



U.S. Department of Agriculture



Office of Inspector General
Western Region

Audit Report

Forest Service Procurement of Firefighting Lead Planes

Report No. 08601-37-SF
March 2004



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: **March 26, 2004**

REPLY TO

ATTN OF: 08601-37-SF

SUBJECT: Forest Service Procurement of Firefighting Lead Planes

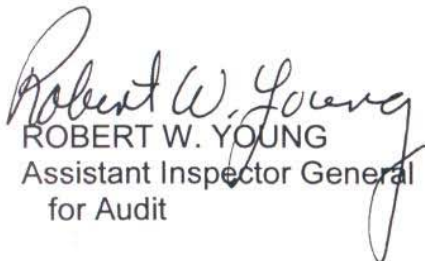
TO: Dale Bosworth
Chief
Forest Service

ATTN: Sandy Coleman
Agency Audit Liaison

This report presents the results of our review of the Forest Service's (FS) procurement of new lead planes for its firefighting program. The FS' written response to the draft report is included as exhibit D with excerpts and the Office of Inspector General's position incorporated into the relevant sections of the report.

Based on the written response, we have accepted FS' management decision for all the report recommendations. Follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the assistance your staff provided to our auditors during our review.


ROBERT W. YOUNG
Assistant Inspector General
for Audit

Attachment

Executive Summary

Forest Service Procurement of Firefighting Lead Planes

Results in Brief

The FS has decided to procure a new fleet of lead planes (used to support air tankers) at an estimated cost of \$60 to \$100 million. The current fleet is quickly approaching the end of its operational life span and will soon be insufficient to support the FS' air operations. The fund (the Working Capital Fund or WCF) designed to provide for their replacement has not kept pace with the rising price of airplanes. Left with the alternative to lease, the FS set about soliciting contractors to provide planes for 2004. We examined the fund, the lease proposal, and the solicitation to determine if the FS had followed regulations and would acquire suitable planes through the procurement process it had established. We found that no law had been violated but that the FS' planning, reporting, and soliciting for the lead plane lease needed improvement. If the FS implements our recommendations, the procurement process will enable the agency to acquire suitable aircraft for its mission in the most cost efficient manner possible and potentially save \$42.5 million.

Draft Solicitation Needs Amending To Assure Aircraft Suitability

The draft solicitation advertising the FS' need for new firefighting lead planes did not adequately describe the anticipated operating environment or the required maintenance and inspections. Further, it did not identify the FS' plans to conduct test flights. The FS either did not believe the information was necessary or had not considered the need for it. Without this information, however, contractors may not offer the appropriate aircraft, thereby limiting the FS' choices to aircraft that may not be the most suitable for the mission. Contractors may also be led to challenge or protest the contract award if they believe the procurement process was not administered properly (i.e., if they believe they were misinformed about requirements). Challenges to the procurement process could potentially delay the acquisition of new lead planes past the start of the next fire season. We reported these conditions to the FS Chief in September 2003 in a management alert. In its October 2003 response, the FS concurred and has since taken corrective action.

FS Needs To Reevaluate Its Procurement Plans for Potential Cost Savings

The FS had not adequately considered the potential cost savings to the Government if it were to contract out both the lead plane pilots and aircraft for only the period during which they are needed. The FS wants aircraft available year-round that it can use for firefighting and administrative purposes. The FS considers its pilots' positions as inherently

governmental and thus, by law, not subject to being contracted out. However, we concluded that having both the aircraft and pilots available for the entire year is an unnecessary and inefficient use of Government resources. We estimate that leasing the new lead planes only during the fire season and keeping only a small number of them during the off-season for other purposes alone could potentially save the Government up to \$42.5 million over the next 10 years (see exhibit A).

The FS maintained that it needed the planes year-round for administrative transport and training purposes. However, we determined that the FS' use of these aircraft during the off-season was minimal and did not justify the year-round cost of leasing. In fiscal year 2001 (a typical year according to the FS), over one-fourth of the lead planes were not used for administrative purposes, and many of the other planes received minimal use (see exhibit B). Once they have evaluated their off-season needs, the FS may realize significant savings by taking advantage of short-term or seasonal leasing.

During previous fire seasons, the work of lead plane pilots was inherently governmental because the pilots flew solo while leading and supervising air tankers. This function clearly necessitated discretionary judgment and evaluative decision-making. Beginning with the 2004 fire season, though, air tactical group supervisors (FS' employees) will be teamed with the pilots in the same aircraft. We do not believe that the pilots' responsibilities will continue to be inherently governmental as long as the supervisor makes all significant discretionary and evaluative decisions. The FS therefore needs to determine whether it is more cost efficient to contract out for the pilots during subsequent firefighting seasons.

We reported these conditions to the FS Chief in October 2003 in a management alert. In its November 2003 response, the FS stated that, prior to awarding any lead plane contracts, it would review the potential cost savings to the Government if it were to contract for lead planes on a seasonal rather than a year-round basis and re-evaluate its aircraft needs for the advantage of short-term or seasonal contracts. In addition, the FS responded that it would examine the potential cost savings of contracting for lead plane pilots based on the results of the review.

FS Needs To Report Its Procurement Plans to OMB

While the FS had notified the Office of Management and Budget (OMB) during the budgeting process of its decision to acquire new lead planes, it did not provide OMB a formal analysis of its procurement plans including support for its decision to lease the new lead planes. The FS believed it was only required to provide this information to OMB for major information technology acquisitions. Without OMB's approval, the FS

risks not having funds apportioned to pay for the lease of the aircraft. The FS is currently working to provide OMB the information it requires.

General Comment: The FS no longer plans to use the WCF to fund the replacement of aircraft due to the lack of replacement funds collected. We observed that at the time the FS was faced with replacing its fleet of lead planes, it had not accumulated sufficient funds in the WCF to purchase the aircraft. This left the FS with the choice of requesting additional funds from Congress to either purchase or lease the aircraft. Although the FS had established the WCF to collect through user fees for the eventual replacement of the planes, the rates charged did not account for the rising price of aircraft. The current fleet of lead planes originally cost between \$250,000 and \$450,000. Acceptable replacement aircraft now cost between \$3 and \$5 million each. As a result, the \$4.8 million collected in the fund over the years is barely sufficient to replace a single lead plane, let alone the entire fleet. The FS recognized the problem in 1997 but did not adjust the rates to provide for replacements because the fee would have been prohibitive, trying to make up for too much in too little time.

