



INSTALLATION REPORT OF AUDIT

F2010-0059-FDM000

**The American Recovery and
Reinvestment Act of 2009 Facilities
Sustainment, Restoration, and
Modernization Program Execution
45th Space Wing
Patrick AFB FL**

Atlantic Area Audit Office

13 August 2010

INTRODUCTION

On 17 February 2009, the President signed into law the American Recovery and Reinvestment Act of 2009. This provided the Department of Defense with \$3.4 billion for facilities sustainment, restoration, and modernization projects. As of June 2010, the 45th Space Wing, Patrick Air Force Base, received \$28 million in funding for facilities sustainment, restoration, and modernization of its industrial complex.

OBJECTIVE

This centrally directed audit determined whether the 45th Space Wing properly executed American Recovery and Reinvestment Act of 2009 facilities, sustainment, restoration, and modernization projects. Specifically, we determined whether wing personnel effectively:

- Awarded contracts to qualified small businesses.
- Managed contract performance.
- Administered project funding.
- Reviewed and validated contractor quarterly reports.

CONCLUSIONS

The 45th Space Wing properly executed American Recovery and Reinvestment Act of 2009 facilities, sustainment, restoration, and modernization projects in three of four areas reviewed. Specifically, wing:

- Contracting personnel effectively awarded contracts to qualified small businesses. Awarding contracts to qualified small businesses resulted in disadvantaged and minority owned businesses being awarded \$10.8 million in recovery act projects. (Tab A, page 1)
- Contracting and Civil Engineering personnel effectively managed contract performance. Effective management of contract performance utilizing schedules and reports are vital in ensuring projects are completed on time and for accountability of public funds. (Tab A, page 2)
- Contracting and Financial Management personnel effectively administered project funding. Effective administration of contract funding through validation and verification of work completed is instrumental in not paying contractors more than the amount of work completed. (Tab A, page 2)

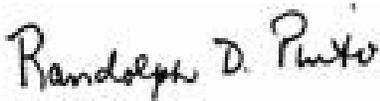
- Contracting personnel did not effectively review and validate contractor quarterly reports. Specifically, a review of all 30 contractor's quarterly reports disclosed the contracting officer did not review and validate any of the reports. A review and validation of contractor quarterly reports ensures the accuracy of contractor information and transparency of public funds. (Tab B, page 3)

RECOMMENDATIONS

We made four recommendations to improve the processes for reviewing and validating contractor quarterly reports. (Tab B, page 5)

MANAGEMENT'S RESPONSE

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



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Small Business Awards, Contract Performance, and Project Funding

BACKGROUND

The primary goal of the American Recovery and Reinvestment Act of 2009 is to provide an infusion of funds, within specific guidelines and parameters that will result in a jump-start to the United States economy. Recovery Act guidelines include initiating expenditures and activities as promptly as possible in a manner with prudent judgment. Furthermore, Recovery Act projects are subjected to normal oversight processes such as awards to certified small businesses, contractor performance management, and project funding management.

- **Small Business Awards.** Small businesses self-certify their status with the Small Business Administration on an annual basis. To qualify as a small business, the company must meet the Small Business Administration established size standard for the North America Industry Classification System for which they plan to claim small business status. These standards are either average revenues generated over the last three years or number of employees. Therefore, the Federal Acquisition Regulation directs contractors to make a good faith representation of their small business status and the contracting officer is to accept that representation unless they have reason to believe otherwise.
- **Contractor Performance.** After the award of a contract, the Contracting Officer issues the Notice to Proceed informing the contractor they can begin work. The Statement of Work, contract, or task order will indicate the agreed upon period of performance, usually in a number of days after the Notice to Proceed is issued. For projects exceeding the simplified acquisition threshold of 60 days to complete, the contractor must submit a progress schedule to the contracting officer. The contracting officer will also receive weekly progress reports endorsed (AF Form 3065, *Contract Progress Report*) schedules (AF Form 3064, *Contract Schedule*) by the contractor, civil engineering personnel and the inspector of the projects. Contracting officers have the ability to impose penalties when contractors do not provide these reports or do not otherwise abide by the contract.
- **Project Funding.** Progress payments are made to contractors based on completion percentages of work accomplished. These payments are made 14 days after the designated billing office receives a proper payment request and final payments are made within 30 days of acceptance of contractors work by the government. In addition, the contracting officer, in accordance with Federal Acquisition Regulation clause 52.232-5, can retain payments from the contractor for unsatisfactory progress.

