

**AUDIT  
REPORT**

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**NASA CONTRACTS FOR PROFESSIONAL,  
ADMINISTRATIVE, AND MANAGEMENT  
SUPPORT SERVICES**

October 16, 2002

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National Aeronautics and  
Space Administration

**OFFICE OF INSPECTOR GENERAL**

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## **Acronyms**

AS&M	Analytical Services and Materials, Inc.
CO	Contracting Officer
CPSR	Contractor Purchasing System Review
DOD	Department of Defense
FAR	Federal Acquisition Regulation
FY	Fiscal Year
OFPP	Office of Federal Procurement Policy
PBC	Performance-Based Contracts

October 16, 2002

W

TO: R/Associate Administrator for Office of Aerospace Technology  
D/Director, Ames Research Center  
X/Director, Dryden Flight Research Center  
0100/Director, John H. Glenn Research Center at Lewis Field

FROM: W/Assistant Inspector General for Audits

SUBJECT: Final Report on Audit of NASA Contracts for Professional,  
Administrative, and Management Support Services  
Assignment Number A-01-046-00  
Report Number IG-03-003

The subject final report is provided for your information and use. Please refer to the Executive Summary for the overall audit results. Our evaluation of your response has been incorporated into the body of the report. We consider management's proposed or completed, corrective actions responsive for all recommendations. The corrective actions completed for recommendations 1, 2, 3, and 6 are sufficient to close the recommendations for reporting purposes. Recommendations 4, 5, and 7 will remain open for reporting purposes until corrective actions are complete. Please notify us when actions have been completed on the recommendations, including the extent of testing performed to ensure corrective actions are effective. The final report distribution is in Appendix G.

We appreciate the courtesies extended to the audit staff. If you have questions concerning the report, please contact Mr. Lorne A. Dear, Program Director, Procurement Audits, at (818) 354-5634; Mr. Patrick A. Iler, Program Manager, at (216) 433-5408; or Mr. Michael P. Bruns, Auditor-in-Charge, at (216) 433-8918.

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# NASA Office of Inspector General

IG-03-003  
A-01-046-00

October 16, 2002

## NASA Contracts for Professional, Administrative, and Management Support Services

### Executive Summary

**Background.** Over the last decade, Federal agencies, including NASA, have substantially increased their purchases of services. Since fiscal year (FY) 1999, service contracts<sup>1</sup> in NASA have accounted for more than half of the Agency's annual contract awards to business firms. In FY 2001, service contracts accounted for about \$5.1 billion (57 percent) of about \$9 billion NASA awarded to business firms. Of the \$5.1 billion in service contracts, professional, administrative, and management support services (hereinafter referred to as support services) contracts accounted for about \$2.7 billion (53 percent) of the total.

Prior NASA Office of Inspector General and Department of Defense (DOD) Office of Inspector General audits identified management control weaknesses related to support services contracts (see Appendix B). These weaknesses included, in part, inadequate competition and a lack of cost control. In addition, DOD contracting officers (CO's) did not use available history from prior contracts to help define costs and reduce risk by awarding firm-fixed-price contracts.

We performed this audit because of NASA's significant amount of support services contracts, which account for more than half of the annual service contract awards, and management control weaknesses in the support services area that were identified in prior audits. We reviewed a total of five support services contracts totaling more than \$499 million as of March 31, 2002. See Appendix C for a list and description of the five contracts.

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<sup>1</sup> Federal Acquisition Regulation Subpart 37.1, "Service Contracts-General," defines a service contract as a contract directly engaging the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to furnish an end supply item. Service contracts are used, for example, for transportation and related services, routine recurring maintenance of real property, and housekeeping and base services.

**Objectives.** The overall audit objective was to determine whether NASA properly awarded and managed its professional, administrative, and management support services contracts. Specifically, at the four NASA Centers visited,<sup>2</sup> we determined whether:

- support services contractors obtained full and open competition for subcontract awards, and
- NASA selected the appropriate contract type for its support services contracts.

Details on our audit scope and methodology are in Appendix A.

**Results of Audit.** NASA can improve its award and management<sup>3</sup> of support services contracts. For three of the five support services contracts reviewed,<sup>4</sup> contractors did not obtain adequate competition for 13 (59 percent) of 22 subcontracts awarded and did not adequately justify the lack of competition for the 13 awards. As a result, NASA has reduced assurance that the selected subcontractors offered fair and reasonable prices for the 13 subcontracts valued at about \$1.3 million (Finding A).

NASA did not maximize opportunities to facilitate the use of fixed-price contracting for routine administrative services with reasonably definite requirements. As a result, NASA assumed more risk than necessary because the use of cost-type contracts rather than fixed-price contracts can minimize the contractor's incentive to control costs and perform effectively. In addition, cost-type contracts can be more costly and burdensome for NASA to administer<sup>5</sup> due to more stringent contract reporting and review requirements.

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<sup>2</sup> The four NASA Centers visited were the Ames Research Center (Ames), Dryden Flight Research Center (Dryden), John H. Glenn Research Center (Glenn), and Langley Research Center (Langley).

<sup>3</sup> NASA's management of support services contracts included CO actions to ensure that contractor subcontract awards were competed and if not competed, that the noncompetitive subcontract awards were adequately justified. Federal Acquisition Regulation Part 44, "Subcontracting Policies and Procedures," contains policies and procedures for CO's to follow in reviewing and approving contractor purchasing systems and providing consent for support services contractors to award subcontracts.

<sup>4</sup> Of the five support services contracts reviewed, three contractors did not adequately justify noncompetitive procurements. The three contractors were SecTek, Inc. at Ames, Analytical Services and Materials, Inc. at Dryden, and InDyne, Inc. at Glenn. We also reviewed subcontract awards made by Northrop Grumman Information Technology, Inc.-Technical Services at Ames and considered the degree of competition obtained acceptable. In addition, we reviewed subcontract awards made by Swales and Associates, Inc. at Langley and identified an issue regarding the competitive process for subcontract awards made to members of independent review teams performing assessments of NASA programs for the Independent Program Assessment Office. However, the NASA Office of Inspections and Assessments questioned this process in a prior report (G-01-019), issued September 28, 2001. Therefore, we plan to compile our data on this issue and provide it to the Inspections and Assessments staff for their use as appropriate.

<sup>5</sup> Some fixed-price contracts may also have incentive fee and/or award fee provisions, which would require additional costs to administer.

For example, a NASA Award Fee Contracting Guide estimated that it would cost \$387,000<sup>6</sup> to administer the award fee process over the life of a 5-year contract (Finding B).

**Recommendations.** We recommended that NASA CO's require contractors to develop and to improve upon company policies for documenting the rationale for noncompetitive subcontract awards and to follow policies for competing subcontracts and documenting noncompetitive procurements. We also recommended that CO's thoroughly document their analysis and approval of contractor subcontract requests and that contract files include contractor consent requests. We further recommended that the NASA CO's collect sufficient historical workload data for routine administrative services to allow for expanded use of fixed-price contracting in future awards when data and circumstances indicate fixed-price contracting is appropriate.

### **Management's Response.**

Management concurred with all of the recommendations. The complete text of management's response is in Appendix F. We consider management's proposed or completed corrective actions responsive.

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<sup>6</sup> We took the example from NASA's June 27, 2001, Award Fee Contracting Guide. NASA issued the Guide to explain the Agency's award fee policy and to provide examples that could not be addressed in the Federal Acquisition Regulation.



## Introduction

The award of all contracts including support services contracts requires the CO to select a contract type that is appropriate to the circumstances of the procurement in question and to document in the contract file why CO's chose the particular contract type.<sup>7</sup> The management of support service contracts requires CO's to adequately oversee the support services contractors' subcontracts<sup>8</sup> and purchasing systems.

