billion over the System's life-cycle. Because the engineering and manufacturing development phase of the acquisition process for the System is nearing completion, the Navy awarded the low-rate initial production contract to Raytheon E-Systems in April 1998. Within the Naval Sea Systems Command, the Cooperative Engagement Capability Program Manager manages the acquisition.

Audit Objective

The primary audit objective was to evaluate the Defense Contract Management Command field office support to system acquisition program managers. Specifically, we determined whether the field offices adequately accomplished the customer outreach program, provided program integration, and implemented acquisition reform initiatives that directly support system acquisition program managers. This report discusses how the Navy's Cooperative Engagement Capability Program used Defense Contract Management Command resources at the Contract Administration Office Clearwater, Florida. Appendix A discusses the scope and methodology used to accomplish the audit objective, the management controls reviewed, and a summary of prior coverage.

Maximizing the Use of Defense Contract Management Command Resources

The Cooperative Engagement Capability Program Office did not make optimum use of Contract Administration Office Clearwater, Florida, resources because the program office used Navy technical agents for production engineering and software support.* As a result, the contract administration office was not kept fully informed of actions affecting the program and was limited in its ability to provide contract administration support agreed to in the memorandum of agreement. Through increased use of the contract administration office resources, the program office could put to better use up to $51.6 million of funds that it budgeted for in the Future-Years Defense Plan to pay the Navy technical agents.

Requirements for Using Contract Administration Office Resources

Federal Acquisition Regulation and Defense Federal Acquisition Regulation Supplement. Subpart 42.302, "Contract Administration Functions," of the Federal Acquisition Regulation specifies the contract administration functions that Federal organizations normally delegate to contract administration offices (see Appendix B). Subpart 242, "Contract Administration," of the Defense Federal Acquisition Regulation Supplement requires that DoD organizations not retain any contract for administration at contractor facilities. When a technical representative is required to perform non-contract administration functions, the program manager must issue a letter of intent to the contract administration office listing the technical duties and delegated authority. The Supplement also states that the program manager and the commander of the contract administration office will negotiate a memorandum of agreement delineating their functional administrative interrelationships. Further, the assigned technical agents must keep the contract administration office fully informed of matters discussed with the contractor.

DoD Policy. DoD Regulation 5000.2-R, "Mandatory Procedure for Major Defense Acquisition Programs (MDAPs) and Major Automated Information System (MAIS) Acquisition Programs," March 1998, requires program managers to make maximum use of contract administration office resources at contractor facilities. Specifically, program managers and contract administration offices are to jointly develop and approve program support plans for all major Defense acquisition program contracts to ensure agreement on contract oversight needs. Further, the Regulation states that program managers will assign technical agents to a contractor's facility only as necessary, based on mutual agreement of the respective program manager and the contract administration office.

*The Navy has traditionally used Navy technical agents in developing weapon systems.

The program manager and contract administration office are to specify duties that the technical representative will perform in a memorandum of agreement.

Defense Logistics Agency Requirements. Defense Logistics Agency Directive 5000.4, "Defense Contract Management Command One Book," April 1998, requires program integrators to lead program support teams in performing assigned contract surveillance functions for major Defense acquisition programs. The program integrator, in coordination with the program manager, should develop a memorandum of agreement that outlines the roles and responsibilities between the contract administration office and the program office to support the program acquisition strategy. The function of the memorandum of agreement is not merely to repeat contract administration functions contained in the Federal Acquisition Regulation, but to clarify specific details including areas of emphasis, communication procedures, and technical representative duties that concern the program managers. See Appendix C for a detailed description of the roles and responsibilities of the program integrator and program support team.

Use of Contract Administration Office Resources

The Cooperative Engagement Capability Program Office could more fully use the resources of the Contract Administration Office Clearwater, Florida, to review contractor efforts in the systems engineering, manufacturing, logistics, and quality-assurance surveillance functions. In April 1993, the program office signed a memorandum of agreement with the contract administration office for support during the engineering and manufacturing development phase of the acquisition process. However, the program office limited the contract administration office surveillance from that specified in subpart 42.302 of the Federal Acquisition Regulation to include only earned value management. The program office also received software support from an overall software testing team established at the contract administration office. The current memorandum of agreement with the contract administration office that the program office signed in August 1997, expands the surveillance functions in the contract administration office to include systems engineering, contract administration, manufacturing, quality assurance, configuration management, logistics, and earned value management. Except for reporting on earned value management, the revised memorandum does not require the contract administration office to report on the results of other surveillance actions unless the program office or its on-site Navy technical agent requests such a report. Because the program office continued to assign contract administration surveillance functions to the Navy technical agents, the contract administration office did not fully adopt the provisions of the revised memorandum.