AUDIT RESULTS 1 – SMALL BUSINESS AWARDS

Condition. Wing contracting personnel effectively awarded contracts to qualified small businesses. Specifically, a review of 11 small business contracts disclosed all 11 (100 percent) were awarded to qualified small business contractors.

Cause. This condition occurred because contracting personnel validated small business certifications and statuses prior to awarding Recovery Act projects.

Small Business Awards, Contract Performance, and Project Funding

Impact. Awarding contracts to qualified small businesses resulted in disadvantaged and minority owned businesses being awarded \$10.8 million in Recovery Act projects.

AUDIT RESULTS 2 – CONTRACT PERFORMANCE

Condition. Wing Contracting and Civil Engineering personnel effectively managed contract performance. Specifically, a review of 15 Recovery Act project¹ contract files disclosed all 15 (100 percent) contained the required AF Forms 3064, *Contract Schedule* and 3065s, *Contract Progress Reports* in the contract files.

Cause. This occurred because contracting personnel performed proper oversight over of the contractors to ensure work was being accomplished in a timely manner and the required forms were created to document the contractor performance.

Impact. Effective management of contract performance utilizing schedules and reports are vital in ensuring projects are completed on time and for accountability of public funds.

AUDIT RESULTS 3 – PROJECT FUNDING

Condition. Wing Contracting and Financial Management personnel effectively administered contract funding. Specifically, a review of 84 paid invoices submitted by contracting and financial management personnel disclosed all of the 84 (100 percent) invoices (approximately \$14.6 million) were appropriate based on the comparison of work completed to the amount paid.

Cause. This condition occurred because contracting and financial management personnel followed established procedures for verifying and validating contractors work performance.

Impact. Effective administration of contract funding through validation and verification of work completed is instrumental in not paying contractors more than the amount of work completed.

Management Comments. The Vice Commander, 45th Space Wing, concurred with the audit results.

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

¹ We reviewed 20 contracts awarded under the Recovery Act of 2009. However, four contracts were for performance period of less than 60 days and did not require AF Forms 3064 and 3065. In addition, one project was not a construction project, but was a service contract that did not require AF Forms 3064 or 3065.

BACKGROUND

Public Law 111-5, *American Recovery and Reinvestment Act of 2009* and Federal Acquisition Regulation (FAR) 52.204.11, *American Recovery and Reinvestment Act Reporting Requirements*, requires contractors receiving Recovery Act funds to report on the use of those funds each quarter in the Federal Reporting website (www.FederalReporting.gov). The first reporting period was October 2009 for contractors who submitted an invoice during the third quarter (July through September 2009).

Reporting Timeline in the Federal Reporting website:

- Day 1-10. Contractors submit their reports on the Federal Reporting website.
- Day 11-21. Contractors make any corrections. Contracting Officers may view report.
- Day 22-26. Contracting Officers review and comment on reports.
- Day 27-29. Contractors make any corrections.
- Day 30. The Federal Reporting System posts all reports as final.

The FAR, clause 52.204.11, directs contractors to report specific information such as government contract and order number, amount of funds invoiced for the quarter for payment, an assessment of progress made toward the completion of the project, and number of jobs created by funding Recovery Act projects.

The Under Secretary of Defense's Memorandum for Chief Acquisition Officers and Senior Procurement Executives, dated 16 December 2009, requires contracting officers to provide prime contractors with a Jobs Worksheet to calculate new jobs created and a Quick Reference Matrix of key contract award data.

AUDIT RESULTS 4 – CONTRACTING QUARTERLY REPORTING

Condition. Wing contracting personnel did not effectively review and validate contractor quarterly reports. Specifically, a review of 30 contractor's quarterly reports from October 2009 through January 2010 disclosed the following:

- The contracting officer or designated representative did not review or validate any of the 30 (100 percent) contractor quarterly reports recorded in the Federal Reporting website.
- Contracting officers did not provide Job Worksheets to any of the 11 prime contractors.
- Five (45 percent) of the 11 contractors did not submit third quarter reports to the Federal Reporting website for the October 2009 reporting mandate (Table 1).