Responsibility for overseeing the subcontract awards and purchasing systems depends on whether NASA CO's retain contract administration authority. NASA CO's have the option of retaining contract administration authority for NASA contracts or delegating such authority to the DOD. CO's oversee support services contractor subcontract awards by granting contractors "Consent to Subcontract," which Federal Acquisition Regulation (FAR) Part 2 defines as the CO's written consent for the prime contractor to enter into a particular subcontract. The subcontract awards that support services contractors must submit to CO's for consent vary based on whether the contractor has received a contractor purchasing system review (CPSR)<sup>9</sup> and whether the CO has approved the contractor's purchasing system based on the CPSR results. The CPSR forms the basis for the cognizant<sup>10</sup> CO to grant, withhold, or withdraw approval of the contractor's purchasing system. Without approved purchasing systems, contractors are required to obtain consent to subcontract for their subcontract awards with limited exceptions.<sup>11</sup>

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<sup>7</sup> Exceptions to the documentation requirement are (1) fixed-price acquisitions made under simplified acquisition procedures; (2) contracts on a firm-fixed-price basis other than those for major systems or research and development; and (3) awards on the set-aside portion of sealed bid partial set-asides for small businesses.

<sup>8</sup> To meet contractual requirements, contractors usually procure goods and services from other sources through subcontracts. Federal Acquisition Regulation Part 44 defines a subcontract as any contract entered into by a subcontractor to furnish supplies or services for performance of a prime contract or a subcontract. The term subcontract includes, but is not limited to, purchase orders and modifications to subcontracts.

<sup>9</sup> FAR Part 44 defines a CPSR as the complete evaluation of a contractor's purchasing of materials and services, subcontracting, and subcontract management from development of the requirement through completion of subcontract purpose. The Defense Contract Management Agency usually performs the CPSR. However, if NASA retains contract administration authority, NASA personnel have the authority to perform a CPSR under the guidance in NASA FAR Supplement 1844.302-71.

<sup>10</sup> The cognizant CO is either the NASA CO or the CO within the contract administration office to whom NASA has delegated contract administration functions such as the review and approval of a contractor's purchasing system.

<sup>11</sup> Contractors without approved purchasing systems are required to obtain consent to subcontract for cost-reimbursement, time-and-materials, labor-hour, or letter contracts, and for unpriced actions under fixed-price contracts that exceed the simplified acquisition threshold for (1) cost-reimbursement, time-and-materials, or labor-hour subcontracts; and (2) fixed-price subcontracts that exceed the greater of the simplified acquisition threshold or 5 percent of the total estimated cost of the contract.

NASA's June 2001 Award Fee Contracting Guide states that performance-based contracting<sup>12</sup> is NASA's preferred way of contracting for services. There are two basic groups of contracts: cost reimbursable and fixed-price. FAR Part 37, "Service Contracting," lists a fixed-price performance-based contract (PBC) as the preferred choice of contract type for service contracts. Both Office of Federal Procurement Policy (OFPP) and NASA publications discuss the potential for cost savings by using fixed-price PBC. OFPP statistics show that by converting previously acquired cost-type, non-PBC services to fixed-price, PBC services, cost savings of about 21 percent are possible. The NASA Award Fee Contracting Guide estimated that evaluating the award fee for a 6-month period would cost \$38,700. The \$38,700 included costs for performance monitors,<sup>13</sup> Performance Evaluation Board members,<sup>14</sup> a Fee Determination Official,<sup>15</sup> a recorder,<sup>16</sup> and a CO. Accordingly, the cost of determining award fees, semiannually, over the life of a 5-year contract would be \$387,000.

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<sup>12</sup> Performance-based contracting is the term NASA used to describe its tailored approach to the Office of Federal Procurement Policy's Performance-Based Service Contracting initiative. Performance-based contracting complements the Government's overall approach to managing for results and can reduce unnecessary administration costs.

<sup>13</sup> A performance monitor is responsible for monitoring, evaluating, and assessing contractor performance in assigned areas.

<sup>14</sup> A Performance Evaluation Board member conducts periodic evaluations of contractor performance and submits a Performance Evaluation Board Report to the Fee Determination Official covering the Board's findings and recommendations for each evaluation period.

<sup>15</sup> A Fee Determination Official's primary responsibility is to determine the award fee earned and payable for each evaluation period.

<sup>16</sup> A recorder gathers performance data from monitors.

## **Findings and Recommendations**

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### **Finding A. Competition for Subcontract Awards**

Support services contractors did not obtain full and open competition for subcontract awards and did not adequately justify the lack of competition. Specifically, three NASA support services contractors<sup>17</sup> did not adequately compete and justify noncompetitive procurements for 13 (59 percent) of 22 subcontracts reviewed. This occurred because support services contractors did not follow company policy for obtaining competition or documenting noncompetitive procurements and because contractor policies for documenting noncompetitive procurements were inadequate. In addition, although NASA CO's at Dryden and Glenn granted consent to subcontract, the CO's FAR-required analyses of support services contractor requests to award subcontracts were inadequate. As a result, NASA had reduced assurance that the selected subcontractors offered a fair and reasonable price for the 13 subcontracts valued at about \$1.3 million.

#### ***Competition Policies and Procedures***

**FAR Requirements.** FAR Part 6, "Competition Requirements," directs CO's to take specific actions to ensure compliance with Government policy on full and open competition in Government contract awards. The CO must solicit offers from as many potential sources as is practical. To identify potential sources, the CO is required to conduct market research, document the market research, and retain the documentation in the contract file. A CO can award a noncompetitive procurement when only a single qualified source is available to perform the contract requirements.<sup>18</sup> However, the CO must prepare a written justification explaining why a noncompetitive procurement is appropriate. FAR 6.303-2, "Content," requires, at a minimum, that the justification include a description of the market research conducted and the results or the stated reason for not performing market research. In addition, the CO should describe why the anticipated cost is fair and reasonable, identify the statutory authority permitting other than full and open competition, and demonstrate that the proposed subcontractor's unique capability requires use of the statutory authority cited. The CO should also describe the planned actions to remove barriers to competition for similar future procurements. Lastly, depending on the dollar amount of the noncompetitive procurement, the CO must have the proper authority sign off as the approving official. These requirements apply to all noncompetitive procurements exceeding the simplified acquisition threshold of \$100,000.

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<sup>17</sup> None of the three support services contractors had approved purchasing systems. However, a CO at the Lyndon B. Johnson Space Center (Johnson) approved InDyne's purchasing system at Johnson only based on a review of subcontracts awarded under Johnson's contract with InDyne, Inc.

<sup>18</sup> FAR 6.302 outlines seven statutory authorities that permit contracting without providing for full and open competition. The existence of only one responsible source is one of the seven statutory authorities that allows for contracting without full and open competition.

FAR Part 13, “Simplified Acquisition Procedures,” which applies to acquisitions of supplies and services costing less than \$100,000, requires CO’s to promote competition to the maximum extent practical. Documentation requirements stated in FAR Part 13 for noncompetitive procurements are not as stringent as those in FAR Part 6. Nonetheless, Part 13 requires the CO to explain in the contract file why competition was limited to only one source and why the price obtained for the noncompetitive procurement was reasonable. The CO may base the statement of price reasonableness on various factors such as the extent of market research performed, a comparison with similar items in a related industry, or a comparison to an independent Government estimate.

To require that contractors competitively award subcontracts to the maximum extent practical, the CO incorporates FAR clause 52.244-5, “Competition in Subcontracting,” into contracts. However, the CO was not required to incorporate the contract clause into the Analytical Services and Materials, Inc. (AS&M), contract we reviewed, which expired April 30, 2002, because it was a fixed-price contract.<sup>19</sup> However, the CO did incorporate the clause into the follow-on award, also made to AS&M, which began May 1, 2002.