Further, the program office did not follow through in its commitment in the current memorandum of agreement to provide program status information to the contract administration office's program support team. Although the memorandum of agreement indicated that program support team personnel would be included in conference calls, meetings, and briefings between the contractor and the program office, the program support team was not always

informed of program issues and often did not receive relevant correspondence. On one occasion, for example, the program office did not officially notify the program integrator about a program review at Raytheon in August 1998. The program integrator stated that he received only verbal notification from the contractor.

Program Office Perspective. The Cooperative Engagement Capability Program Office agreed that its use of Contract Administration Office Clearwater, Florida, resources was limited because it used Navy technical agents. Traditionally, the Navy has relied on Navy technical support agents to assist program offices during weapon systems development. Consistent with this tradition, the program office did not use contract administration office resources for system development because the design was constantly changing. However, the program office did plan to use the contract administration office resources more extensively during the production phase. When asked about communicating with the contract administration office on program issues, the program office stated that it routinely forwarded program status information to the administrative contracting officer but not to the program integrator at the contract administration office. Correspondence for November 1997 and February 1998 showed that the program office did not consistently provide letters concerning program issues to the administrative contracting officer or the program integrator. Specifically, the program office provided correspondence on product shipping instructions and award fee determinations but did not provide correspondence on contractor requests for product deviations and establishing product baselines for components to the contract administration office.

Navy Technical Agents

The Cooperative Engagement Capability Program Office had not made optimum use of resources at the Contract Administration Office Clearwater, Florida, because it relied on the Naval Surface Warfare Center Crane, Indiana, as its production engineering agent and the Naval Surface Warfare Center Dahlgren, Virginia, as its software support agent. The program office, through its development contract, designated the Navy technical agents as the primary focal point for quality assurance and other contract administration functions. The technical agents from Naval Surface Warfare Center Crane, Indiana, worked on-site at the contractor's facility to monitor tests and accept contractor deliverables. As a result, the program office communicated almost exclusively with the Navy technical agents on program development issues.

In contrast, the current memorandum of agreement indicates that the program integrator will serve as the primary on-site focal point for program management matters and specifies that the program support team provide systems engineering, quality assurance, and manufacturing support. In reality, the program office and the Navy technical agents did not use the program integrator as the primary on-site focal point for these key areas. On one occasion, the program office, through the Navy technical agents, accepted incomplete development hardware to meet a ship's deployment schedule. The program

integrator at the contract administration office reported this issue as the reason for a cost overrun in the monthly program integrator report to the Defense Contract Management Command's East District. If the program support team had been involved in engineering and quality assurance surveillance at the start of the Cooperative Engagement Capability Program, the program support team may have identified and resolved development problems earlier and may have avoided accepting incomplete hardware.

Contract Administration Office Efforts. The program office did not respond positively to initial contract administration office invitations to provide contract administration support. On one occasion, the Navy on-site technical agent and the program office representative discouraged the program support team from assessing the contractor's manufacturing operation. The program support team attempted to perform the surveillance to fulfill terms of the memorandum of agreement. In its report, the program support team recommended surveillance of the contractor's production facilities so that the team could become familiar with the contractor's planned production processes for assessments. The plant visit report, dated April 1997, states that the Navy technical agent and the program office representative discouraged the surveillance by telling the support team members that production had not started and there was no certainty when it would start. However, in April 1998, the Cooperative Engagement Capability Program entered low-rate initial production. Also, the program integrator indicated that because he and the team had not regularly participated in developing the Cooperative Engagement Capability, they could not provide comprehensive comments for the program office to use in making the contract award fee evaluation and determination.

Because the program office did not use the initial contract administration office invitations to provide support, the contract administration office responded only to program office requests for support. Although the contract administration office did not provide routine engineering, production, and quality assurance surveillance tasks, it provided technical comments on all cost proposals and participated in major as well as in the subsequent application review, integrated baseline review software tests, and the risk assessment review. The contract administration office provided the program office with software support through use of a software testing team.

Although DoD Regulation 5000.2-R requires that the use and the role of on-site technical agents be agreed to by the program office and the contract administration office in a memorandum of agreement, the current memorandum of agreement does not provide this information. Further, the memorandum of agreement does not define how the Navy technical agents, the contract administration office, and the program office should communicate.