**Recommendations
In Brief**

We recommended that the FS amend its solicitation to explain fully the operating environment and conditions under which the aircraft will be flown and the need for more stringent maintenance and inspection requirements. The FS also needed to explain its plans for test flights, including the basis for selecting the aircraft to test and the criteria for evaluating the aircraft tested.

We also recommended that the FS evaluate whether it is more cost effective—within mission requirements—to lease a fleet of lead planes seasonally or year-round. As part of this evaluation, the FS should consider whether pilots should be contracted.

Finally, we recommended that the FS provide OMB for its review and approval the documentation required for the lead plane acquisition.

**Agency
Response**

In its written response to the draft report, dated March 22, 2004, the FS generally concurred with all of our findings and recommendations and has already taken corrective action on a number of the recommendations. The complete written response is shown in exhibit D of the audit report.

OIG Position

Based on the FS' written response, OIG accepts the FS' management decision for all the audit recommendations.

Abbreviations Used in This Report

BLM	Department of Interior's Bureau of Land Management
CFR	Code of Federal Regulations
FS	Forest Service
FY	Fiscal Year
IRC	Increased Replacement Cost
OIG	Office of Inspector General
OMB	Office of Management and Budget
RFP	Request for Proposals
USDA	United States Department of Agriculture
WCF	Working Capital Fund
WO	Forest Service Washington Office

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Background and Objectives

Background

The Forest Service (FS) owns a fleet of 19 Beechcraft Baron planes. These are used primarily as “lead planes” to direct other planes carrying flame retardant during firefighting operations. The lead planes are also used in aerial supervision to provide logistical and tactical support for firefighters on the ground, and to manage air traffic.



One of the FS' Beechcraft Baron Lead Planes Leading An Air Tanker

In response to fatal aircraft accidents in 2002 involving the other aircraft, the FS Chief and the Director of the U.S. Department of Interior's Bureau of Land Management established a commission to identify essential information for planning a safe and effective aviation program and to identify weaknesses in the current aviation program. The commission's review disclosed a 1987 engineering analysis that recommended a maximum safe life of 6,000 hours for each lead plane, and strongly suggested that the aircraft be destroyed or disposed of once exceeding that limit. In February 2003, the FS permanently retired 11 of its 19 lead planes because they had exceeded their recommended flight hours. The remaining planes continue to deteriorate as they approach the safety limit as evidenced by increasing service interruptions and operating costs. They soon may not be capable of meeting the FS' firefighting needs. To forestall that eventuality, the FS plans on procuring new lead planes through long-term leases.

Although the 19 Beechcraft Baron planes were capitalized into a fund designed to provide for their replacement, that fund did not have sufficient money to do so. The fund (the Working Capital Fund or WCF) totaled only \$4.8 million while the FS estimates the replacement cost for its fleet between \$60 and \$100 million. The fund was intended to provide for equipment upkeep and eventual replacement by charging a usage fee for the planes (bought and donated to the fund by the FS) to the FS' programs. This process was supposed to allow the FS to plan and fund orderly replacement without having to ask Congress for additional money. The FS did not adjust the fees it charged programs to account for the rising price of airplanes. When the current fleet of lead planes were acquired between 1978 and 1982, they cost \$250,000 to \$450,000 each. By 2003, acceptable replacement aircraft cost between \$3 to \$5 million per plane.

Since the funds in the WCF are not adequate to purchase new aircraft, the FS plans to lease the planes at a yearly estimated cost of \$567,000 per aircraft, or about \$11 million per year for 20.¹ Based on initial evaluations, the FS determined that leasing versus buying new aircraft will realize a cost savings of \$6.7 million per aircraft over a 10-year period.² The FS also recognized that each contract cycle would require the replacement of the aircraft with new models. This renewal will provide for better safety and reliability as aircraft age and suffer structural fatigue. The FS issued a pre-solicitation notice on May 16, 2003, which detailed its need to lease the aircraft.

Procurement of the new aircraft is governed by the Federal Acquisition Regulations. The Office of Management and Budget (OMB) also issues guidance impacting such procurements. OMB Circular A-11 requires that agencies report their major capital asset acquisitions to OMB in their budget submissions. OMB evaluates the acquisitions and recommends only priority capital asset investments for funding in the President's budget. OMB Circular A-11 also requires agencies to justify that leasing capital assets is preferable to purchasing them. OMB Circular A-94 contains the policies and procedures for performing the justification.

Objectives

The objectives of this review were to (1) ensure that the FS' procurement of lead planes conforms with federal acquisition regulations, (2) ensure that the FS acquires an aircraft suitable for its intended firefighting mission, and (3) determine why the WCF does not contain sufficient funds to replace the FS' existing lead planes.

See the Scope and Methodology section at the end of this report for details of our audit methodology.

¹ In order to meet future firefighting mission needs, the FS decided to add a plane to its original fleet of 19.

² The cost savings resulted primarily from the FS not having to purchase the new aircraft and on top of that having to pay again for their eventual replacement through the WCF.

Findings and Recommendations

Section 1 Aircraft Suitability

Finding 1

Improvements Are Needed in Its Solicitation To Assure That FS Acquires Lead Planes That Meet Its Needs

The draft solicitation advertising the FS' need for new firefighting lead planes did not adequately specify the FS' exacting maintenance and inspection requirements, or the expected stressful operating environment. Further, the solicitation did not identify the FS' new plans to conduct test flights. The FS either did not believe the information was necessary or had not considered the need for it. By not fully describing requirements, contractors may not offer the appropriate aircraft, limiting the FS' choices to aircraft that may not be the most suitable aircraft for the mission. Potential contractors may also challenge or protest the contract award if they believe the procurement process was not administered properly. Challenges to the procurement process could potentially delay the acquisition of the new lead planes past the start of the next fire season. This delay could increase the overall cost of the procurement process and negatively impact the ability of the FS to effectively employ aerial resources to combat wildfires.