Tab B
Contractor Quarterly Reporting

Contractor	Contract Number	3rd Quarter ² Reporting Invoiced Amounts	4th Quarter Reporting Invoiced Amounts	Contractor Quarterly Report Submitted Yes/No	
		Oct 2009	Jan 2010	Oct 2009	Jan 2010
VA Paving	FA2512-06-D-0004-0018	\$353,329	\$246,509	No	Yes
Hamilton Roofing	FA2521-08-D-0049-0008	636,493	483,436	No	Yes
Hamilton Roofing	FA2521-08-D-0049-0006	254,149	13,376	No	Yes
Valant Painting	FA2521-05-D-0005-5006	67,108	220,209	No	Yes
Nelco Diversified ³	FA2521-07-D-0006-0032	2,776	0	No	NA
Totals				5	4

Table 1: Non-Complaint Contractor Reporting (October 2009 (Quarter 3) through January 2010 (Quarter 4))

Cause. These conditions occurred because wing contracting personnel did not provide effective oversight over contractor federal reporting. Specifically,

- The contracting officer did not follow prescribed procedures to review, verify, and validate contractor reports for accuracy (FAR clause 52.204-11 and the Memorandum for Chief Acquisition Officers and Senior Procurement Executives dated 16 December 2009 from the Under Secretary of Defense).
- According to the Contracting Officer, the administrative workload exceeded the amount of time available to accomplish all the required Recovery Act taskings and validating the contractor quarterly reports was not one of the highest priorities of items to accomplish.
- The Contracting Officer was unaware of the criteria that require contracting officers provide prime contractors with Jobs Worksheets to calculate new jobs created with specific formulas (Memorandum for Chief Acquisition Officers and Senior Procurement Executives dated 16 December 2009 from the Under Secretary of Defense).

² The Recovery Act reporting is based on a calendar year, as such, January through March would be Quarter 1 with the report being due by the contractor on the 10th day of the preceding month or in the example case above a 10 April due date.

³ Contractor did not invoice in the 4th Quarter as (October through December 2009) reflected in January 2010 report.

Impact. A review and validation of contractor quarterly reports ensures the accuracy of contractor information and transparency of public funds.

Recommendations. The Commander, 45th Space Wing Contracting Squadron, should require the Contracting Officer to:

- **Recommendation B.1.** Follow established criteria and accomplish quarterly report reviews (FAR, clause 52.204-11 and Memorandum for Chief Acquisition Officers and Senior Procurement Executives dated 16 December 2009 from the Under Secretary of Defense).
- **Recommendation B.2.** Provide each prime contractor a Jobs Worksheet and provide training to the prime contractors on how to utilize them (Memorandum for Chief Acquisition Officers and Senior Procurement Executives, dated 16 December 2009).
- **Recommendation B.3.** Direct non compliant contractors to submit the third quarter reports to the Federal Reporting website for the October 2009 reporting mandate (Table 1).
- **Recommendation B.4.** Determine the appropriate remedy and action for those contractors not in compliance with the terms of the contract.

Management Comments. The Vice Commander, 45th Space Wing, concurred with the audit results and recommendations and stated: “Contracting personnel did not effectively review and validate contractor quarterly reports.

- **Recommendation B.1.** “Concur. 45 CONS will follow established criteria and perform quarterly report reviews in accordance with FAR clause 52.204-11. Estimated Completion Date: 30 September 2010 (OPEN)
- **Recommendation B.2.** “Concur. 45 CONS will provide each contractor with a Jobs Worksheet and provide training to the prime contractor on how to utilize them. Estimated Completion Date: 30 September 2010 (OPEN)
- **Recommendation B.3.** “Concur. 45 CONS will direct the non compliant contractors to submit their reports to the Federal Reporting website. Non compliant contractors will receive letters of concern from the Contracting Officer. Estimated Completion Date: 30 September 2010 (OPEN)
- **Recommendation B.4.** “Concur. 45 CONS will issue letters of concern and follow-up with downgraded ratings in the Construction Contractor Appraisal Support System (CCASS), which could affect their performance rating for future contract awards. Estimated Completion Date: 30 September 2010 (OPEN)”

Evaluation of Management Comments. Management comments addressed the issues presented in this audit report and actions planned should correct the reported conditions.