FAR Part 44, “Subcontracting Policies and Procedures,” requires CO’s to incorporate into contracts the FAR consent-related clauses at 52.244-1, “Subcontracts (Fixed-Price Contracts) (February 1995)”<sup>20</sup> and 52.244-2, “Subcontracts (August 1998).” These clauses define the contractor’s requirements for seeking consent to subcontract and for providing information to the NASA CO in advance of placing any subcontract. The NASA CO’s incorporated these clauses into the support services contracts we reviewed. Part 44 also requires the CO responsible for the consent to subcontract to review the contractors’ supporting data and to consider 13 elements (see Appendix D) before granting consent to subcontract. The FAR emphasizes that CO’s be particularly careful before granting consent when contractors propose noncompetitive subcontracts or when contractors do not have approved purchasing systems.

**NASA Requirements and Guidance.** The NASA FAR Supplement and other NASA guidance assist CO’s in performing oversight duties. The NASA FAR Supplement Part 1844, “Subcontracting Policies and Procedures,” requires NASA CO’s to retain consent to subcontract authority unless delegation is approved in writing by the procurement officer. NASA CO’s retained the authority to grant consent for the three contracts in question. In addition, NASA FAR Supplement Subpart 1844.302.70 requires that CO’s be aware of purchasing system approval status for contracts within their cognizance. None of the three contractors with inadequately supported noncompetitive procurements

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<sup>19</sup> The AS&M contract was a fixed-price requirements contract that included fixed labor rates and flexible hours for delivery orders. In addition, the contract provided for materials, subcontracts, and other direct costs to be acquired at cost.

<sup>20</sup> FAR Clause 52.244-1 was superseded by FAR Clause 52-244-2 for all types of contracts in August 1998. The AS&M contract included FAR clause 52.244-1, and the InDyne, Inc. and SecTek, Inc. contracts included FAR clause 52.244-2.

had approved purchasing systems. A NASA Self-Assessment Guide,<sup>21</sup> addresses subcontract consent files and states that the contract file should contain information showing the consents requested, analysis, and actual consents granted. The Guide also states that contractors should support consent requests with adequate information and that evidence of adequate CO analysis should exist. In addition, the Ames site on NASA's Virtual Procurement Office,<sup>22</sup> accessible through NASA's Procurement Library Web Site, contains a copy of a subcontract consent checklist as a tool to assist CO's in making consent determinations. However, use of the consent checklist is not mandatory.

**Company Policies and Procedures.** NASA relies on contractors to incorporate FAR and NASA FAR Supplement requirements identified in their contracts into company policies and procedures and to follow those company policies and procedures. However, FAR requirements do not necessarily bind the prime contractor to utilize the same criteria as the CO in competing subcontracts and documenting noncompetitive procurements. Therefore, company policies vary, and it is the responsibility of the CPSR review team to determine their adequacy. In the absence of a CPSR, NASA CO's are responsible for granting contractors consent to subcontract and for being aware of company policies related to competition and documenting noncompetitive procurements.

CO's are required by FAR Part 44 to analyze contractor requests to award subcontracts before granting consent and to be particularly careful when subcontracts are proposed for award on a non-competitive basis. Therefore, NASA CO's performing this analysis rely on contractors to develop competitive policies that reasonably reflect FAR requirements and to follow those policies. Company policies and procedures for obtaining competition and justifying noncompetitive procurements differed for the three contractors. All three contractors had procedures encouraging competition. InDyne, Inc. and SecTek, Inc. procedures required each contractor to obtain at least three bids, while AS&M procedures encouraged full and open competition.

However, the three contractors had differing policies for justifying noncompetitive procurements. InDyne, Inc. policy requires the requisitioner to justify noncompetitive acquisitions and states that support for noncompetitive acquisitions exceeding \$25,000 should fully explain the reasons for the noncompetitive procurement. SecTek, Inc. has no policy/guidance for documenting noncompetitive procurements, while AS&M policy mirrors the FAR Part 6 requirements.

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<sup>21</sup> The Self-Assessment Guide is intended for use by Center procurement staff in support of annual Center internal procurement reviews.

<sup>22</sup> NASA's Virtual Procurement Office is meant to be a one-stop reference tool with templates and samples for CO use. It may contain sample documents that are unique to each Center.

***Full and Open Competition Not Obtained for Subcontracts***

For the three contracts reviewed, support services contractors did not adequately compete 13 (59 percent) of 22 sampled subcontracts and did not provide adequate justifications for the 13 noncompetitive awards. A summary, by contractor, of the sampled subcontracts follows:

**Noncompetitive Subcontracts**

<u>Subcontracts Reviewed</u>			<u>Inadequately Justified Noncompetitive Subcontracts</u>		
Contractor	Number	Value	Number	Percent Not Completed	Value
<u>(a)</u>	<u>(b)</u>	<u>(c)</u>	<u>(d)</u>	<u>(d/b)</u>	<u>(e)</u>
InDyne, Inc.	11	\$1,656,195	7	64	\$ 860,086
AS&M	6	538,999	3	50	369,836
SecTek, Inc.	<u>5</u>	<u>55,849</u>	<u>3</u>	<u>60</u>	<u>27,722</u>
<b>Totals</b>	<b><u>22</u></b>	<b><u>\$2,251,043</u></b>	<b><u>13</u></b>	<b><u>59</u></b>	<b><u>\$1,257,644</u></b>

**InDyne, Inc. Subcontracts Reviewed.** Seven of 11 InDyne, Inc. subcontracts we reviewed were not competed, and the contractor’s support for the 7 noncompetitive procurements was inadequate. InDyne, Inc. solicited only one source for all seven subcontracts, although company policy required three source solicitations to promote competition. Three subcontracts totaling \$321,495 were for office design/layout and specification services. The provided services included interviews, development of typical workstations, furniture layouts, and furniture budgets. For all three subcontracts, the contractor’s rationale for the lack of competition did not fully support the procurement and did not reflect reasonable requirements for justifying noncompetitive procurements such as those contained in the FAR Part 6. The InDyne, Inc. subcontracts administrator’s justification for the noncompetitive procurement indicated that it was in the Government’s best interest to retain the subcontractor due to its demonstrated capability in all areas of the statement of work and because the cost charged to NASA was reasonable.<sup>23</sup> However, none of the justifications included the information required by FAR 6.303-2 such as the market research performed or the unique capability of the selected vendor as explanations for the repeated noncompetitive awards to this subcontractor.

**AS&M Subcontracts.** AS&M staff did not adequately support three noncompetitive subcontract awards. For example, one noncompetitive subcontract was for modifications to a B-52 pylon. The justification for the noncompetitive procurement contained limited detail and stated only that the subcontract was not competed because the previous

<sup>23</sup> The InDyne, Inc. Subcontract Administrator at Glenn prepared a statement of price reasonableness for all noncompetitive subcontracts we reviewed although corporate policy did not specify that such a statement was needed.

contractor had used the same subcontractor and that because the B-52 is an old aircraft, few designers are familiar with the B-52 pylon. The justification was one of three that did not reflect support required by company policy such as evidence that adequate market research occurred and that the price obtained was reasonable. In addition, AS&M management officials did not sign and date the three justifications; signature and dating are required by company policy.

**SecTek, Inc. Subcontracts.** Contract files for three of five subcontracts awarded by SecTek, Inc. did not contain evidence that the contractor solicited a minimum of three bids as required by company policy. The finance analyst responsible for obtaining quotes and documenting the contract files told us he had obtained competitive bids but had not documented the files. Therefore, the contractor did not consider it necessary to prepare a noncompetitive justification. Consequently, NASA lacks assurance that the contractor competitively awarded the subcontracts.