Solicitations, or Requests for Proposals (RFP), are used in negotiated acquisitions to communicate Government requirements to prospective contractors and to solicit proposals. Federal Acquisition Regulations require agencies to include in their solicitations any description or specifications related to the item to be procured.³ Agencies must state requirements with respect to an acquisition in terms of functions to be performed, performance required, or essential physical characteristics.⁴ Regulations require that all factors and significant subfactors that will affect contract award and their relative importance be clearly stated in the solicitation.⁵

In reviewing the preliminary draft solicitation the FS plans to use for its long-term procurement, we noted the following deficiencies:

Inadequate Description of Flight Conditions

The draft solicitation did not fully describe the conditions under which the aircraft would be flown. The draft solicitation provided only a brief announcement of the lead plane's mission and the varying altitudes under which aircraft are flown during firefighting missions. The Assistant Director for Fire and Aviation Management believed that the

³ 48 CFR 15.204-2(b)(c), October 1, 2002.

⁴ 48 CFR 11.002(a)(2)(i), October 1, 2002.

⁵ 48 CFR 15.304(d), October 1, 2002.

flight conditions described were adequate since potential contractors would likely be aware of the conditions under which the aircraft would be flown.

The Blue Ribbon Panel chartered to look at the FS' fire aviation program, though, reported that firefighting subjects aircraft to more severe stresses than those experienced when flying in missions for which the aircraft were originally designed (typically passenger transport). For example, the panel noted that National Aeronautics and Space Administration studies showed that firefighting aircraft encounter abnormal maneuver and gust loads that significantly shorten the structural life of an aircraft. The panel also notes that many lead plane missions are flown over mountainous terrain during summer months when temperatures are well above those of a standard day. Under these conditions, air density is much lower than at sea level, which reduces the capability of an aircraft to maintain altitude.

We believe it is essential that the conditions under which the aircraft are flown be fully described in the RFP so that potential contractors can offer planes that can hold up under such rigorous conditions. The Assistant Director for Fire and Aviation Management believed that potential contractors were already aware of the mission requirements and operating conditions. However, not all were since one vendor had already called the FS requesting more information. When discussed with both the Assistant Director and Contracting Officer, they agreed that additional information was needed to adequately describe the conditions under which the aircraft are flown.

Plans for Conducting Test Flights Not Noted

According to the Assistant Director for Fire and Aviation Management, the FS plans to conduct test flights only on those aircraft that rate the highest during the evaluation process. The draft solicitation, though, did not indicate that the FS' pilots would perform test flights of the potential lead planes. The omission occurred because the draft solicitation was based on the FS' previous plan to evaluate the planes during the period of a 3-year lease. As the plan changed to lease the planes for 10 years, the FS decided it was appropriate to conduct test flights with highly rated planes before leasing them but had not updated the solicitation to reflect this decision.

Since the test flights will be instrumental in selecting the appropriate aircraft, we concluded that the RFP should not only inform potential contractors that test flights will be conducted, but also state the criteria under which the aircraft will be evaluated. In addition to amending the RFP, the FS also needs to describe the methodology for rating the

aircraft during the test flights in its Source Selection Plan. The Source Selection Plan, which is tailored to each acquisition, should contain, among other things, a description of the evaluation factors, source selection processes, and basis of award. The addition of this language could help preclude potential challenges to the selection process.

The Contracting Officer agreed that it was necessary for the RFP to indicate that test flights would be conducted and to specify the criteria under which the aircraft would be evaluated during the test flight. On September 2, 2003, the FS notified potential contractors in a pre-solicitation notice that test flights would be conducted. According to the Contracting Officer, the FS also plans to describe the methodology for rating the aircraft during the test flights in the Source Selection Plan.

Inadequate Descriptions of Maintenance and Inspection Requirements

Under the draft solicitation, the contractor is required to provide for the complete maintenance of the aircraft. However, the draft solicitation did not adequately describe the requirements for the maintenance and inspections of the aircraft. It only stated that potential contractors maintain the aircraft in compliance with the manufacturer's requirements and Federal Aviation Administration airworthiness directives. These minimum requirements do not constitute the maintenance and inspection program that is appropriate for aircraft used in an aerial firefighting environment. The Contracting Officer who composed the draft solicitation was not made aware of the more rigorous maintenance and inspection requirements that the FS expected.

As previously noted, lead planes will work under extreme conditions. Unless potential contractors are notified of the need for more stringent maintenance and inspections of the aircraft, they may underbid on the cost to maintain the aircraft and not perform the necessary maintenance on the aircraft should they be awarded the contract. Both the National Aviation Officer and Contracting Officer agreed that the draft RFP should clearly specify the need for more stringent maintenance and inspections.

We reported these conditions to the FS Chief in September 2003 in a management alert. In the alert, we recommended that the FS (1) amend the RFP to fully explain the operating environment and conditions under which the aircraft will be flown, and (2) include the FS' plans for test flights, the basis for selecting the aircraft to test, and the criteria for evaluating the aircraft tested. We also recommended that the FS amend the Source Selection Plan to describe the methodology used for rating the aircraft tested and the RFP to specify the need for more stringent maintenance and inspections of the aircraft used in an aerial firefighting environment. In its

October 2003 written response to the management alert, the FS concurred with each of our recommendations and has already taken corrective action.

Recommendation No. 1

Amend the RFP to fully explain the operating environment and conditions under which the aircraft will be flown.

Agency Response. In its written response to the management alert, dated October 8, 2003, the FS stated that the Draft RFP 49-04-01, Part 1, Section B, has been amended, expanding the description of the flight conditions for lead plane and Aerial Supervision Module missions.

OIG Position. We accept FS' management decision on this recommendation. For final action, the FS needs to provide the Office of the Chief Financial Officer a copy of RFP 49-04-01, Part 1, Section B, once it has been finalized.

Recommendation No. 2

Amend the RFP to fully explain the FS' plans for test flights including the basis for selecting the aircraft to test and the criteria for evaluating the aircraft tested.

Agency Response. In its written response to the management alert, dated October 8, 2003, the FS stated that the Draft RFP 49-04-01, Part IV, Section L.9, has been amended to include statements that the FS intends to evaluate the aircraft, to include flight testing using updated evaluation criteria in the October 1998 "National Study of Tactical Aerial Resource Management to Support Initial Attack and Large Fire Suppression." This evaluation criterion has been modified so other aircraft such as single-engine turbine and current manufactured multi-engine reciprocating aircraft may be used.

OIG Position. We accept FS' management decision on this recommendation. For final action, the FS needs to provide the Office of the Chief Financial Officer a copy of RFP 49-04-01, Part IV, Section L.9, once it has been finalized.