AUDIT SCOPE

Audit Coverage. To accomplish the audit objectives, we collected and reviewed data contained in the *Comptrollers Financial Information System (CFIS)*, *Electronic Document Access (EDA)*, *Federal Procurement Data System (FPDS)*, Federal Reporting website, AF Form 1477, *Daily Inspection Logs*, AF Form 3064, *Construction Schedules*, AF Form 3065, *Contract Progress Reports*, USA Spending.gov website, *Online Representations and Certifications Applications (ORCA)*, DD Form 2579, *Small Business Administration Coordination Records*, and the *Wide Area Workflow (WAWF)* system, with documents dated from 22 April 2005 to 26 April 2010. Additionally, we reviewed the contractor files for each contractor and conducted comprehensive discussions with the contract officers, contract administrators, financial management and civil engineering personnel, and construction site inspectors. We conducted this audit from 5 April to 4 June 2010 and issued a draft report to management on 12 July 2010.

- **Small Business Awards.** To determine whether contracting personnel effectively awarded contracts, Task Orders and/or Delivery Orders to qualified small businesses, we reviewed the contract files to determine if the contract was designated as a small business type contract. We then reviewed certification of small business status by retrieving reports from the *Online Representations and Certifications Applications* and the USA Spending website to determine average revenues for 3 years and compared the results to the specified standard size in the National American Industrial Classification System to render the determination of classification based on average revenues.
- **Contract Performance.** To determine whether contracting personnel effectively managed contract performance, we reviewed AF Form 3064, *Construction Schedule* to determine construction period milestones and compared the data against the AF Form 3065, *Contract Progress Reports* to determine construction schedule accuracy and percentages of work completed. In addition, to validate both documents, auditor conducted actual site visits with inspectors and utilized AF Form 1477, *Daily Inspection Logs* in conjunction with the AF Form 3065, *Contract Progress Reports* during the site visits to determine accuracy of reporting contractor performance.
- **Project Funding.** To determine whether contracting and financial management personnel effectively administered project funding, we reviewed invoices submitted by the contractor utilizing the *WAWF* system. After reviewing the data in the *WAWF*, we compared payments made from the *CFIS* database to the *WAWF* system to make a determination of the accuracy of the payments per invoice from the contractor. To determine if the invoices and payments amounts were appropriate, we utilized the Air Force Form 3065, *Contract Progress Reports* to establish work completed percentages and multiplied progress percentage by the contract costs to determine if the correct progress payment was made.
- **Contractor Quarterly Reporting.** To determine whether contracting personnel effectively reviewed and validated contractor quarterly reports, we obtained contractor's reports for

the 3rd and 4th quarters of calendar year 2009. We reviewed the documents to determine if the contracting officer endorsed the form in the audit trail section for both quarters as instructed by the *FAR*. In addition, we verified the contractors reporting elements in the report by comparing it to the *Federal Procurement Data System* and elements in the contract files. Lastly, we conducted comprehensive discussions with the contracting officer and contract administrators.

Sampling Methodology. To accomplish our audit objectives, the Audit Focal Point (AFP) obtained a listing of all Recovery Act projects from Air Staff as of February 2010, containing 1,705 projects. The AFP judgmentally chose the remaining eight locations based on the highest number or dollar value of projects with in-process days over 200 days. Process days were determined by figuring the number of days between contract award and contract closeout and January 2010 if not yet closed. For eight of these locations, we judgmentally selected 20 projects with a combination as follows:

- Originally chosen for Recovery Act in early 2009, but had not yet awarded a contract.
- High number of days in process.
- Completed projects.
- High cost projects.