### ***Compliance With Company Requirements***

NASA CO's rely on contractors to competitively award subcontracts in accordance with company policies that reasonably reflect FAR requirements, but NASA's reliance failed because the support services contractors did not adequately compete subcontracts or adequately justify noncompetitive procurements. The contractors did not follow company policies for obtaining competition and documenting noncompetitive procurements. In addition, company policies for documenting noncompetitive procurements were inadequate. Specifically, the three contractors did not (1) follow company policies for obtaining competition, (2) follow company policies for documenting noncompetitive procurements, or (3) develop adequate company policy for documenting the justification for noncompetitive procurements.

**Following Company Policies for Competing Subcontracts.** InDyne, Inc., SecTek, Inc., and AS&M procurement staff did not comply with company policies for competing subcontract awards. Subcontracts awarded by both InDyne, Inc. and SecTek, Inc. reflected a lack of competition despite policies at both companies requiring that at least three solicitations be obtained. In addition, AS&M staff did not always compete subcontract awards although company policy encouraged full and open competition.

**Following Company Policies for Documenting Noncompetitive Procurements.** AS&M did not comply with company policy for supporting noncompetitive procurements. Although AS&M developed procedures for encouraging full and open competition and supporting noncompetitive procurements in February 2000 that mirrored FAR Part 6 requirements, documentation justifying three noncompetitive procurements did not comply with company policies. The contractor did not perform adequate market research, provide price reasonableness support, or sign and date justifications for the noncompetitive procurements, although company procedures required such actions. The contractor's site manager could not explain why the deficiencies occurred.

### **Developing Company Policies for Documenting Noncompetitive Procurements.**

InDyne, Inc. and SecTek, Inc. policies for documenting noncompetitive procurements were inadequate. Section 11, “Competitive Acquisitions,” of the InDyne, Inc. Procurement Manual, dated April 1, 2000, contains guidance for justifying noncompetitive procurements. The guidance states that the requisitioner should fully explain and support the reasons for a noncompetitive procurement. This policy is vague and subject to varying interpretations by staff because requiring a “full explanation” is a subjective requirement. SecTek, Inc. has no policies in place to justify noncompetitive procurements. Personnel providing support for noncompetitive procurements need specific guidance to ensure that consistent and standardized justifications are prepared for noncompetitive procurements. An example of specific information needed to adequately justify a noncompetitive procurement could include:

- the extent of market research performed,
- the circumstances permitting other than full and open competition,
- a statement that the anticipated cost will be fair and reasonable,
- the actions to be taken to remove barriers to competition for future procurements, and
- a provision for signatory review/approval from an official above the requisitioner.

**NASA CO Analysis of Subcontract Requests.** The NASA CO analysis of contractor requests to award subcontracts for InDyne, Inc. and AS&M subcontract awards was inadequate. To support the granting of consent, contract files should contain information showing the consents requested, the CO’s analysis, and the actual consent letter. However, neither the InDyne, Inc. nor AS&M contract files we reviewed contained evidence that NASA CO’s analyzed the 13 FAR Part 44 elements required before granting consent to subcontract. For example, the InDyne, Inc. contract file did not contain the contractor consent requests or the CO’s analysis of the consent request.<sup>24</sup> Although the CO had granted consent as of May 2000 for all purchases under for the AS&M contract, the contract files contained no evidence of the CO’s analysis of the lack of competition or the price reasonableness of the noncompetitive procurement. With respect to SecTek, Inc. subcontract awards, consent to subcontract and the resulting analysis by the CO were not required because the subcontract awards reviewed were fixed price and under the simplified acquisition threshold.

### ***NASA’s Increased Risk***

Because support services contractors at Ames, Dryden, and Glenn did not fully and openly compete subcontract awards or adequately justify their noncompetitive procurements, NASA had reduced assurance that it obtained fair and reasonable prices. NASA’s risk

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<sup>24</sup> The Glenn contract files contained some letters from the CO to InDyne, Inc. granting consent to subcontract. However, the CO acknowledged consent letters did not exist for all subcontracts for which consent was required.



relative to the fairness of subcontract prices also increased because CO's did not adequately document their reviews of various elements required by the FAR before granting contractors consent to subcontract.

## **Recommendations for Corrective Action**

**1. The Ames Center Director should direct the CO for the Sectek, Inc. contract (NAS2-98068) to require the contractor to develop adequate policies for documenting the justifications for noncompetitive procurements.**

**Management's Response.** Concur. NASA sent the contractor a letter dated September 6, 2002, informing them of the necessity to follow FAR requirements and company policies in competing subcontracts and purchase orders, and documenting the rationale for noncompetitive procurements. The complete text of management's response is in Appendix F.

**Evaluation of Management's Response.** Management's corrective action is responsive to the recommendation. Based on our review of the CO's letter to the contractor which addressed the need to adequately document the rationale for noncompetitive procurements, the recommendation is resolved and dispositioned and will be closed.

**The Dryden Center Director should direct the CO for the AS&M contract (NAS4-02021) to:**

**2. Require the contractor to follow company policy in competing subcontracts and in documenting noncompetitive procurements.**

**Management's Response.** Concur. The CO will issue a letter to the contractor by October 31, 2002 directing that the contractor follow prescribed company policy (see Appendix F).

**Evaluation of Management's Response.** Management's corrective action is responsive to the recommendation. Based on our review of the CO's September 25, 2002, letter to the contractor, which addressed the need for competition and adequate documentation for noncompetitive procurements, the recommendation is resolved and dispositioned and will be closed.

**3. Document in the contract file the CO's determination to grant consent to subcontract, and include in the contract file the consent request, the CO's analysis, and the letter granting consent.**

**Management's Response.** Concur. The Chief of Acquisitions will issue a letter before October 31, 2002 instructing the CO to document the contract file in accordance with the recommendation (see Appendix F).

**Evaluation of Management's Response.** Management's planned action is responsive to the recommendation. The Dryden Procurement Officer issued a letter to procurement staff dated September 25, 2002, that required CO's to verify that contractors are following FAR requirements for subcontracts and to document the CO's consent to subcontract in the contract file. Based on our review of that letter, the recommendation is resolved and dispositioned and will be closed.

**The Glenn Center Director should direct the CO for the InDyne, Inc. contract (NAS3-99179) to:**

**4. Require the contractor to strengthen company policies for documenting the justifications for noncompetitive procurements.**

**Management's Response.** Concur. The CO will require the contractor to strengthen company policies for documenting the justifications for noncompetitive procurements before January 31, 2003 (see Appendix F).

**Evaluation of Management's Response.** Management's planned action is responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until agreed-to corrective actions are completed.

**5. Document in the contract file the CO's determination to grant consent to subcontract, and include in the contract file the consent request, the CO's analysis, and the letter granting consent.**

**Management's Response.** Concur. The CO agrees to document the determination to grant consent, and to include in the contract file the consent request, analysis documentation, and the letter granting consent. The CO will complete these actions by January 31, 2003 (see Appendix F).

**Evaluation of Management's Response.** Management's planned actions are responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until agreed-to corrective actions are completed.

## **Finding B. Fixed-Price Contracting**

NASA CO's did not maximize opportunities to facilitate the use of fixed-price contracting for routine administrative services with reasonably definite requirements. Specifically, two existing cost-type support services contracts we reviewed contained routine administrative services that may have been suitable for fixed-price contracting.<sup>25</sup> CO's appropriately justified the use of cost-type contracts for both contracts because of the circumstances and data available at the time of contract award. The CO's at Ames and Glenn did not maximize fixed-price opportunities because they lacked adequate historical workload data to provide for realistic estimates of the probable cost<sup>26</sup> for such services. In addition, at the time of contract award, the CO's were concerned about uncertainties over possible changes in service requirements and about uncertainties related to converting to a PBC. As a result, NASA assumed more risk than may have been necessary for routine administrative services because the use of cost rather than fixed-price contracts can minimize the contractor's incentive to control costs and perform effectively. In addition, the costs to administer cost-type contracts can be significant. For example, NASA award fee contracting guidance provides an example that showed costs to administer the award fee process over the life of a 5-year contract totaled \$387,000. NASA could experience cost savings by converting cost-type routine administrative services to fixed-price services in future awards.