Challenges in Providing Support to the Program Office

The contract administration office provided limited support to the program office because the memorandum of agreement between the program office and the contract administration office did not adequately define surveillance roles

and means of communications for the program office, the Navy technical agents, and the contract administration office. When fully used, the contract administration office can provide program offices with increased surveillance support through program support teams. Defense Logistics Agency Directive 5000.4 states that program support teams can perform analysis and insight for systems engineering, manufacturing, quality assurance, and logistics.

If the program office increases its use of the contract administration office, the program office could put to better use up to $51.6 million that it budgeted for in the Future-Years Defense Plan to pay the Navy technical agents. The existing memorandum of agreement and the statement of work for the Navy technical agents provide the potential for duplicating quality assurance and configuration management surveillance. For example, the memorandum of agreement tasked the contract administration office to monitor hardware acceptance testing; however, the Navy technical agent's statement of work required the Naval Surface Warfare Center Crane, Indiana, to monitor the same tests. The memorandum of agreement also requires the contract administration office to monitor engineering change proposals and make recommendations to the program office; similarly, the statement of work issued to the Naval Surface Warfare Center requires it to evaluate engineering change proposals.

As a part of the annual cost, Navy technical personnel from the Naval Surface Warfare Centers in Crane and Dahlgren had to travel to the contractor's facility to witness software and hardware acceptance testing because the program office limited the Navy on-site technical agent to performing quality assurance tasks. The program support team at the contract administration office was on site and could have continually provided contractor surveillance and not incurred travel costs.

Technical personnel at the contract administration office have the capability to inspect and accept items for the program office and to perform other tasks that the Navy technical agents perform. On October 1, 1992, the Office of Inspector General, DoD, issued Report No. 93-001, "Quick-Reaction Report on the Acquisition Procedures For The Trident II Missile," on the Navy Strategic Systems Program Office use of Navy technical agents. The report stated that the Navy technical agents duplicated the surveillance efforts of the contract administration office. Later, the Navy concluded that it could avoid some of the costs paid to the Navy technical agents by eliminating duplicative surveillance assignments and reducing the budget for the Navy technical agents. Although we did not identify a duplication of surveillance on the Cooperative Engagement Capability contract, the program office may be able to reduce program costs by optimizing its use of the contract administration office resources for contract administration support. If, after review, the program office still needs the Navy technical agents to perform specific surveillance tasks on the Cooperative Engagement Capability contract, the program office and the contract administration office need to modify the memorandum of agreement to clearly identify the roles of the on-site Navy technical agents and to provide for open communication between the Navy technical agents and the program support team.

Conclusion

Federal Acquisition Regulation, Part 42, authorizes contract administration offices to perform system surveillance for all DoD contractor facilities within their assigned region. To implement the Defense Contract Management Command's philosophy of providing tailored program support with a customer service nature through program support teams, it is essential that program managers of major Defense acquisition programs, such as the Cooperative Engagement Capability Program, seek to maximize the effectiveness of contract administration office resources.

The on-site program support teams are valuable to the program manager because they can objectively identify the contractor's management and manufacturing processing strengths, weaknesses, and potential problems in executing the contract. Objective assessments from the contract administration office can help the program manager be proactive rather than merely reactive to contractor problems as they occur. Also, the program manager can reconcile the contract administration office analysis with information from the contractor and his own staff to reach fully informed program management decisions. Because the engineering and manufacturing development phase for the Cooperative Engagement Capability Program is nearly completed, the low-rate initial production contract will provide a new opportunity for the program office and the contract administration office to work more closely together and to improve contract surveillance.

Recommendations, Management Comments, and Audit Responses

We recommend that the Program Manager for the Cooperative Engagement Capability Program and the Commander, Defense Contract Management Command Contract Administration Office Clearwater, Florida, revise the August 1997 memorandum of agreement to:

1. Assign the Contract Administration Office Clearwater, Florida, with the responsibility to evaluate the contractor's progress and the quality of workmanship on the low-rate initial production contract.

Navy Comments. The Deputy Assistant Secretary of the Navy (Planning, Programming and Resources), Office of the Assistant Secretary of the Navy (Research, Development and Acquisition), responding for the Program Manager, Cooperative Engagement Capability Program, partially concurred with the recommendation. He stated that the January 1999 update of the memorandum of agreement assigns the Contract Administration Office Clearwater, Florida, with the responsibility to evaluate the contractor's progress and workmanship. He assumed that the statement, "evaluate the program's status" referred to the status of the contractor's program.

The Deputy Assistant Secretary of the Navy did not concur with assigning responsibility to evaluate the Navy's program status because he believed that it would exceed the delegation of contract administration responsibility.

