



INSTALLATION REPORT OF AUDIT

F2010-0081-FDD000

**American Recovery and
Reinvestment Act of 2009
Air Armament Center
Eglin AFB FL**

Gulf Coast Area Audit Office

24 August 2010

INTRODUCTION

On 17 February 2009, the President signed into law the American Recovery and Reinvestment Act of 2009 (Recovery Act). This provided the Department of Defense with \$2.3 billion in military construction projects and \$3.4 billion in Facilities Sustainment, Restoration, and Modernization (FSRM) projects. The 96th Air Base Wing (96 ABW) received approximately \$35 million for 55 FSRM Recovery Act projects.

OBJECTIVES

The overall objective of this centrally directed audit was to determine whether Recovery Act FSRM projects were properly executed. Specifically, we determined whether 96 ABW personnel properly:

- Awarded projects to qualified small businesses.
- Administered project funding.
- Managed project performance.
- Reviewed contractor quarterly reports.

CONCLUSIONS

Recovery Act FSRM projects were not always properly executed. Specifically, 96 ABW personnel properly awarded projects to qualified small businesses and administered project funding. Properly awarding projects to qualified small businesses and administering project funding assures fair competition, avoids unnecessary interest payments, and guarantees Recovery Act funds are quickly infused into the economy (Tab A, page 1). However, personnel did not always properly:

- Manage project performance. Properly managing project performance allows the contracting officer to accurately gauge overall execution of the work to be performed, track project cost and time, and anticipate potential conflicts and work delays. (Tab B, page 3)
- Review contractor's quarterly reports. Properly reviewing contractor's quarterly reports assures reports are transparent and is essential to retaining public trust in Government recovery initiatives. (Tab C, page 5).

RECOMMENDATIONS

We made three recommendations to improve management controls over Recovery Act FSRM projects. (Reference Tabs B and C for specific recommendations.)

MANAGEMENT'S RESPONSE

Management officials agreed with the audit results and recommendations in Tabs A through C of this report, and the corrective actions taken are responsive to the issues included in the report. Therefore, this report contains no disagreements requiring elevation for resolution.



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	<u>Page</u>
EXECUTIVE SUMMARY	i
TAB	
A Business Status and Project Funding	1
B Project Performance	3
C Quarterly Reports	5
APPENDIX	
I Audit Scope and Prior Audit Coverage	7
II Points of Contact and Final Report Distribution	9

BACKGROUND

Business Status. To qualify as a small business, the company must meet the Small Business Association established size standards for the North American Industry Classification System for which they plan to claim small business status. These standards include average annual revenues and number of employees.

Project Funding. Contractor progress payments must be made 14 days after the 96th Comptroller Squadron (96 CPTS) personnel receive a payment request. Additionally, final payments must occur the later of 30 days after 96 CPTS personnel receive an invoice from the contractor or 30 days after Government acceptance of the work or services completed by the contractor. All invoice payments must be supported by a receiving report or other Government documentation authorizing payment. The 96th Contracting Squadron (96 CONS) personnel should forward the receiving report to 96 CPTS personnel within 5 working days of the Government's acceptance. Interest will be paid to the contractor when all of the following apply, the:

- Billing office received a proper invoice.
- Government processed a receiving report authorizing payment, and no disagreements over contract work existed.
- Payment is not subject to further contract settlement actions between the Government and the contractor.
- Payment office paid the contractor after the due date.

Additionally, any excess funds identified must be returned to the respective major command to be used for other projects. Recovery Act funds must be obligated by 30 September 2010.

Required Form. Contractors are required to complete the Air Force (AF) Form 3065, Contract Progress Report, to report periodic performance to the contracting officer for the purpose of receiving payment for work completed.