Recommendation No. 3

Amend the Source Selection Plan to describe the methodology used for rating the aircraft tested.

Agency Response. In its written response to the management alert, dated October 8, 2003, the FS stated that the Source Selection Plan has been amended to include the methodology for rating the aircraft tested.

OIG Position. We accept FS' management decision on this recommendation. For final action, the FS needs to provide the Office of the Chief Financial Officer a copy of the Source Selection Plan.

Recommendation No. 4

Amend the RFP to specify the need for more stringent maintenance and inspections of the aircraft used in an aerial firefighting environment.

Agency Response. In its written response to the management alert, dated October 8, 2003, the FS stated that the Draft RFP 49-04-01, Part IV, Section L.9, has been amended to require a maintenance plan which includes an accelerated structural inspection program addressing the flight conditions for lead plane and Aerial Supervision Module missions.

OIG Position. We accept FS' management decision on this recommendation. For final action, the FS needs to provide the Office of the Chief Financial Officer a copy of RFP 49-04-01, Part IV, Section L.9, once it has been finalized.

Finding 2

FS' Plan for the Year-Round Use of Pilots and New Firefighting Lead Planes May Cost the Government More Than Necessary

The FS has not adequately considered the potential cost savings to the Government if it were to contract for lead plane pilots and aircraft for only the period during which they are needed. The FS wants aircraft available year-round that it can use for firefighting, administrative, and training purposes. The FS believes lead plane pilot duties are inherently governmental and, by law, cannot be contracted out. While the lead plane pilots' functions were in the past inherently governmental, the FS' new tactical arrangements make the pilots' services liable to be contracted. Contracting a full complement of lead planes and pilots for the entire year is an unnecessary and inefficient use of Government resources. We estimate that leasing the new lead planes only during the fire season and keeping only a small number of them during the off-season for other purposes alone could potentially save the Government up to \$42.5 million over the next 10 years (see exhibit A). We did not calculate any potential savings for contracting pilots due to the uncertainty of the FS' legal ability to contract the positions.

Federal Acquisition Regulations require agencies to perform acquisition planning for all acquisitions to ensure that the Government meets its needs in the most effective, economical, and timely manner.⁶ The regulations also state that if the function is not inherently governmental, it is the policy of the Government to rely generally on private commercial sources for supplies and services. OMB Circular A-76 defines an inherently governmental function as activities which require either the exercise of discretion in applying Government authority or the use of value judgment in making decisions for the Government while distinguishing services in support of inherently governmental functions as those which are just commercial activities.⁷ The Federal Acquisition Regulation further states that appropriate consideration should be given to relative cost when deciding between Government performance and performance under contract.⁸

The FS plans to lease up to 20 airplanes for 10 years for use on wildland fire missions as lead planes and for other administrative purposes. The lease would entitle the FS to exclusive use of the aircraft year-round. The FS also plans to contract out for the maintenance of the aircraft and to use its own pilots. During our review of the FS' procurement plans, we identified areas where the FS has an opportunity to meet its mission needs while at the same

⁶ 48 CFR 7.102(a) and (b), October 1, 2002.

⁷ OMB Circular No. A-76 6(e).

⁸ 48 CFR 7.301, October 1, 2002.

time reducing costs. We therefore question whether the FS' plan to use the pilots and the aircraft year-round is the most cost-efficient alternative.

Aircraft Not Needed Year-Round

The FS may be able to significantly reduce its overall costs by leasing the aircraft only during the firefighting season, which generally begins in May and ends in September (about 6 months). The FS expects to pay about \$11 million a year to lease the 20 aircraft, or \$567,000 for each aircraft. However, leasing the aircraft for only half the year could significantly reduce the overall cost of the lease. We noted that the Bureau of Land Management leases the aircraft it uses as lead planes only during the firefighting season. If planes are needed during the off-season, it leases only the aircraft it needs. According to the Bureau, it saves the Government a significant amount of money by leasing the aircraft only for the period during which they are needed.

The FS maintains that having exclusive use of the aircraft year-round will allow it to use the aircraft for administrative as well as firefighting purposes. For example, during the off-season, the FS plans to use the aircraft to transport FS officials on Government business and for pilot training. However, we determined that historically the FS' use of these aircraft during the off-season for these additional purposes was minimal and would not justify the cost of leasing an entire fleet of lead planes year-round. For example, during Fiscal Year (FY) 2001, a typical year according to the FS, the FS did not use 5 of its 19 lead planes for administrative flights, and several other planes received minimal administrative use (see exhibit B). Furthermore, the FS has other aircraft available that it uses for administrative flights. We also noted that the FS used several of the lead planes only minimally for pilot training during FY 2001.

In October 1998, the FS and the Bureau formed a Management Options Team to propose options for implementing the recommendations from a preceding joint report on the type and number of planes required.⁹ In its report, the team recognized that the FS could not afford to have single mission aircraft, which would sit idle for 3 to 6 months of the year, available year-round. Accordingly, it recommended that the FS acquire a lead plane fleet composed of both exclusive-use and seasonal-use aircraft. Approximately half of the aircraft would be designated for each purpose. The team recognized the benefit of having exclusive-use aircraft available during the off-season for administrative purposes and determined that the FS needed exclusive-use aircraft primarily for pilot training and maintaining pilot proficiency. We build on their finding to note that if the FS were to contract out for the pilots as discussed below,

⁹ The joint report was the "National Study of Tactical Aerial Resource Management to Support Initial Attack and Large Fire Suppression," October 1998.

these aircraft may not be needed during the off-season because the contractor would take responsibility for pilot training and proficiency.

We estimate that the FS could potentially save the Government up to \$42.5 million over the next 10 years if it were to keep only 5 of the lead planes for the entire year as opposed to all 20 (see exhibit C). The remaining 15 lead planes would be leased only during the firefighting season that generally lasts only 6 months. Our calculation was based on the FS' estimated annual cost of \$567,000 to lease each aircraft. We calculated the monthly charge for each aircraft to be \$47,250 (\$567,000 divided by 12 months). This of course assumes that vendors would not increase their rates if the aircraft were not leased for the entire year. Although the Management Options Team's report recommended keeping approximately half the planes year-round, we believe the FS would likely only need to keep a quarter of its lead planes during the off-season if it consolidated the use of the aircraft. As was noted in exhibit B, most of these aircraft had minimal use during the off-season.

