



U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Memorandum

Subject: INFORMATION: Audit Announcement—
Use of Cost-Plus-Award-Fee Contracts Within DOT
Project No. 07F3011F000

Date: May 10, 2007

From: Mark H. Zabarsky *Mark H. Zabarsky*
Deputy Assistant Inspector General
for Financial Management Audits

Reply to: JA-20
Attn of:

To: Senior Procurement Executive

The Office of Inspector General plans to conduct an audit of the use of cost-plus-award-fee contracts. Award fees are included in Government contracts as an incentive to motivate contractors to place particular emphases on certain areas within the contract to ensure attainment of program goals and objectives. A cost-plus-award-fee contract is appropriate to use when it is difficult to measure key elements of performance. Therefore, administration of award-fee contracts involve substantially more effort over the life of a contract than other types of contracts.

Under an award-fee contract, the Government and contractor negotiate a pool of money in advance of signing an award-fee contract and the Government periodically assesses a contractor's work to determine how much of the award-fee pool will be earned based on contractor performance. As of December 31, 2006, the Department had 44 cost-plus-award-fee contracts that had a potential value of about \$3.5 billion.

The objective of this audit is to determine whether cost-plus-award-fee contracts were effectively designed and administered in the best interest of the Government. Specifically, we will determine whether:

- award-fee plans established adequate criteria for evaluating contractor performance and
- the amount of award fees paid to contractors was adequately supported.

The audit will be conducted at selected Operating Administrations within the Department. We will contact your audit liaison to schedule an entrance conference. If you have any questions or require additional information concerning this audit, please call me at (202) 366-2001 or Terrence Letko, Program Director, at (202) 366-9917.

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cc: Acting Assistant Secretary for Administration
Assistant Secretary for Budget and Programs/Chief
Financial Officer
Procurement Council Members
Martin Gertel, M-1