Audit Response. The Navy's comments and actions to revise the memorandum of agreement with the contract administration office are responsive to the recommendation. We deleted the reference to program status from the recommendation.

Defense Contract Management Command Comments. The Deputy Director, Defense Logistics Agency, responding for the Commander, Defense Contract Management Command, Contract Administration Office Clearwater, Florida, concurred with the recommendation and provided us with an updated memorandum of agreement that clearly defines the roles of the Contract Administration Office Clearwater, Florida, and the Navy technical support agents within the Cooperative Engagement Capability Program.

2. Place the program integrator at the Contract Administration Office Clearwater, Florida, on the distribution list for Cooperative Engagement Capability Program correspondence on program status.

Management Comments. The Deputy Assistant Secretary of the Navy (Planning, Programming and Resources), and the Deputy Director, Defense Logistics Agency, concurred with the recommendation. The Deputy Assistant Secretary stated that the distribution list for Cooperative Engagement Capability Program correspondence would include the program integrator at the Contract Administration Office Clearwater, Florida, on program status beginning on December 1, 1998.

3. Limit the contract administration role of Naval Surface Warfare Center Crane, Indiana, as the production engineering agent, and the Naval Surface Warfare Center Dahlgren, Virginia, as the software support agent, to those activities that the Contract Administration Office Clearwater, Florida, cannot perform.

Navy Comments. The Deputy Assistant Secretary of the Navy (Planning, Programming and Resources) did not concur with the recommendation. He stated that the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement clearly intends that the contracting officer may elect to retain certain elements of contract administration. The Deputy Assistant Secretary of the Navy further stated that delegating in advance every contract administration function that a contract administration office has a capability to perform would limit the contracting officer's discretion to delegate. He also stated that the revised memorandum of agreement clearly delineates the contract administration roles of the Navy technical agents and the program support team.

Audit Response. The Navy's action meets the intent of the recommendation. However, the issue that we raised concerning the Cooperative Engagement Capability Program is that despite the memorandum of agreement and the identification of a program support team, the program office did not fully use capabilities of the contract administration office. Furthermore, not keeping the

program support team continuously involved with the program made it difficult for the team to effectively support the program manager. As stated, the revised January 1999 memorandum of agreement clarified and expanded the roles and duties of the program support team. Specifically, the revised memorandum of agreement provides for continuous program support team monitoring and reporting to the program manager in the areas of manufacturing, quality assurance, and configuration management on all program contracts. Under the August 1997 memorandum of agreement, the program support team monitored contract administration functions primarily on a request basis. In the revised memorandum of agreement, the Navy also defined the role of the technical support agents for working with the program office and the contract administration office to assess compliance with contractual technical performance and to assist in technical problem resolution and corrective action.

In future updates of the memorandum of agreement, the Navy may want to consider better defining the roles and duties of the Navy technical agents if duplication of effort occurs between the Navy technical agents and the contract administration office. Specifically, Annex VII, "Navy Technical Representatives," of the revised memorandum of agreement states that the Navy technical representatives will provide the Program Executive Officer with information and status on all issues, impacts, and actions that affect the production quality, cost, and schedule of the Cooperative Engagement Capability equipment. To help eliminate the potential for duplication of effort, the Navy could revise this requirement to specify that the Navy technical agents will provide the Program Executive Officer with information and status on program taskings assigned in the memorandum of agreement.

As a result of Office of Inspector General, DoD Audit Report No. PO 98-604, "Consolidation of DoD Contract Administration Services," January 15, 1998, the Deputy Under Secretary of Defense (Acquisition Reform) awarded a contract to Booz, Allen, and Hamilton, Inc., to perform a comprehensive case study of the value of transferring all contract administration functions to the Defense Contract Management Command. The report recommended that the Under Secretary of Defense for Acquisition and Technology charter a joint, executive-level review of the cost effectiveness of consolidating contract administration responsibilities because the Defense Contract Management Command had the capability to perform contract administration functions that were assigned to technical agents. DoD will use the results of the Booz, Allen, and Hamilton study to make the best business decisions on contract administration services. The outcome of the study will result in DoD reaffirming the existing policy for assigning all contract administration functions to contract administration offices or issuing revised policy to allow the use of technical agents at contractor facilities under specified circumstances. Accordingly, the Navy may have to make further adjustments in its use of Navy technical agents at the Program Office.