### ***Contract Type Guidance***

**FAR Guidance.** FAR Part 16, "Types of Contracts," provides guidance for selecting a contract type appropriate to the circumstances of the procurement in question. Part 16 states "a wide selection of contract types is available to the Government and contractors in order to provide needed flexibility in acquiring the large variety and volume of supplies and services required by agencies." FAR Subpart 16.103, "Negotiating contract type," states that selecting a contract type is generally a matter of negotiation and requires sound judgment. FAR 16.103 also states that a firm-fixed-price contract, which best utilizes the basic profit motive of a business enterprise shall be used when risk involved is minimal or can be predicted with an acceptable degree of certainty. However, when a reasonable basis for fixed pricing is lacking, CO's should consider other contract types and should direct negotiations to selecting a contract type (or combination of types), that

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<sup>25</sup> The two contracts were Glenn's contract with InDyne, Inc. and the Ames contract with SecTek, Inc.

<sup>26</sup> The Glenn CO had historical data to prepare a probable cost estimate for the services. However, the Glenn CO did not have the performance data correlated to the cost data to permit a realistic estimate of the probable cost of performance. Management decided to include performance standards in the InDyne, Inc. contract in order to determine the cost of performance.

appropriately ties profit to contractor performance.<sup>27</sup> In addition, FAR 16.103 states that CO's should avoid protracted use of a cost-reimbursement or time-and-materials contract<sup>28</sup> after experience provides a basis for firmer pricing.<sup>29</sup>

FAR Subpart 16.2, "Fixed-Price Contracts," states that a firm-fixed-price contract is suitable for acquiring supplies or services on the basis of reasonably definite functional or detailed specifications when the CO can establish fair and reasonable prices at the outset, such as when available cost or pricing information permits realistic estimates of the probable costs of performance. FAR 16.2 also states that a firm-fixed-price contract provides maximum incentive for the contractor to control costs and perform effectively and imposes a minimum administrative burden upon the contracting parties.

FAR Part 37, "Service Contracting," requires the use of performance-based contracting to the maximum extent practicable and establishes the following order of precedence for selecting service contract types: (1) fixed-price PBC, (2) a PBC that is not fixed-price, and (3) a contract that is not performance based. FAR Subpart 37.602-5, "Follow-on and repetitive requirements," states that when acquiring services that have been provided by contract, agencies shall rely on the experience gained from the prior contract to incorporate performance-based contracting methods to the maximum extent practical. The FAR states this will facilitate the use of fixed-price contracts for such requirements for services.

**OFPP Guidance.** The OFPP published a "Guide to Best Practices for Performance-Based Service Contracting," in October 1998,<sup>30</sup> to assist agencies in developing policies and procedures for implementing performance-based contracting. Performance-based contracting emphasizes objective, measurable performance requirements and quality standards in developing statements of work and determining contract type. The two support services contracts we reviewed with routine administrative services are PBC. The "Best Practices" guide states that when acquiring services that were previously acquired by contract, agencies should rely on knowledge and historical data gained from the prior contract to incorporate performance-based contracting methods. The OFPP report on the results of a performance-based contracting 1996 pilot project demonstrated that converting cost-reimbursement, non-PBC to fixed-price PBC significantly reduced contract prices. On average, prices for these contracts were reduced by 21 percent.

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<sup>27</sup> Glenn management believes that it complied with the intent of FAR 16.103 by developing technical performance standards and tying the contractor's technical fee to those performance standards.

<sup>28</sup> A time-and-materials contract provides for acquiring services on the basis of direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit. Materials are acquired at cost, including, if appropriate, material handling costs as part of materials cost.

<sup>29</sup> Glenn management believed that it needed more experience in PBC before making a decision to move to a fixed-price contract.

<sup>30</sup> This guide was not available at the time the statement of work was written for the two contracts in question. Although the InDyne, Inc. contract was not awarded until November 1999, the statement of work was rewritten early in 1998, and Glenn was enjoined from issuing the request for proposal for some time as a result of a lawsuit filed by the prior contractor.

### *Support Services Contracts With Possible Fixed-Price Elements*

Two of the support services contracts we reviewed contained cost-type requirements for routine administrative functions that may be suitable for a fixed-price contract.

- Glenn awarded InDyne, Inc.<sup>31</sup> a cost-type contract<sup>32</sup> in November 1999 for logistics, scientific and technical publishing, imaging technology, metrology services, library, and administrative and clerical services. The cost-type contract, valued initially at about \$98 million,<sup>33</sup> included routine administrative logistics services such as equipment, property, and supply management; and transportation services. Such routine administrative services may have been suitable for a fixed-price PBC. An excerpt from the “Determination and Findings”<sup>34</sup> includes a statement by the CO that some logistics tasks were relatively fixed in type and quantity. Further, Glenn had more than 8-years experience with similar services under a prior support services contract. However, the CO stated that only a few months of historical performance data existed.
- Ames awarded a cost-type contract<sup>35</sup> to SecTek, Inc. in June 1998 for protective services that included administrative support services, security force services, and technical security services. The cost-type contract, valued initially at about \$22 million, included routine administrative protective services such as Visitor/Employee Badging; Protective Services Records Management; and Security Education, Awareness, and Training that may have been suitable for a fixed-price PBC. The CO originally planned to use a fixed-price type contract but decided on a cost-type contract due to various uncertainties.<sup>36</sup> The CO stated in the June 1997 “Determination and Findings” supporting the use of a cost-type award that protective services included routine and nonroutine security activities. Ames had about 7-years experience with similar services under two prior contracts.

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<sup>31</sup> As of the November 1, 1999 award date, the company name was Information Dynamics, Inc.. The company changed the name to InDyne, Inc. on November 8, 1999.

<sup>32</sup> The cost-type contract included an incentive fee and award fee, and the period of performance is 5 years.

<sup>33</sup> The value of the logistics services, after deducting about \$10 million dollars spent for Government supplies over the 5-year contract is about \$5 million dollars.

<sup>34</sup> FAR Subpart 1.7 defines “Determinations and Findings,” as a special form of written approval by an authorized official that is required as a prerequisite to taking certain contract actions. In this case, and for the other support services contracts discussed in this report, the Determination and Finding supports the CO’s decision to use a cost-type award. The determination is a conclusion or decision supported by the CO’s findings. The findings are statements of fact or rationale essential to support the determination.

<sup>35</sup> The cost-type contract includes a fixed-fee, and the period of performance is 5 years.

<sup>36</sup> The various uncertainties included budget issues and the status of Moffett Federal Airfield. Near the time of contract award, the Moffett Federal Airfield actively sought commercial and noncommercial tenants that could have affected the level of protective services. Other possible uncertainties affecting the level of services included NASA assuming responsibility for Base Housing, the building of a light rail station at the South Gate where Moffett security would provide the first response to any security-related calls, and the conversion of Hanger 1 into an Air and Space Museum.