When discussed in October 2003, the FS Washington Office Acting Assistant Director for Fire and Aviation Management agreed that the FS would not likely need all 20 aircraft during the off-season and that the FS needed to determine the appropriate number of aircraft to keep during the off-season.

Pilots Not Needed Year-Round

The FS could further reduce costs by contracting out for lead plane pilots. This would enable the FS to pay for pilots only during the firefighting season, as opposed to paying its own staff of pilots year-round. According to the FS, it assigns its pilots collateral duties during the off-season like inspecting other aircraft. We note, though, that the California Department of Forestry and Fire Protection contracts out for the pilots that fly its air attack aircraft. According to the department, this is more cost efficient, particularly since it does not need the pilots during the off-season. Using contract pilots also lowers its overhead costs.

The FS, however, considers the lead plane pilots to be inherently governmental because of their role in supervising the air tanker pilots during firefighting missions. Since inherently governmental work cannot be contracted, the FS had not performed a cost analysis to determine whether it would be more cost efficient to contract out for the lead plane pilots.

The FS plans to restructure its approach to aerial supervision before the start of the next fire season. Previously, an Air Tactical Group Supervisor, an FS employee responsible for coordinating the attack from

the air and making tactical and logistical recommendations to ground personnel, flew separately from the lead plane pilot. Under the new approach, the group supervisor and the pilot will be teamed together in the same aircraft. The supervisor will be required to have extensive training and experience in fire management, and the pilot will be required to have extensive training and experience flying under firefighting conditions.

Under this new approach to aerial supervision, we do not believe that the pilot's responsibilities would be inherently governmental as long as the supervisor makes all significant discretionary and evaluative decisions. When discussed with the Acting Assistant Director for Fire and Aviation Management in 2003, he agreed that the pilot's duties may no longer be inherently governmental under this new approach. Consequently, the FS should evaluate whether it is more cost efficient to contract out for the pilots and, if so, take the necessary steps to do so.

We reported these findings to the FS Chief in October 2003 in a management alert. In the alert, we recommended that the FS amend the RFP to require that all aircraft be available only during the firefighting season unless the FS can justify keeping some of the aircraft during the off-season for administrative purposes. We also recommended that the FS determine the cost savings to the Government if the pilots are contracted out and, if the cost savings are significant, that they also contract out for the pilots. In its November 2003 written response to the management alert, the FS stated that it could not amend the draft solicitation at this point without incurring significant delays. Prior to awarding any lead plane contracts, however, the FS agreed to review the potential cost savings to the Government if it were to contract for lead planes on a seasonal rather than a year-round basis and to re-evaluate its aircraft needs for the advantage of short-term or seasonal contracts. In addition, the FS responded that it would examine the potential cost savings of contracting for lead plane pilots based on the results of the review. However, following the FS' November 2003 response to the management alert, the FS Chief issued a memorandum on February 23, 2004, canceling all A-76 studies for 2004 in order to meet the requirements in Section 340 of Public Law 108-108 that sets forth numerous requirements for the Secretary in order to continue implementing competitive sourcing studies. According to the FS, it will continue to look at various ways to implement cost savings within the aviation program that meet the Section 340 requirements and will keep our recommendation regarding the pilots under consideration as those plans are developed.

Recommendation No. 5

Amend the RFP to require that all aircraft be available only during the firefighting season unless the FS can justify keeping some of the aircraft during the off-season for administrative purposes.

Agency Response. In its written response to the management alert, dated November 5, 2003, the FS stated that at this late date, it is not possible to change RFP 49-03-08 without incurring significant delays. However, it is interested in addressing this issue in the following ways. First, the FS plans to review the potential cost savings to the government if it were to contract lead planes on a seasonal basis rather than year-round. Second, the FS will re-evaluate its aircraft needs to determine if it can take advantage of short-term or seasonal contracts. The FS had committed to completing these actions by December 31, 2003. However, the FS informed us on March 23, 2004, that it was still in the process of determining from contractors the potential savings from leasing the aircraft seasonally. Furthermore, the FS had contracted with a cost containment team that would re-evaluate its aircraft needs to determine if it can take advantage of short-term or seasonal contracts. The FS expects a report from the cost containment team by December 31, 2004.

OIG Position. We accept FS' management decision on this recommendation. For final action, the FS needs to provide the Office of the Chief Financial Officer documentation supporting its decision regarding the number of aircraft to keep during the off-season for administrative purposes.

Recommendation No. 6

Determine the cost savings to the Government if the pilots are contracted out. If the cost savings are significant, also contract out for pilots.

Agency Response. In its written response to the draft report, dated March 22, 2004, the FS stated that its original plan¹⁰ was to conduct an in-depth cost analysis on contracting out pilots in conjunction with agency plans to conduct Business Process Reengineering and Competitive Sourcing Studies of the Fire and Aviation Management organization. However, the FS Chief issued direction in a February 23, 2004, 1310-1 memo that cancelled all 2004 A-76 studies in order to meet the requirements in Section 340 of Public Law 108-108 that sets forth numerous requirements for the Secretary in order to continue implementing Competitive Sourcing Studies. The FS will continue to develop contracting strategies, potential Business Process Reengineerings, and A-76 study plans and will look at various ways to implement cost savings within the aviation program that meet the requirements in Section 340. The

¹⁰ The FS stated its original plan in its written response to our management alert, dated November 5, 2003.

FS will also keep this recommendation under consideration as those plans are developed.

OIG Position. We accept FS' management decision on this recommendation. For final action, the FS needs to provide the Office of the Chief Financial Officer documentation supporting its ultimate decision on whether to contract out for pilots.

Finding 3

FS Needs To Report Its Procurement Plans to OMB

While the FS had notified the Office of Management and Budget (OMB) during the budgeting process of its decision to acquire new lead planes, it did not provide OMB a formal analysis of its procurement plans including support for its decision to lease the new lead planes. The FS believed that it only had to report to OMB the details of its major information technology acquisitions. Without OMB's review and approval of the FS' planned procurement, the FS risks not having the funds apportioned by OMB to pay for the lease of the aircraft.