Defense Contract Management Command Comments. The Deputy Director, Defense Logistics Agency, concurred with the recommendation, stating that the Command and the Navy negotiated a revised memorandum of agreement that limits the contract administration role of the Navy technical agents to those activities that the contract administration office cannot perform.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We conducted the audit from March through August 1998 and reviewed data from April 1993 through June 1998. The program office budgeted $2.7 billion to develop and produce the Cooperative Engagement Capability System. At the Contract Administration Office Clearwater, Florida, we discussed support for the program office with the program support team and the Navy's on-site technical agents. We also reviewed relevant documentation of the contract administration office and program office.

Auditing Standards. We conducted this program audit in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, and accordingly included such tests of management controls as deemed necessary. We did not rely on computer-processed data to develop conclusions on this audit.

DoD-wide Corporate Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, DoD has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal:

- **Objective:** Prepare now for an uncertain future.
- **Goal:** Pursue a focused modernization effort that maintains U.S. qualitative superiority in key war fighting capabilities (DoD-3).

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal:

- **Objective:** Delivering great service and internal reinvention.
- **Goal:** Deliver new major defense systems to the users in 25 percent less time (**ACQ-1.1**) and minimize cost growth in major Defense acquisition programs to no greater than 1 percent annually (**ACQ-3.4**).

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

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

Management Control Program Review

The DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD managers to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. In accordance with DoD Directive 5000.1, "Defense Acquisition," March 15, 1996, and DoD Regulation 5000.2-R, acquisition managers are to use program cost, schedule, and performance parameters as control objectives to implement the DoD Directive 5010.38 requirements. Accordingly, we limited our review to the adequacy of management controls related to the Contract Administration Office Clearwater, Florida, that provided contract administration support to the Program Manager for the Cooperative Engagement Capability Program.

Adequacy of Management Controls. Management controls were adequate for the contract administration support that the Contract Administration Office Clearwater, Florida, provided to the Cooperative Engagement Capability Program in that we did not identify any material systemic management control weakness applicable to the audit objective.

Summary of Prior Coverage

There are no prior audits concerning Contract Administration Office support to the Program Manager for the Cooperative Engagement Capability Program.

Appendix B. Contract Administration Functions

The following principal Contract Administration Office functions are listed in the Federal Acquisition Regulation, subpart 42.302:

o Negotiate forward-pricing rate agreements.

o Perform production support, surveillance, and status reporting, including timely reporting of potential and actual slippage in contract delivery schedules.

o Perform pre-award surveys.

o Review and evaluate preservation, packaging, and packing.

o Ensure that the contractor complies with contractual quality assurance requirements.

o Perform engineering surveillance to assess compliance with contractual terms for schedule, cost, and technical performance in the areas of design, development, and production.

o Evaluate contractor engineering efforts for adequacy and perform surveillance of management systems that relate to design, development, production, engineering changes, subcontractors, tests, managing engineering resources, reliability and maintainability, data control systems, configuration management, and independent research.

o Review and evaluate the contractor's logistic support, maintenance, and modification programs for technical adequacy.

o Perform engineering analysis of the contractor's cost proposals.

o Review engineering change proposals for proper classification and, when required, for technical adequacy of design producibility and the impact on quality, reliability, schedule, and cost.

o Assign and perform supporting contract administration.

o Cause release of shipments from contractor's plants according to the shipping instructions.

o Provide support on program reviews, program status, program performance, and actual or anticipated program problems to program offices.

Appendix C. Program Integration Process

The Defense Contract Management Command uses program integration to provide program management offices with early insight on the contractor's program execution and performance. Program integration information includes the Defense Contract Management Command's evaluation of the program health and recommendations, if necessary, for corrective action. Program integration tasks include assigning the program integrator and program support team, developing memorandums of agreements, appointing supporting program integrators, developing surveillance plans, executing surveillance plans, and reporting information.

Assigning the Program Integrator and Program Support Team. The program integrator is the program management office's focal point within the contract administration office. The program integrator is supported by a contract administration office program support team. The functional representation of the support team depends on the nature of the contract and specific program requirements. Team members may include cost analysts, engineers, industrial specialists, hardware and software quality assurance specialists, earned value monitors, and an administrative contracting officer.

Developing and Executing Surveillance Plans. The program integrator develops a program surveillance plan on major systems when the contract administration office establishes a memorandum of agreement with the program management office. The program integrator coordinates inputs from the team members covering all the functional areas. The program surveillance plan identifies how the team will implement requirements outlined in the memorandum of agreement. The program integrator is responsible for developing, executing, and maintaining an integrated program surveillance plan and coordinating plan inputs from the team members. Each team member is also responsible for developing and maintaining functional surveillance plans. The program integrator coordinates the plan with the program management office and the contractor and includes in the plan agreed-to milestones tied to significant planned program events, which are specified within the memorandum of agreement and the contract. The program integrator develops the surveillance plans based on a joint team assessment of process and program risk.