**Other NASA Centers Using Fixed-Price Contracts for Similar Services.** Other NASA Centers currently use or plan to use fixed-price contracts for support services similar to those provided at Glenn and Ames. For example, the Center operations support services contract at Johnson provides services such as equipment and property management, supply management, and transportation services that are similar to services provided in Glenn’s InDyne, Inc. contract. Johnson’s hybrid contract<sup>37</sup> for Center operations support services consists of 11 cost-reimbursable services and 3 services awarded on a firm-fixed-price basis. The manager of Johnson’s Institutional Procurement Office stated that the Center initially intended to use a firm-fixed-price award for its operations support services contract. In September 2000, NASA Headquarters approved an acquisition strategy for the follow-on Center operations support services contract that would have resulted in a firm-fixed-price PBC. When Johnson technical personnel attempted to define requirements, a lack of useful historical data precluded the use of a fixed-price contract. Therefore, NASA Headquarters procurement officials and facilities maintenance personnel encouraged Johnson procurement officials to require the contractor to collect and report workload data for all cost-type services. Headquarters believed the use of workload data would enable the CO to develop a realistic estimate of the costs of performance to enable the use of a fixed-price award for the future follow-on contract.

Three NASA Centers (Goddard Space Flight Center, Glenn, and the John C. Stennis Space Center) use fixed-price contracts for protective services. Glenn has a fixed-price security contract with SecTek, Inc.. Ames, however, used a cost-type contract for its protective services contract with SecTek, Inc. but justified the cost-type contract due to various major uncertainties.

### ***Lack of Historical Data and Uncertainties Affect Contract Type***

**Lack of Historical Data.** Glenn did not use a use a fixed-price contract for routine administrative services because of a lack of historical cost of performance data. At the time of the InDyne, Inc. contract award, the CO cited the lack of historical data as an obstacle to using fixed pricing. The “Determination and Findings” statement supporting the use of a cost-type contract reads, in part:

The services to be provided under the contract cannot be defined sufficiently to enable negotiation of a reasonable fixed-price for the effort.... Some of the logistics tasks are the only tasks included in the MOC 1[Management Operations Contract] contract that are relatively

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<sup>37</sup> As stated in NASA’s June 27, 2001, Award Fee Contracting Guide, situations may exist where portions of a contract effort, or certain performance aspects are suited to objective measurement, while others are not. In these situations, CO’s can combine aspects of more than one contract type into a single contract, creating a hybrid contract. Glenn management is concerned that hybrid contracts increase the risk of NASA being mischarged.

fixed in type and quantity; however, sufficient historical workload data has not been obtained at the task level to provide a reasonable basis for a firm-fixed-price.

The CO noted that only a few months of historical data existed that was related to the development of data for performance standards. Although a significant amount of data accumulated over the course of the prior contract, the program office's lack of useful data for performance standard development affected the CO's ability to use a fixed-price contract. Glenn management has told us that the CO had gathered sufficient historical data throughout the current InDyne, Inc. contract. Therefore, Glenn management firmly believed that sufficient historical data will be available to allow for an informed contract type decision for the follow-on award.

**Uncertainties Affect Contract Type.** CO's at Glenn and Ames cited uncertainties at the time of contract award as reasons for using cost-type contracts. The Glenn CO could not define services due to budget cuts that occurred during the years preceding the contract award. According to Glenn program officials, funding of research programs along with institutional funding has been extremely unpredictable in the last 8 years. In addition, Glenn management was concerned about converting to a fixed-price contract without prior PBC experience to determine whether it was possible to move to a fixed-price contract.

The Ames CO stated in a procurement plan that the year-to-year uncertainties associated with the budget and the uncertainties of events occurring at Moffett Federal Airfield created the need to increase or decrease the level of protective services provided. The CO determined that due to these uncertainties, a cost-type contract was appropriate in lieu of the fixed-price contract. In addition, the Ames CO stated that the lack of historical data and uncertainties in writing and defining PBC requirements as well as uncertainties expressed by contractors in going from a cost-type, non-PBC award to a fixed-price PBC contributed to the use of a cost-type award. The CO acknowledged that some protective service functions were routine and that valid fixed-price opportunities existed.

### ***Effect of More Fixed-Price Contracting***

The use of fixed-price contracting for routine administrative services could reduce NASA contract administration costs. For example, the use of an award fee results in training for all NASA personnel involved in the award fee process. NASA's administrative costs required to execute the award fee process can be significant. An example taken from NASA's award fee contracting guidance showed that the cost to implement the award fee process over the life of a 5-year contract could total \$387,000. In addition, the use of cost-type contracting rather than fixed-price contracting can minimize the contractor's incentive to control costs and perform effectively. Both the SecTek, Inc. and InDyne, Inc.

contracts come up for renewal soon. The SecTek, Inc. contract expires June 30, 2003, and the InDyne, Inc. contract expires October 31, 2004. NASA has the potential to reduce costs by converting portions of the cost-type contracts for routine administrative services to fixed-price contracts.

## **Recommendations for Corrective Action**

**6. The Director, Ames Research Center, should direct the CO for the SecTek, Inc. contract (NAS2-98068) to collect sufficient historical data for routine administrative services to allow for the use of fixed-price contracting in future awards when the data and circumstances indicate that fixed-price contracting is appropriate.**

**Management's Response.** Concur. The CO has collected historical data over the performance of contract NAS2-98068 for use in determining contract type for the follow-on contract. Management indicated acquisition planning for the follow-on contract is underway, however changes on-going at the Center make it impractical to predict the impact to the contract. The CO is considering contract mechanisms to accommodate these uncertainties. Management considers the recommendation closed. The complete text of management's response is in Appendix F.

**Evaluation of Management's Response.** Management's corrective actions are responsive to the recommendation. Based on our understanding of the contract and management's commitment to consider contract mechanisms to accommodate uncertainties, the recommendation is resolved and dispositioned and will be closed.

**7. The Director, Glenn Research Center, should direct the CO for the InDyne, Inc. contract (NAS3-99179) to utilize the additional historical data gathered under the existing contract for routine administrative services to allow for the use of fixed-price contracting in future awards when the data and circumstances indicate that fixed-price contracting is appropriate.**

**Management's Response.** Concur. The CO will review historical performance standards data gathered under the existing contract for the five logistics areas; property management, freight traffic, stock purchasing, supply management and transportation operations; to allow for the possible use of fixed price contracting in future awards. Management plans to complete this action before January 31, 2003 (see Appendix F).

**Evaluation of Management's Response.** Management's planned actions are responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until agreed-to corrective actions are completed.



## Appendix A. Objectives, Scope, and Methodology

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### Objectives

The overall audit objective was to determine whether NASA properly awarded and managed its professional, administrative, and management support services contracts. Specifically, we determined whether:

- support services contractors obtained full and open competition for subcontract awards, and
- NASA selected the appropriate contract type for its support services contracts.

### Scope and Methodology

The initial scope for the audit was to select two contracts of significant value for review that NASA awarded to small and disadvantaged businesses. Based on the results of our review of the 2 contracts, we expanded our work and selected 3 additional contracts from a universe of the top 40 support services contractors with contract expiration dates in and beyond fiscal year 2003. The selection criteria for the three additional contracts included a combination of factors such as the dollar value and time remaining on the contract award.

We examined contractor policies and procedures, subcontract awards, related task orders and delivery orders, statements of work, justifications for noncompetitive procurements, and file correspondence. We also reviewed a Contractor Purchasing System Review (CPSR) of InDyne, Inc. done at the Lyndon B. Johnson Space Center by the Defense Contract Management Agency CPSR team. We also reviewed documentation pertaining to consent requests, contracting officer (CO) analyses, and actual consents.

We also reviewed documents related to contract type such as procurement plans and minutes of acquisition strategy meetings and Determination and Findings statements.<sup>38</sup> We discussed the rationale for contract-type decisions with NASA CO's and procurement officials at several Centers and with program officials such as managers from the Glenn Research Center (Glenn) Logistics Technical Information Division, and the CO's technical representative for the InDyne, Inc. contract.

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<sup>38</sup> The Federal Acquisition Regulation definition for the Determination and Findings statement is shown in footnote 34.