OMB Circular A-11 requires agencies to include in their initial budget submissions plans for major capital acquisitions.¹¹ Agencies use Exhibit 300 to make a business case for their major acquisitions.¹² Essentially, agencies justify their proposals to OMB. If OMB approves, it then proposes them to Congress. Congress approves the acquisition when appropriations are enacted for the asset. OMB then apportioned the funds as appropriate.¹³ OMB Circular A-94 also requires that a lease versus purchase analysis be conducted for major capital acquisitions.¹⁴ This analysis is then submitted to OMB for its review through the Circular A-11 process.¹⁵

According to OMB, it had not enforced the requirement that agencies provide a formal analysis of their major capital acquisitions except for major information and technology acquisitions. Based on OMB's past lack of enforcement for other acquisitions, U.S. Department of Agriculture's Office of Budget and Planning Analysis did not require this information from the FS during the budgeting process.

When contacted, however, OMB agreed that the FS needed to submit an Exhibit 300 for the lead plane acquisition and has since requested the exhibit from the FS. The FS is currently working with the Office of Budget and Planning Analysis to provide OMB with the required information regarding the lead plane acquisition. OMB has also requested that the FS submit

¹¹ OMB Circular No. A-11, section 25.5, June 27, 2002.

¹² OMB Circular No. A-11, section 300.9, June 27, 2002.

¹³ Page 25 of the Capital Programming Guide, Supplement to OMB Circular No. A-11, part 3: Planning, Budgeting, and Acquisition of Capital Assets, July 1997.

¹⁴ OMB Circular No. A-94, section 13(a-b), revised January 22, 2002.

¹⁵ OMB Circular No. A-94, section 15, revised January 22, 2002.

Exhibit 300s for all its planned major capital acquisitions relating to its firefighting program. The Office of Budget and Planning Analysis plans to work with OMB to clarify when major capital acquisitions are to be reported for future procurements.

Recommendation No. 7

Provide OMB for its review and approval the documentation it requires for the lead plane acquisition under OMB Circulars A-11 and A-94.

Agency Response. In its written response to the draft report, dated March 22, 2004, the FS stated that OMB Circular A-11 and A-94 studies are currently being prepared by a private contractor and will be provided to OMB for review and approval by June 30, 2004.

OIG Position. We accept FS' management decision on this recommendation. For final action, the FS needs to provide the Office of the Chief Financial Officer a copy of the A-11 and A-94 studies that it submitted to OMB completed by the private contractor.

General Comments

The FS did not have sufficient funds in its Working Capital Fund (WCF) to replace its existing fleet of lead planes once their useful lives expired because it did not periodically adjust the rates to account for the increased replacement cost (IRC) of the aircraft. Although the FS ultimately recognized in FY 1997 the need to adjust the rates to account for the IRC of the aircraft, the estimated cost to replace each aircraft had grown significantly since the planes had been acquired. Most of the planes were acquired between 1978 and 1982 and cost \$250,000 to \$450,000 each. They were then capitalized into the WCF based on this acquisition cost. According to the FS, the cost of acceptable replacement aircraft now ranges between \$3 and \$5 million each. The FS ultimately decided not to adjust the rates to replace the aircraft since it could not afford the current price. Aside from asking Congress for the funds to buy new lead planes, the FS' only option for financing the acquisition of the new lead planes was through a long-term lease.

The FS Manual requires that funds in the WCF be reserved for future needs so that it is possible to replace assets while at the same time financing current operations.¹⁶ The FS Manual further states that it is an objective of the WCF to preserve capital investment by providing for the recovery of increased costs due to inflation.¹⁷ This preservation is accomplished through the use of a dual rate system designed to recover the full cost of operating, maintaining, and replacing the aircraft. The dual rate system consists of a use rate per hour and a monthly fixed ownership rate.¹⁸ The use rate recovers the variable costs incurred in the operation and maintenance of the aircraft whereas the fixed rate recovers the fixed cost of owning the aircraft such as managerial costs, depreciation, and IRC.¹⁹ According to the WCF User's Guide, each fiscal year, budgets containing anticipated expenses and use hours are developed and used to establish the fixed and use rates for each aircraft. Anticipated expenses are based on previous fiscal years' historical costs and adjusted for inflation. Rates are adjusted if there are sizable differences between budgeted and actual amounts.²⁰

As was previously noted, the FS estimated the cost to replace its entire fleet of lead planes to be between \$60 and \$100 million. As of September 30, 2003, the FS had only \$4.8 million in the WCF aircraft account. Of this amount, the FS planned to use \$2.2 million to pay operating costs and the remaining \$2.6 million to fund aircraft refurbishments and enhancements.

¹⁶ FS Manual 6580.43 (1), October 5, 1999.

¹⁷ FS Manual 6580.2 (4), October 5, 1999.

¹⁸ FS Manual 6582.11, October 5, 1999.

¹⁹ WCF User's Guide, Chapter 4, pages 33-34, 1992.

²⁰ WCF User's Guide, Chapter 4, page 29, 1992.

According to the Service-wide WCF Financial Manager, an IRC component was never established within the WCF aircraft activity for the replacement of the aircraft and no one thought of it until FY 1997. The WCF Financial Manager noted that originally the IRC was only set up for other assets like cars and trucks. By the time the FS discovered the need for an IRC component for the fixed rate, the cost of replacing the aircraft had grown to the point where it was cost prohibitive to adjust the rates to make up the difference. In July 1997, the FS established an IRC component for the WCF aircraft activity, but only to ensure that sufficient funds were collected to pay for future aircraft refurbishments and enhancements.

Scope and Methodology

We reviewed the FS' overall plan for procuring new lead planes for its firefighting program. As was previously mentioned in the Background Section of this report, the FS plans to replace all 19 of its existing lead planes through a long-term lease. The FS plans to replace its existing fleet with 20 new aircraft at an estimated yearly cost of \$567,000 per aircraft, or about \$11 million per year for all 20 aircraft.

To accomplish our audit objectives, we performed audit work at the FS' Washington Office (WO) in Washington, D.C., and at the National Interagency Fire Center in Boise, Idaho. The center is a detached WO unit responsible for contracting national shared resources such as the lead planes used for firefighting purposes.