AUDIT RESULTS 1 – AWARD AND ADMINISTRATION

Condition. The 96 CONS and 96 CPTS personnel properly awarded projects to qualified small businesses and administered project funding. Specifically, all six contractors reviewed properly claimed the appropriate business status. Additionally, for 21 projects reviewed:

- Progress and final payments for the 12 reviewed projects¹ were supported and appropriate.
- Contractor payments were completed within the required timeframe for the 19 reviewed projects.²

Cause. This condition occurred because 96 CONS and 96 CPTS personnel had implemented management controls for determining contractor business status, making progress and final payments, and identifying excess and transferred funds.

Impact. Properly awarding projects to qualified small businesses and administering project funding assures fair competition, avoids unnecessary interest payments, and guarantees Recovery Act funds are quickly infused into the economy.

Management Comments. Management officials concurred with the audit results.

Evaluation of Management Comments. Management comments addressed the issues presented in the audit results.

¹ The remaining nine projects were not reviewed because AF Forms 3065 were not required or the contractor had not invoiced.

² The remaining two projects were not reviewed because the project had not begun work or the contractor had not invoiced.

BACKGROUND

In accordance with Air Force Pamphlet 32-1005, *Working in the Engineering Flight*, 1 October 1999, the AF Form 3064, Contract Progress Schedule, is prepared by the contractor and contains a contractor proposed schedule to accomplish work. The contractor breaks down the schedule into percentages of the total work completed, which serves as a proposal for payment. The AF Form 3064 must be submitted to 96 CONS 5 days after the commencement of work. Upon submission of the initial AF Form 3064, the contracting officer will evaluate the contractor's proposed work and payment schedule. Proper use of the AF Form 3064 guarantees the contractor is properly paid and the Government is able to gauge the overall execution of work. Additionally, 96 CONS personnel are better able to anticipate potential conflicts and alleviate them without project delays.

Further, Air Force Pamphlet 32-1005, requires 96th Civil Engineering (96 CE) personnel to complete AF Form 1477, Construction Inspection Record. The AF Form 1477 is the inspector's daily log of the construction events on each project and must be complete and accurate. The AF Form 1477 can substantiate or disallow a contractor's claim if events are recorded promptly and properly.

AUDIT RESULTS 2 – PROJECT MANAGEMENT

Condition. The 96 CONS personnel did not always properly manage project performance. Specifically, 96 CE and 96 CONS personnel properly used AF Forms 1477 and 3065 to monitor performance; however, an AF Form 3064 was not submitted timely for 6 (33 percent) of 21 projects reviewed. Further, for 1 (5 percent) of 21 projects reviewed, the contractor did not date the AF Form 3064. Therefore, audit was unable to determine when the AF Form 3064 was submitted.

Cause. This condition occurred because the contracting officer did not establish procedures to require contracting specialists to document or follow up on submission delays for the AF Form 3064 delays which establishes the contractor's schedule of work.

Impact. Properly managing project performance allows the contracting officer to accurately gauge overall execution of the work to be performed, track project cost and time, and anticipate potential conflicts and work delays.

Recommendation B.1. The Director of Business Operations, Air Armament Center Operational Contracting Division (AAC/PKO),³ should instruct the contracting officer to establish procedures to require contracting specialists to document and follow up on all AF Form 3064 delays beyond 5 days.

³ Effective 1 July 2010, the 96 CONS was deactivated and responsibilities were realigned under the AAC/PKO.

Management Comments. The Chief, Operational Contracting Division, concurred with the audit results and recommendation, and stated, “The Director of Business Operations, AAC/PKO, has instructed the contracting officer to utilize the issuance date of the notice to proceed to the contractor as the suspense date for the contracting specialist via Microsoft™ Outlook to document and follow up on all AF Form 3064 delays beyond 5 days. **(CLOSED)**”

Evaluation of Management Comments. Management comments addressed the issues presented in this tab, and actions taken should correct the problems.