The program integrator ensures the execution of the surveillance plan by managing the efforts of the team and coordinating with organizational managers and team leaders to resolve all program support issues as necessary. Execution includes the routine daily surveillance, communication, and coordination by all members of the team. The surveillance plan is to be updated at least annually.

Reporting Information. The program integrators prepare and submit periodic reports to the program offices. The frequency and content of the reports should be in the memorandum of agreement. At a minimum, unless specified in the memorandum of agreement, program integrators prepare monthly program status reports for major Defense acquisition programs. The program integrator considers inputs from program support team members, contractor and program

meetings, interviews with contractor personnel, and contractor data submissions in preparing the report. The reports provide an overview of the program status and address program management office issues as agreed to in the memorandum of agreement.

Appendix D. Management Comments to the Finding and Audit Response

The Deputy Assistant Secretary of the Navy (Planning, Programming and Resources) responding for the Program Manager, Cooperative Engagement Capability Program, and the Deputy Director, Defense Logistics Agency, responding for the Commander, Defense Contract Management Command, Contract Administration Office Clearwater, Florida, commented on the finding in the draft report. The following discussion is a synopsis of those comments and the audit response. The complete text of the comments is in Part III.

Navy Comments on the Finding and Audit Response

Navy Comments. The Deputy Assistant Secretary of the Navy (Planning, Programming and Resources) did not concur with the thrust of the audit that the Cooperative Engagement Capability Program Office did not make optimum use of resources at the Contract Administration Office Clearwater, Florida. He stated that he did not understand the origin of the $51.6 million cited in the report that was budgeted for using technical agents, and he did not concur that the amount could be made available for any better use. Further, the Deputy Assistant Secretary stated that the Navy technical agents provide the program manager with essential insight into issues associated with procuring systems that will work in combat. Without that insight, he stated that technical delays could occur and the risk of procuring systems that fail to meet operational requirements would increase.

Audit Response. We agree that the active involvement of the Navy technical agents had a positive impact on the Navy's achieving acquisition objectives for the Cooperative Engagement Capability Program. However, as stated in the report, the Navy technical agent's role in performing program contract administration functions should be limited to those activities that the contract administration office cannot perform.

The $51.6 million cited in the report reflects the FY 1998 budgeted amounts for program support from the Naval Surface Warfare Centers in Crane, Indiana, and Dahlgren, Virginia, projected over the Future-Years Defense Plan. We recognize that the potential funds put to better use through implementing our recommendations may not amount to $51.6 million; however, the draft report states that cost avoidance could be "up to" $51.6 million. Because we performed a limited evaluation of the capability of the contract administration office to support the program manager, we cited $51.6 million as the upper limit of a range of cost avoidance based on the budget for the technical agents. If the Navy and Contract Administration Office Clearwater, Florida, take appropriate action in accordance with the recommendations, cost avoidance can be achieved by the Cooperative Engagement Capability Program.

Defense Contract Management Command Comments

The Deputy Director, Defense Logistics Agency, partially concurred with the draft report. He stated that the report section "Use of Contract Administration Office Resources" implied that if the memorandum of agreement did not specifically call out reporting requirements, the contract administration office did not provide support. He further stated that the contract administration office was proactive and reported on all surveillance that they were performing.

Audit Response. In response to the Deputy Director's comments, we revised the report section "Contract Administration Office Efforts" to recognize that the contract administration office performed surveillance and reporting relating to cost proposals, major software tests, subsequent application reviews, integrated baseline reviews and risk assessment reviews. We also revised the report section to state that the contract administration office provided the program office with software support through use of a software testing team.

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Deputy Under Secretary of Defense (Logistics)
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)
Deputy Under Secretary of Defense (Acquisition Reform)

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Assistant Secretary of the Navy (Research, Development and Acquisition)
Commander, Naval Sea Systems Command
  Program Manager, Cooperative Engagement Capability
Auditor General, Department of the Navy

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
  Commander Defense Contract Management Command
  Commander, Defense Contract Management District East
    Commander, Contract Administration Office Clearwater, Florida
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, General Accounting Office

Non-Defense Federal Organizations and Individuals (cont'd)

Chairman and ranking minority member 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 Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform

Part III - Management Comments

Department of the Navy Comments

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

23 OCT 1998

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: COOPERATIVE ENGAGEMENT CAPABILITY PROGRAM OFFICE USE OF DEFENSE CONTRACTS MANAGEMENT COMMAND RESOURCES (PROJECT NO. 8AE-0025.00)

Ref: (a) DODIG memo of 22 SEP 98

Encl: (1) Department of Navy's Comments

We have reviewed the audit results and recommendations provided by reference (a). Detailed comments are provided by enclosure (1).