Computer Assisted Auditing Tools and Techniques. We used computer assisted auditing tools and techniques to determine audit results. Specifically, we used the "COUNTIF" and "SUM" functions in *Microsoft Excel*[®] to determine audit results requiring yes and no responses, total dollar values of each contract, as well as the dollar sum of all contracts and payments made by *Defense Finance and Accounting Service* (DFAS).

Data Reliability. We relied on data from the *Comptroller Financial Information System (CFIS)*, *USA Spending Website*, *Recovery and Federal Reporting Website*, and *Contract Records* to support our audit conclusions. Although we did not evaluate the general and application controls of these systems, we established data reliability by comparing *CFIS* information with the *Contract Records*, *Recovery and Federal Reporting* (Jan 2010 and Oct 2009), and the *USA Spending Website* information. In addition, to determine the data reliability of payments to contractors, we compared actual payments made from *Defense Finance Accounting System* records to invoiced amounts from the contractor and percentages of work completed on AF Form 3065, *Contractor Progress Reports*. In addition, we compared AF Form 3064, *Construction Schedule* with AF Form 3065, *Contractor Progress Reports* to determine the reliability of the construction schedule information. Based on these tests, we concluded data were sufficiently reliable to support audit results and conclusions.

Auditing Standards. We accomplished this audit work in accordance with accepted government auditing standards and, accordingly, included tests of internal controls such as payments made by Defense Financial Accounting Service for invoices submitted by the contractor, verifying and validating percentage of work completed by comparing AF Form 3064, *Contract Schedule* with actual work documented on the AF Form 3065, *Contract Progress*

Report, and comparing contract file data with the Recovery and Federal Reporting (for contractor quarterly reporting) website. Further, we evaluated other internal controls as considered necessary under the circumstances, such as contracting personnel's reviews of contractor's quarterly reports.

Discussions with Responsible Officials. We discussed/coordinated this report with the Commander, 45th Space Wing; Commander, 45th Mission Support Group; Commander, 45th Contracting Squadron, and other interested personnel. Management's comments were received on 10 August 2010 and are included in this report. Management was advised this audit was part of an Air Force-wide evaluation of *American Recovery and Reinvestment Act of 2009 Facilities Sustainment, Restoration, and Modernization 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.

PRIOR AUDIT COVERAGE

Our review of audit files and contact with the audit focal point disclosed one audit conducted by the Air Force Audit Agency (The American Recovery and Reinvestment Act of 2009 Requirements, F2010-0007-FDM000, 10 October 2009); Office of the Inspector General, Department of Defense; U.S. Government Accountability Office; or public accountant audit reports issued to the 45th Space Wing within the last 5 years that related to our audit objectives.

POINTS OF CONTACT

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PROJECT NUMBER

We accomplished this audit under project number F2010-FD1000-0073.001

FREEDOM OF INFORMATION ACT

The disclosure/denial authority prescribed in AFPD 65-3 will make all decisions relative to the release of this report to the public.

SUMMARY OF AUDIT RESULTS

INSTALLATION-LEVEL AUDIT REPORTS

PART I - General Report Information

A. REPORT NR F2010-0059-FDM000 B. REPORT DATE 13 Aug 2010

C. AUDITEE/LOCATION 45th Space Wing, Patrick AFB FL

D. REPORT TITLE The American Recovery and Reinvestment Act of 2009 Facilities Sustainment, Restoration, and Modernization Project Execution

E. PROJECT NR F2010-FD1000-0073.001 F. MAJCOM OPR HQ AFSPC

G. TEAM CHIEF/AUDITOR-IN-CHARGE Randolph D. Pinto
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H. OFFICE CHIEF (APPROVAL AUTHORITY) James E. Szewczyk

I. NUMBER OF NEGATIVE AUDIT RESULTS 1
NONCONCURRENCES (Indicate results tab and page numbers) 0

J. NUMBER OF RECOMMENDATIONS 4
NONCONCURRENCES (Indicate recommendation numbers) 0

K. NUMBER OF CORRECTIVE ACTIONS COMPLETED DURING AUDIT 0

L. TOTAL MONETARY BENEFITS ESTIMATED BY AUDIT \$ 0

M. TOTAL MONETARY BENEFITS AGREED TO BY MGMT \$ 0

N. AMOUNT REQUIRING ADJUDICATION \$ 0