## **Appendix A**

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### **Use of Computer-Processed Data**

We used computer-generated data from the NASA Headquarters Financial and Contractual Status System to generate our universe of support services contracts. We verified that the selected contracts were properly classified as support services contracts. We did not perform additional testing of the accuracy and validity of the data, but nothing came to our attention to cause us to question the validity of the data.

### **Management Controls Reviewed**

We reviewed management controls over the award of subcontracts and the selection of contract type. We determined that management can improve controls over competition obtained for support services contractors' subcontract awards justifications for noncompetitive procurements and over the CO's contract-type selection process as discussed in Finding B.

### **Audit Field Work**

We performed audit field work from November 2001 through June 2002 at Ames Research Center, Dryden Flight Research Center, Glenn, and the Langley Research Center. We performed the audit in accordance with generally accepted government auditing standards.

## **Appendix B. Summary of Prior Audits and Other Reviews**

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**NASA Office of Inspector General Reviews.** The NASA Office of Inspector General has issued two reports on subcontract management and one report on a contractor's use of professional and consultant services. For copies of those reports visit <http://www.hq.nasa.gov/office/oig/hq/issuedaudits.html>. Details follow.

**“Lockheed Martin Space Operations’ Use of Professional and Consultant Services,” Report Number IG-02-013, March 26, 2002.** NASA can improve its controls over the contractor's use of professional and consultant services, and the contractor's management controls did not ensure compliance with Federal Acquisition Regulation requirements. For two of seven professional and consultant service subcontracts reviewed, Lockheed Martin Space Operations officials had not properly justified noncompetitive procurements. We recommended that the contracting officers for the two contracts in question coordinate with the administrative contracting officers to require the contractor to follow its established procedures by preparing written justifications for future noncompetitive procurements. Management concurred with our recommendation.

**“Allied Signal Subcontract Management,” Report Number IG-99-042, September 16, 1999, and “Raytheon Subcontract Management,” Report Number IG-00-002, December 21, 1999.** Purchasing department buyers for the two contractors did not maintain documentation to support justifications for noncompetitive procurements. The contractors' purchasing policies did not require contractor personnel to keep supporting documentation. Additionally, Government oversight reviews of the contractors' procurement systems did not include examinations of supporting documentation for noncompetitive procurements. As a result, NASA had reduced assurance that contractors maximized competition. In response to our recommendations, NASA management instructed the contractors to maintain adequate documentation in support of noncompetitive procurements. NASA management also took actions to include reviews of supporting documentation in future reviews of the contractors' purchasing systems.

**Department of Defense (DOD) Inspector General Reviews.** The DOD Office of Inspector General issued the following report on professional, administrative, and management support services contracts.

**“Contracts for Professional, Administrative, and Management Support Services,” Report Number D-2000-100, March 10, 2000.** This report discusses a review of procurement procedures for support services contracts at 15 DOD contracting activities and program offices. The report identified problems in each of 105 contract actions. Problems included inadequate technical reviews, inadequate competition, and lack of cost control. In addition, contracting officials did not use available history from prior contracts to help define costs and reduce risks by awarding firm-fixed-price contracts. The DOD Office of Inspector General recommended that the Deputy Under Secretary of

## **Appendix B**

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Defense (Acquisition Reform) develop training on planning and defining requirements for contracts for support services; train contracting and program personnel in the award and administration of contracts for these services; and emphasize, in the training, the need to avoid the kinds of deficiencies noted in the report.

## Appendix C. Contracts Reviewed

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The five contracts we reviewed, their dollar value as of March 31, 2002, and an explanation of the provided services follow:

<u>Contractor</u>	<u>Contract Number</u>	<u>Contract Value</u>
Swales and Associates, Inc.	NAS1-00135	\$240,000,000
SecTek, Inc.	NAS2-98068	22,333,633
Northrop Grumman Information Technology, Inc.-Technical Services –	NAS2-98084	90,382,058
InDyne, Inc.	NAS3-99179	100,852,756
Analytical Services and Materials, Inc. (AS&M)	NAS4-50066	45,750,000
	<b>Total</b>	<b><u>\$499,318,447</u></b>

### **Explanation of Contractor Services**

Swales and Associates, Inc. performs research and development and provides engineering support services to Langley Research Center under a 5-year indefinite delivery-indefinite quantity contract, with a maximum value of \$240 million.

SecTek, Inc. provides protective services to Ames Research Center (Ames) and the Moffett Federal Airfield.

Northrop Grumman Information Technology, Inc.-Technical Services (formerly Logicon, Inc.), provides operations, development, maintenance, and modification of the Simulation Laboratory Facilities to Ames.

InDyne, Inc. provides logistics services, scientific and technical publishing, imaging technology, metrology services, library, and administrative and clerical services to the Glenn Research Center.

AS&M provides engineering and technical services in support of Dryden Flight Research Center projects and functions.

## **Appendix D. Subcontract Consent Checklist**

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In accordance with Federal Acquisition Regulation (FAR) Subpart 44.202-2, “Considerations,” paragraph (a), the contracting officer responsible for consent to subcontract must, at a minimum, review the request and supporting data and consider the following:

- (1) Is the decision to subcontract consistent with the contractor’s make-or-buy program, if any (see 15.407-2)?
- (2) Is the subcontract for special test equipment or facilities that are available from Government sources (see Subpart 45.3) ?
- (3) Is the selection of the particular supplies, equipment, or services technically justified?
- (4) Has the contractor complied with the prime contract requirements regarding-
  - (i) Small business subcontracting, including, if applicable, its plan for subcontracting with small, veteran owned, service-disabled veteran-owned, HUBZone, small disadvantaged and woman-owned small business concerns (see Part 19); and
  - (ii) Purchase from nonprofit agencies designated by the Committee for Purchase From People Who Are Blind or Severely Disabled (Javits-Wagner-O’Day Act (JWOD) (41U.S.C.48)) (see Part 8)
- (5) Was adequate price competition obtained or its absence properly justified?
- (6) Did the contractor adequately assess and dispose of subcontractors’ alternate proposals, if offered?
- (7) Does the contractor have a sound basis for selecting and determining the responsibility of the particular subcontractor?
- (8) Has the contractor performed adequate cost or price analysis or price comparisons and obtained accurate, complete, and current cost or pricing data, including any required certifications?
- (9) Is the proposed subcontract type appropriate for the risks involved and consistent with current policy?
- (10) Has adequate consideration been obtained for any proposed subcontract that will involve the use of Government-furnished facilities?
- (11) Has the contractor adequately and reasonably translated prime contract technical requirements into subcontract requirements?
- (12) Does the prime contractor comply with applicable cost accounting standards for awarding the subcontract?
- (13) Is the proposed subcontractor on the List of Parties Excluded from Federal Procurement and Nonprocurement Programs (see Subpart 9.4)?

FAR 44.202-2, paragraph (b) states that “particularly careful and thorough consideration under paragraph (a) of the section is necessary when:”

- the prime contractor’s purchasing system or performance is inadequate, and
- subcontracts are proposed for award on a noncompetitive basis.