The Navy does not concur with the thrust of the audit that the Cooperative Engagement Capability (CEC) Program Office did not make optimum use of resources at the Contract Administration Office Clearwater, Florida (CAO). We are using the CAO in accordance with the Federal Acquisition Regulation (FAR). Therefore, we partially concur in recommendation 1, concur in recommendation 2, and non-concur in recommendation 3.

We are most puzzled by the report's reference to $51.6 million budgeted for Navy technical agents to perform contract administration the FAR requires the CAO to perform. There is no such budget item and we do not concur that this amount could be made available for any better use.

The complete understanding of the operational requirements, parameters, and environment rests with the Navy. Navy technical experts provide the Program Manager with essential insight into the issues associated with procuring systems that will work in combat. Without that unique technical insight, costs could skyrocket, the acquisition process could suffer delays, and there would be increased risk of procuring systems that failed to meet operational requirements. It is therefore imperative that technical configuration management and program management functions remain with, and under the control of, the program manager.

WILLIAM J. SCHAEFER
Deputy Assistant Secretary
of the Navy
Planning, Programming and
Resources

Copy to:
FMO-31
DASN(ABM)
NAVSEA IG

Final Report
Reference

DEPARTMENT OF THE NAVY RESPONSE
TO
DODIG DRAFT REPORT ON COOPERATIVE ENGAGEMENT CAPABILITY PROGRAM
OFFICE USE OF DEFENSE CONTRACT MANAGEMENT COMMAND RESOURCES
(PROJECT NO. 8AE-0025.00)

Navy Response to Audit Findings:

Navy technical experts provide the Program Manager with essential insight into the issues associated with procuring systems that will work in combat. Without that unique technical insight, costs could skyrocket, the acquisition process could suffer delays, and there would be increased risk of procuring systems that failed to meet operational requirements. We do not concur with the conclusion that the advisory roles of the Navy's technical agents conflict with those assigned appropriately to DCMC, nor that they will impede the proper conduct of assigned contract administration by DCMC. Finally, we do not concur that there is $51.6 million that could be made available for better use.

DODIG Audit Recommendation:

We recommend that the Program Manager for the Cooperative Engagement Capability Program and the Commander, Defense Contract Management Command, Contract Administration Office Clearwater, Florida, revise the August 1997 Memorandum of Agreement to:

1. Assign the Contract Administration Office Clearwater, Florida, with responsibility to evaluate the program's status, contractor's progress, and quality of workmanship on the low-rate initial production contract.

DON Response:

Revised
Pg. 8

Partially Concur. Assigning responsibility to evaluate the contractor's progress and the quality of his workmanship on the low-rate initial production contract were done in the most recent iteration of the MOA. We assume that the recommendation for the CAO to "evaluate the program's status" refers to the status of the contractor's program being executed under contract, and not the status of the Navy's overall program. We would not concur with assigning responsibility to evaluate the Navy program's status. That would be more than a delegation of contract administration responsibility, and, of course, would be inappropriate.

Enclosure (1)

2. Place the Program Integrator at the Contract Administration Office Clearwater, Florida, on the distribution list for Cooperative Engagement Capability Program correspondence on program status.

DON Response:

Concur. Effective 1 December 1998, the Program Integrator and the CAO, Clearwater have been included on the distribution list for CEC program correspondence concerning program status.

3. Limit the contract administration role of Naval Surface Warfare Center Crane, Indiana, the production engineering agent, and the Naval Surface Warfare Center Dahlgren, Virginia, the software support agent to those activities that the Contractor Administration Office Clearwater, Florida, cannot perform.

DON Response:

Do not concur. The FAR and the Defense FAR Supplement clearly contemplate that the contracting officer may elect to retain certain elements of contract administration. Thus, deciding in advance to delegate every contract administration function that a CAO has the capability to perform would unduly limit the contracting officer's discretion to determine whether to retain or delegate certain specific functions based on how, and by whom, the function can most effectively be performed. We have recently re-negotiated the MOA with DCMC Clearwater, and believe there is a clear, complete understanding and agreement regarding the proper roles and duties of all the players on the contract management team.