BACKGROUND

The Office of Management and Budget (OMB) Memorandum, *Interim Guidance on Reviewing Contractor Reports on the use of Recovery Act Funds in Accordance with FAR Clause 52.204-11*, 30 September 2009, requires contractors receiving Recovery Act funds to report on the use of those funds quarterly and provides contracting officers guidance on reviewing the reports in the FederalReporting.gov website. Further, a memorandum from the OMB, *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*, 18 December 2009, provides guidance on reviewing job creation numbers.

The Office of the Under Secretary of Defense (OSD) Memorandum, *Guidance on Reviewing Contractor Reports Required by the American Recovery and Reinvestment Act of 2009*, was released on 16 December 2009, 2 weeks before the quarterly reporting period. This memorandum was more specific than the OMB memorandum regarding the elements of the report contracting officers should include in their review. The contracting officer must verify report information is consistent with the award, accurate, and complete. Additionally, the memorandum includes a Quick Reference Matrix and Jobs Worksheet, which the contracting officer must submit to each contractor submitting a quarterly report. Contracting officers are also required to verify the accuracy of the project status. For example, the contractor shall not report a project as final if the project is still in progress or final invoices have not been submitted.

AUDIT RESULTS 3 – QUARTERLY REPORT REVIEWS

Condition. The 96 CONS personnel did not always properly review contractor's quarterly reports. Specifically, a review of the October 2009 and the January 2010 quarterly reports for 21 sampled contracts disclosed:

- Four reports included a jobs created number which did not appear reasonable. For example, a contractor reported they had created four full time jobs; however, the contractor had only invoiced \$39,867 as of January 2010 for the reporting period October 2009 through December 2009, the equivalent of approximately \$10,000 per job created.
- Thirteen reports included a project status which was not accurate. To illustrate, a contractor submitted a final report for the October 2009 quarter; however, a final invoice was not submitted until 21 December 2009.

Cause. This condition occurred because both the interim and final guidance for reporting and reviewing requirements were issued in the month prior to the required reporting deadline,⁴

⁴ In accordance with the OMB Memorandum, 30 September 2009, contractor quarterly reports were required to be submitted by the 10th day following the end of the calendar quarter.

leaving limited time for 96 CONS personnel to review and comply with requirements included in the guidance given the number of stimulus projects. To further clarify, although interim guidance was issued in September 2009, the reporting and reviewing requirements for the October 2009 reporting period were not specific regarding the elements of the report contracting officers should include in their review. In addition, final guidance was not issued until December 2009 and specifically required contracting officers to verify projects were not reported as final if the project was still in progress and to verify the number of jobs reported were reasonable when compared to the amount invoiced.

Impact. Properly reviewing contractor's quarterly reports assures the reports are transparent and is essential to retaining public trust in Government recovery initiatives.

Recommendations. The Director of Business Operations, AAC/PKO, should direct the contracting officer to:

- Recommendation C.1. Follow up with the contractor for the October 2009 and January 2010 quarterly reports until the reports are correctly finalized.
- Recommendation C.2. Perform detailed reviews of all future contractor quarterly reports.

Management Comments. The Chief, Operational Contracting Division, concurred with the audit results and recommendations, and stated:

- Recommendation C.1. “Where possible, all past reports were corrected, including the October 2009 and January 2010 quarterly reports, as directed by the Director of Business Operations, AAC/PKO. Additionally, the Director of Business Operations directed the contracting officer to appoint a single point of contact to monitor all quarterly reports from Air Force Material Command to ensure compliance. **(CLOSED)**”
- Recommendation C.2. “The Director of Business Operations, AAC/PKO, has directed the contracting officer to appoint a single point of contact to monitor all quarterly reports to ensure compliance. **(CLOSED)**”

Evaluation of Management Comments. Management comments addressed the issues presented in this tab, and actions taken should correct the problems.