In order to assess WCF operations involving the lead planes, we also contacted the five FS regional offices and one FS research station responsible for accounting for these aircraft under the WCF aircraft activity. The FS regional offices contacted were the Northern Regional Office (Region 1) in Missoula, Montana, the Southwestern Regional Office (Region 3), in Albuquerque, New Mexico, the Intermountain Regional Office (Region 4), in Ogden, Utah, the Pacific Southwest Regional Office (Region 5), in Vallejo, California, and the Pacific Northwest Regional Office (Region 6), in Portland, Oregon. The research station contacted was the Rocky Mountain Research Station in Fort Collins, Colorado. The Rocky Mountain Research Station is located in Region 2. Fieldwork was performed between July and December 2003.

In developing the findings in this report, we performed the following steps and procedures:

- We obtained and reviewed all applicable laws and regulations relating to the procurement of the new lead planes and the WCF aircraft activity.
- We interviewed the FS WO Assistant Director for Fire and Aviation Management to determine the status of the FS' plans for procuring the new lead planes. We also determined the operational status of the FS' existing lead planes and the FS' plans for disposing of the planes once they exceeded their useful life. In addition, we obtained statistics on lead plane usage for FY 2001, a typical year according to the FS.
- We reviewed the FS' draft Request for Proposals (RFP) and Source Selection Plan that will be used to procure the new lead planes. We also reviewed the FS' analysis supporting its plans to lease the new lead planes.

- We reviewed both the TARMS and TMOT reports which recommended the number of lead planes the FS should have and the criteria for procuring the new lead planes. We also reviewed the Blue Ribbon Panel report which noted performance issues and structural concerns related to the FS' existing fleet of lead planes.
- We contacted BLM and various State agencies to obtain general information about the lead planes they used in their firefighting programs as well as the criteria they used when procuring their lead planes. The State agencies contacted were the California Department of Forestry and Fire Protection, the Florida Division of Forestry, and the North Carolina Division of Forest Resources.
- We contacted OMB to determine whether the FS needed to report to OMB its planned procurement for new lead planes. We also contacted USDA's Office of Budget and Policy Analysis to determine the guidance it provided the FS regarding the OMB requirement for reporting major capital acquisitions.
- We interviewed the Service-wide WCF Financial Manager and reviewed various financial reports to determine why the WCF aircraft activity did not have sufficient funds for replacing the lead planes. We also reviewed the WCF's 10-year Strategic Business Plan.

Our audit was conducted in accordance with generally accepted government auditing standards.

Exhibit A – Summary of Monetary Results

Exhibit A – Page 1 of 1

Recommendation Number	Description	Amount	Category
5	Amount FS could potentially save the Government by leasing the aircraft only for the period during which they are needed (see exhibit C)	\$42,525,000	FTBPTBU ¹ – Management or Operating Improvements/Savings

¹ FTBPTBU = Funds To Be Put To Better Use

Exhibit B – Number of Hours Lead Planes Used During FY 2001 for Administrative, Training, and Other Purposes

Aircraft Registration No.	Type of Use		
	Administrative ¹	Training	Other
[]	0	4.5	21.5
[]	0	7.9	22.9
[]	0	9.0	29.4
[]	0	16.3	21.6
[]	0	63.8	15.6
[]	0.7	18.7	29.6
[]	2.3	17.4	19.9
[]	3.6	14.6	42.3
[]	4.1	13.0	22.8
[]	7.5	34.2	21.9
[]	9.3	31.7	5.7
[]	9.4	15.9	28.1
[]	14.4	66.1	9.5
[]	19.0	73.2	60.6
[]	19.7	34.7	45.6
[]	27.9	88.9	26.8
[]	32.5	31.3	44.2
[]	83.3	48.0	30.3
[]	88.5	34.1	43.1
Total	322.2	623.3	541.4

¹ Used for personnel transport.

Exhibit C – Amount FS Could Potentially Save the Government Over the Next 10 Years If It Leased Aircraft Only During the Period Needed¹

Number Of Aircraft Leased	Estimated Monthly Lease Cost²	Number of Months Aircraft Needed Each Year	Estimated Cost Per Year³	Estimated Cost For 10 Years
Estimated Cost To Lease 20 Aircraft Year Round:				
20	\$47,250	12	\$11,340,000	\$113,400,000
Estimated Cost To Lease 20 Aircraft Only When Needed:				
5	\$47,250	12	\$2,835,000	\$28,350,000
15	\$47,250	6	\$4,252,500	\$42,525,000
Total Estimated Cost To Lease Only When Needed =				\$70,875,000
Estimated Cost Savings:		\$113,400,000 - \$70,875,000 =		<u>\$42,525,000</u>

¹ Our calculation was based on the FS' estimated annual cost of \$567,000 to lease each aircraft.

² We calculated the monthly charge for each aircraft to be \$47,250 (\$567,000 divided by 12 months).

³ Estimated Cost Per Year = Number of Aircraft Leased x Estimated Monthly Lease Cost x Number of Months Aircraft Needed Each Year.

Exhibit D – FS Response to Draft Report



United States
Department of
Agriculture

Forest
Service

Washington Office

14th & Independence SW
P.O. Box 96090
Washington, DC 20090-6090

File Code: 1430
Route To:

Date: MAR 22 2004

Subject: Response to the Office of Inspector General (OIG) Official Draft Report, Audit No. 08601-37-SF, Forest Service Procurement of Firefighting Lead Planes

To: Robert W. Young
Assistant Inspector General for Audit
Office of the Inspector General, USDA

Thank you for the opportunity to review and comment on the official draft OIG Audit Report No. 08601-37-SF. The Forest Service generally concurs with the findings and recommendations and has provided a response to the audit recommendations where we have not reached management decision, recommendation numbers 6 and 7. Note, an estimated completion date has been added for all other recommendations. If you have any questions, please contact Sandy Coleman, Agency Audit Liaison, on (703) 605-4940.

HANK KASHDAN
Acting Associate Deputy Chief for Business Operations/CFO

Enclosure

cc: Larry Brosnan



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United States Department of Agriculture
Forest Service (FS)

Office of Inspector General Audit Report No. 08601-37-SF
Forest Service Procurement of Firefighting Lead Planes

March 11, 2004

FS Response to Official Draft

OIG Recommendation No. 1: Amend the RFP to fully explain the operating environment and conditions under which the aircraft will be flown.

FS Response to Recommendation No. 1: In its written response to the management alert, dated October 8, 2003, the FS stated that the Draft RFP 49-04-01, Part 1, Section B, has been amended, expanding the description of the flight conditions for lead plane and Aerial Supervision Module missions.