Enclosure (1)

Defense Contract Management Command Comments

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

IN REPLY REFER TO DDAI

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

SUBJECT DoD IG Draft Report, Cooperative Engagement Capability Program Office Use of Defense Contract Management Command Resources (Project No 8AE-0025)

This is in response to your request of September 22, 1998 If you have any questions about the comments, please contact Zora Henderson DDAI, 767-6272

SHEILA P RAINES
Team Leader, Liaison & Policy
Internal Review Office

Enclosure

CC
DCMC-BE
DCMC-PA

Federal Recycling Program Printed on Recycled Paper

Final Repo
Reference

SUBJECT: Audit Report on Cooperative Engagement Capability Program Office use of Defense Contract Management Command Resources (Project No 8AE-0025 00)

FINDING: Maximizing the Use of Defense Contract Management Command Resources
The Cooperative Engagement Capability Program Office did not make optimum use of Contract Administration Office Clearwater, Florida, resources because the program office used Navy technical agents for production engineering and software support. As a result, the contract administration office was not kept fully informed of actions affecting the program and was limited in its ability to provide contract administration support agreed to in the memorandum of agreement. Through increased use of the contract administration office resources, the program office could put to better use up to $51 6 million of funds that it budgeted for in the Future-years Defense Plan to pay the Navy technical agents

DLA COMMENTS: Partially concur The wording in the section "Use of Contract Administration Office Resources" implies that if the MOA did not specifically call out reporting requirements, DCMC did not provide support DCMC-Clearwater remained proactive and reported on all surveillance that they were performing, specifically EVMS, software surveillance, technical comments on Cost Proposals, Alpha contracting, and testing support

Revised
Pg. 6

ACTION OFFICER: LCDR Dennis Sacha, DCM[illegible]-PA, 767-6460, 13 Nov 98
REVIEW/APPROVAL: Thomas Brunk, Deputy Director, DCMC, 20 Nov 98
COORDINATION: Zora Henderson, DDAI, 767-6272

DLA APPROVAL:

E.R. CHAMBERLIN
Rear Ad[illegible] SC, USN
Deputy [illegible]

SUBJECT: Audit Report on Cooperative Engagement Capability Program Office use of Defense Contract Management Command Resources (Project No 8AE-0025 00)

RECOMMENDATION: We recommend that the Program Manager for the Cooperative Engagement Capability Program and the Commander, Defense Contract Management Command, Contract Administration Office Clearwater, Florida, revise the August 1997 memorandum of agreement to:

1 Assign the Contract Administration Office Clearwater, Florida, with responsibility to evaluate the program's status, contractor's progress, and quality of workmanship on the low-rate initial production contract.

2 Place the Program Integrator at the Contract Administration Office Clearwater, Florida, on the distribution list for Cooperative Engagement Capability Program correspondence on program status

3 Limit the contract administration role of Naval Surface Warfare Center Crane, Indiana, the production engineering agent, and the Naval Surface Warfare Center Dahlgren, Virginia, the software support agent, to those activities that the Contract Administration Office Clearwater, Florida, cannot perform

DLA COMMENTS: The CEC Program Manger and Commander, DCMC Clearwater have tasked their respective Team Members to negotiate and revise the existing MOA to address and resolve the following issues:

1 Concur Assign DCMC Clearwater with responsibility to evaluate the program's status, contractor s progress, and quality of workmanship on the LRIP contract. Additionally the teams are identifying special and unique surveillance requirements for the CEC Program support with the focus on Integrated Program Management ECD: The formal signing target date for the new MOA is Dec 7 1998

2 Concur Place the PI on the distribution list for CEC program status correspondence ECD: The formal signing target date for the new MOA is Dec 7, 1998

3 Concur Limit the contract administration role of NSWCs Crane (Production and Engineering) & Dahlgren (Software) to those activities that DCMC Clearwater cannot perform During EMD testing was complicated by numerous open or incomplete hardware and/or software routines In this environment a team of experts familiar with this system's requirements as well as other interfacing system requirements was necessary The development testing of the software and hardware is not in accordance with routine or established test procedures; therefore, it required and larger involvement of Navy testing personnel The team is evaluating the programs needs and DCMC Clearwater's capabilities to meet those needs ECD: The formal signing target date for the new MOA is Dec 7 1998

DISPOSITION: Action is ongoing ECD: The formal signing target date for the new MOA is Dec 7 1998

ACTION OFFICER: LCDR Dennis Sacha, DCMC-PA 767-6460
REVIEW/APPROVAL: Tom Brunk, Deputy Director, DCMC, 20 Nov 98
COORDINATION: Zora Henderson, DDAI, 767-6272

DLA APPROVAL:

E.R. CHAMBLIN
Rear Admiral, SC, USN
Deputy Director

Audit Team Members

The Acquisition Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report.

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