AUDIT SCOPE

Audit Coverage. To accomplish the audit objectives, we reviewed documents dated between October 1999 and May 2010. We conducted the audit from 23 March to 14 May 2010 and provided management a draft report on 11 August 2010. To determine whether the Recovery Act program was properly managed, we:

- **Small Business.** Reviewed sampled project files⁵ and the Central Contractor Registration website to determine whether the project was awarded to a small business. If the project was awarded to a small business, audit retrieved the annual receipts for the contractor from the USA Spending website and the annual receipts were submitted to the audit manager. The audit manager calculated annual revenues for the contractor based upon the annual receipts. If the annual revenues exceeded the amount established by the Small Business Administration for a small business in the assigned North American Industry Classification System category, audit verified in the Online Representation and Certifications Application website whether the contractor claimed small business status.
- **Project Funding.** Compared contractor payments in the Commander's Resource Integration System to project files to verify payments were appropriate, timely, and supported for all 21 (38 percent) of 55 completed and paid recovery act projects. Additionally, audit compared obligations in the Commander's Resource Integration System to 23 completed and paid Recovery Act project invoices to determine if excess funds existed.
- **Project Performance.** Reviewed sampled project files to determine whether Recovery Act projects were effectively managed. Audit verified forms contained in project files were completed and submitted within the required period. Additionally, audit completed site visits and verified work was completed in accordance with the contractor submitted progress schedules and daily reports.
- **Quarterly Reports.** Reviewed the October 2009 and the January 2010 quarterly reports for sampled projects reviewed. Audit compared information included in the reports to both the project file and Central Contractor Registration website to verify report accuracy.

⁵ The audit manager provided 20 sampled projects; however, one of the sampled project was split into two projects because the value of the delivery order exceeded a \$500,000 restriction limiting the size of delivery orders, bringing the total to 21 sampled projects.

Sampling Methodology.

- Sampling. To accomplish our audit objectives, we reviewed a sample, provided by the audit manager, of 21 (38 percent) of 55 96 ABW Recovery Act FSRM projects. We did not project the audit results.
- Computer-Assisted Auditing Tools and Techniques (CAATTs). We used CAATTs during this audit to determine whether FSRM projects were properly executed. Specifically, Excel™ spreadsheets were utilized to capture and sort data listings. Additionally, the COUNTA, COUNTIF, and SUM functions were used to summarize the data results.

Data Reliability. We relied on information from the Commander's Resource Integration System, Central Contractor Registration website, Online Representation and Certifications Application, USA Spending website, and the Federal Reporting website for our audit conclusions. However, we did not evaluate the system's and website's general and application controls. To establish the reliability of the system and websites, we compared transaction data to manual and electronic records to determine whether the data was sufficiently reliable to support the audit. The results of our tests cast doubt on the data reliability of the Federal Reporting website; however, we believe the opinions, conclusions, and recommendations in this report are valid when viewed with other available evidence.

Auditing Standards. We accomplished audit work in accordance with generally accepted Government auditing standards, and accordingly, included such tests of internal controls as considered necessary under the circumstances. Specifically, we evaluated documentation and management oversight controls over small business projects, project performance, project funding, and contractor quarterly reports.

Discussion with Responsible Officials. We discussed/coordinated this report with the Commander, Air Armament Center; Commander, 96th Air Base Wing; Director Business Operations, Air Armament Center Operational Contracting Division; and other interested officials. Management was advised this audit was part of an Air Force-wide evaluation of American Recovery and Reinvestment Act of 2009 Project Execution (Project F2010-FD1000-0073.000). Therefore, selected data not contained in this report, as well as data contained herein, may be included in a related Air Force report of audit. Management's formal coordination was received on 20 August 2010 and is included in this report.

PRIOR AUDIT COVERAGE

We did not identify any Air Force Audit Agency, DoD Inspector General, or Government Accountability Office reports issued to the 96 ABW within the past 5 years which related to our specific objectives.

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PROJECT NUMBER

We accomplished this audit under project number F2010-FD1000-0073.002.

FREEDOM OF INFORMATION ACT

The disclosure/denial authority prescribed in AAFP 65-3, *Internal Auditing*, will make all decisions relative to the release of this report to the public.