OIG Position: We accept FS' management decision on this recommendation. For final action, the FS needs to provide the Office of Chief Financial Officer a copy of RFP-49-04-01, Part 1, Section B, once it has been finalized.

Estimated Completion Date: April 30, 2004

OIG Recommendation No. 2: Amend the RFP to fully explain the FS' plans for test flights including the basis for selecting the aircraft to test and the criteria for evaluating the aircraft tested.

FS Response to Recommendation No. 2: In its written response to the management alert, dated October 8, 2003, the FS stated that the Draft RFP 49-04-01, Part IV, Section L.9, has been amended to include statements that the FS intends to evaluate the aircraft, to include flight testing using updated evaluation criteria in the October 1998 "National Study of Tactical Aerial Resource Management to Support Initial Attack and Large Fire Suppression" study. This evaluation criterion has been modified so other aircraft such as single-engine turbine and current manufactured multi-engine reciprocation aircraft may be used.

OIG Position: We accept FS' management decision on this recommendation. For final action, the FS needs to provide the Office of Chief Financial Officer a copy of RFP-49-04-01, Part IV, Section L.9, once it has been finalized.

Estimated Completion Date: April 30, 2004

OIG Recommendation No. 3: Amend the Source Selection Plan to describe the methodology used for rating the aircraft tested.

FS Response to Recommendation No. 3: In its written response to the management alert, dated October 8, 2003, the FS stated that the Source Selection Plan has been amended to include the methodology for rating the aircraft tested.

OIG Position: We accept FS' management decision on this recommendation. For final action, the FS needs to provide the Office of Chief Financial Officer a copy of the Source Selection Plan.

Estimated Completion Date: April 30, 2004

OIG Recommendation No. 4: Amend the RFP to specify the need for more stringent maintenance and inspections of the aircraft used in an aerial firefighting environment.

FS Response to Recommendation No. 4: In its written response to the management alert, dated October 8, 2003, the FS stated that the Draft RFP 49-04-01, Part IV, Section L.9, has been amended to require a maintenance plan which includes an accelerated structural inspection program addressing the flight conditions for lead plane and Aerial Supervision Module missions.

OIG Position: We accept FS' management decision on this recommendation. For final action, the FS needs to provide the Office of Chief Financial Officer a copy of RFP-49-04-01, Part IV, Section L.9, once it has been finalized.

Estimated Completion Date: April 30, 2004

OIG Recommendation No. 5: Amend the RFP to require that all aircraft be available only during the firefighting season unless the FS can justify keeping some of the aircraft during the off-season for administrative purposes.

FS Response to Recommendation No. 5: In its written response to the management alert, dated October 8, 2003, the FS stated that at this late date, it is not possible to change RFP 49-03-08 without incurring significant delays. However, it is interested in addressing this issue in the following ways. First, the FS plans to review the potential cost savings to the government if it were to contract lead planes on a seasonal basis rather than year-round. Second, the FS will re-evaluate its aircraft needs to determine if it can take advantage of short-term or seasonal contracts. Both actions will be completed by December 31, 2003, and will be given full consideration prior to the FS awarding any lead plane contracts. The FS feels that by taking

these actions, it can adequately address our concerns without incurring additional delays in the procurement process.

OIG Position: We accept FS' management decision on this recommendation. For final action, the FS needs to provide the Office of Chief Financial Officer documentation supporting its decision regarding the number of aircraft to keep during the off-season for administrative purposes.

Estimated Completion Date: April 30, 2004

OIG Recommendation No. 6: Determine the cost savings to the Government if the pilots are contracted out. If the cost savings are significant, also contract out for pilots.

FS Response to Recommendation No. 6: In its written response to the management alert, dated November 5, 2003, the FS stated that it will review the potential cost savings for lead plane pilots based on the results of the decision on the length of the contract as determined in the corrective action for Recommendation No. 5. The FS also plans to conduct Business Process Reengineering and Competitive Sourcing Studies of their Fire and Aviation Management organization in FY 2006 and FY 2007. The FS plans to review the entire Fire and Aviation Management organization and complete contracting strategies, Business Processing Reengineering, and other reviews to determine which positions can best be performed by contractors. The aviation program is an integral part of the Fire and Aviation Management organization and should be studied within the context of the overall strategy and not as a single function. Under the current system of lead plane supervision of air tankers, the pilots' duties directly affect the life and safety of government, contract, and civilian personnel. The pilots also make tactical decisions that commit the government to fiscal obligations. These are clearly inherently governmental responsibilities. With the implementation of the Aerial Supervision Module, many of those duties will be assumed by the Air Tactical Group Supervisor. Those positions as well as all Fire and Aviation Management positions will be included in the calendar year 2004 revision of the Federal Activities Inventory Reform Act inventory (a yearly inventory classifying employees' duties) to determine if the pilot function remains inherently governmental, becomes commercial but core, or turns entirely commercial.

OIG Position: To accept management decision on this recommendation, the FS needs to provide a specific timeframe for completing its assessment and deciding on whether to contract out for pilots. The FS also needs to provide documentation supporting its decision.

FS Additional Information to Reach Management Decision: .The original plan was to conduct an in-depth cost analysis on contracting-out pilots in conjunction with Agency plans to conduct Business Process Reengineering and Competitive Sourcing Studies of the Fire and Aviation Management organization. However, the FS Chief issued direction in a February 23, 2004, 1310-1 memo that cancelled all 2004 A-76 studies in order to meet the requirements in Section 340 of PL 108-108 that sets forth numerous requirements for the Secretary in order to continue implementing Competitive Sourcing Studies. The FS will

continue to develop contracting strategies, potential BPRs, and A-76 study plans and will look at various ways to implement cost savings within the aviation program that meet the requirements in Sec 340. The FS will also keep this recommendation under consideration as those plans are developed.

Estimated Completion Date: N/A

OIG Recommendation No. 7: Provide OMB for its review and approval the documentation for the lead plane acquisition under OMB Circulars A-11 and A-94.

FS Response to Recommendation No. 7: OMB Circular A-11 and A-94 studies are currently being prepared by a private contractor and will be provided to OMB for review and approval as soon as they are completed.

Estimated Completion Date: June 30, 2004

Informational copies of this report have been distributed to:

Office of the Chief Financial Officer
Planning and Accountability Division

Director (1)
General Accounting Office (2)