## Appendix E. Noncompetitive Subcontracts

We reviewed the following noncompetitive subcontracts that were not adequately justified by the contractors. Their accompanying values, by Center and contractor, are also shown:

### Glenn Research Center InDyne, Inc. Subcontracts

INC-06240	FM: Solutions	\$ 86,375	
INC-07443	FM: Solutions	111,485	
INC-08890	FM: Solutions	\$123,635	
	<i>FM: Solutions Subtotal</i>		\$321,495
INC-06225	Harcar and Assoc.	\$54,604	
INC-07445	Harcar and Assoc.	71,154	
INC-00888	Harcar and Assoc.	27,000	
	<i>Harcar Subtotal</i>		\$152,758
INC-08758	History Enterprises*	<u>\$385,833</u>	
	<i>InDyne, Inc. SubTotal</i>		\$ 860,086

### Dryden Flight Research Center Analytical Services and Materials (AS&M), Inc. Subcontracts

P9157544LK	John T. McCarthy	\$ 59,107	
P9230RS2KH	Eagle Aeronautics	52,808	
Various Orders	Modulus Engineering	<u>257,921</u>	
	<i>AS&amp;M SubTotal</i>		\$ 369,836

### Ames Research Center SecTek, Inc. Subcontracts

Ames 0902	Draeger Safety, Inc.	\$ 9,722	
Ames 0807	Alpha Controls	11,640	
Ames 1003	Johnson Controls	<u>6,360</u>	
	<i>SecTek, Inc. SubTotal</i>		\$ 27,722
	<b>Total</b>		<b><u>\$1,257,644</u></b>

\*Information presented to the auditors after issuance of our discussion draft report indicated that support for this noncompetitive procurement existed. However, InDyne's Subcontract Administrator at Glenn Research Center did not develop and document this information before processing the subcontract award and, therefore, did not adequately justify the noncompetitive acquisition in the official subcontract file.

## Appendix F. Management's Response

National Aeronautics and  
Space Administration  
**Headquarters**  
Washington, DC 20546-0001



Reply to Attn of:

HK

September 17, 2002

TO: W/Assistant Inspector General for Auditing

FROM: HK/Director, Contract Management Division

SUBJECT: Agency Response to OIG Draft Audit Report on NASA Contracts for  
Professional, Administrative, and Management Support Services,  
Assignment No. A-01-046-00

Enclosed is the Agency response to the subject report dated August 21, 2002. The letter referred to in response to recommendation 1 is also enclosed. We believe recommendations 1 and 6 should now be closed.

Please call Lou Becker at 202-358-4593 if you have any questions or need further coordination on this matter.

A handwritten signature in black ink, appearing to read "R. Scott Thompson".

R. Scott Thompson

Enclosures



Draft Response to OIG Draft Report on Audit of NASA Contracts for Professional, Administrative, and Management Support Services - Assignment Number A-01-046-00

**Recommendation 1:** The Ames Center Director should direct the CO for the SecTek Inc. contract (NAS2-98068) to require the contractor to develop adequate policies for documenting the justifications for noncompetitive procurements.

**Response:**

Concur. A letter from the Contracting Officer (see attached) has been sent to SecTek reminding them to comply with FAR requirements and company policy in competing subcontracts and documenting noncompetitive procurements. We now consider this recommendation closed.

**Recommendation 2:** The Dryden Center Director should direct the CO for the AS&M contract (NAS4-02021) to require the contractor to follow company policy in competing subcontracts and in documenting noncompetitive procurements.

**Response:** Concur. The CO will issue a letter to the contractor directing they follow company policy as described. The letter will be issued by October 31, 2002.

**Recommendation 3:** The Dryden Center Director should direct the CO for the AS&M contract (NAS4-02021) to document in the contract file the CO's determination to grant consent to subcontract, and include in the contract file the consent request, the CO's analysis, and the letter granting consent.

**Response:** Concur. The Chief of Acquisitions will issue a letter instructing the CO to document the contract file as described. The letter will be issued by October 31, 2002.

**Recommendation 4:** The Glenn Center Director should direct the CO for the InDyne, Inc. contract (NAS3-99179) to require the contractor to strengthen company policies for documenting the justifications for noncompetitive procurements.

**Response:** Concur. The Center Director will direct the CO to require the contractor to strengthen company policies for documenting justifications for noncompetitive procurements. The action will be completed by January 31, 2003.

**Recommendation 5:** The Glenn Center Director should direct the CO for the InDyne, Inc. contract (NAS3-99179) to document in the contract file the CO's determination to grant consent to subcontract, and include in the contract file the consent request, the CO's analysis, and the letter granting consent.

## Appendix F

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**Response:** Concur. The Center Director will direct the CO for the InDyne, Inc. contract (NAS3-99179) to document in the contract file the CO's determination to grant consent to subcontract and to include in the contract file the consent request, the CO's analysis, and the letter granting consent. The action will be completed by January 31, 2003.

**Recommendation 6:** The Director, Ames Research Center, should direct the CO for the SecTek, Inc. contract (NAS2-98068) to collect sufficient historical data for routine administrative services to allow for the use of fixed-price contracting in future awards when the data and circumstances indicate that fixed-price contracting is appropriate.

**Response:** Concur. The CO has collected historical data over the performance of the contract. The acquisition planning for the follow-on contract is underway and the CO as part of the contract type determination will use the historical data. However there are changes still on-going at the Center (NASA Research Park) and it is not possible to predict fully how these changes will impact the Protective Services Contract. The CO is also looking at contract mechanisms that can accommodate these uncertainties such as a hybrid contract. We consider this recommendation closed.

**Recommendation 7:** The Director, Glenn Research Center, should direct the CO for the InDyne, Inc. contract (NAS3-99179) to utilize the additional historical data gathered under the existing contract for routine administrative services to allow for the use of fixed-price contracting in future awards when the data and circumstances indicate that fixed-price contracting is appropriate.

**Response:** Concur. The Center Director will direct the CO to review historical performance standards data gathered under the existing contract for the five logistics areas; property management, freight traffic, stock purchasing, supply management and transportation operations; to allow for the possible use of fixed-price contracting in future awards. This action will be completed by January 31, 2003.

## **Appendix G. Report Distribution**

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### **National Aeronautics and Space Administration (NASA) Headquarters**

HQ/A/Administrator  
HQ/AI/Associate Deputy Administrator  
HQ/B/Deputy Chief Financial Officer  
HQ/B/Comptroller  
HQ/BF/Director, Financial Management Division  
HQ/G/General Counsel  
HQ/H/Assistant Administrator for Procurement  
HQ/HK/Director Contract Management Division  
HQ/HS/Director, Program Operations Division  
HQ/J/Assistant Administrator for Management Systems  
HQ/JM/Director, Management Assessment Division  
HQ/L/Assistant Administrator for Legislative Affairs  
HQ/M/Associate Administrator for Space Flight

### **NASA Centers**

ARC/D/Director, Ames Research Center  
DFRC/X/Director, Dryden Flight Research Center  
GRC/0100/Director, John H. Glenn Research Center at Lewis Field  
JSC/AA/Director, Lyndon B. Johnson Space Center  
LaRC/106/Acting Director, Langley Research Center  
KSC/CC/Chief Counsel, John F. Kennedy Space Center

### **Non-NASA Federal Organizations and Individuals**

Assistant to the President for Science and Technology Policy  
Deputy Associate Director, Energy and Science Division, Office of Management and Budget  
Branch Chief, Science and Space Programs Branch, Energy and Science Division, Office of Management and Budget  
Managing Director, Acquisition and Sourcing Management Team, General Accounting Office  
Senior Professional Staff Member, Senate Subcommittee on Science, Technology, and Space

## **Appendix G**

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### **Chairman and Ranking Minority Member – Congressional Committees and Subcommittees**

Senate Committee on Appropriations

Senate Subcommittee on VA, HUD, and Independent Agencies

Senate Committee on Commerce, Science, and Transportation

Senate Subcommittee on Science, Technology, and Space

Senate Committee on Governmental Affairs

House Committee on Appropriations

House Subcommittee on VA, HUD, and Independent Agencies

House Committee on Government Reform

House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations

House Subcommittee on Technology and Procurement Policy

House Committee on Science

House Subcommittee on Space and Aeronautics

### **Congressional Member**

Honorable Pete Sessions, U.S. House of Representatives

## NASA Assistant Inspector General for Audits Reader Survey

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**Report Title:** NASA Contracts for Professional, Administrative, and Management Support Services

**Report Number:** IG-02-0XX      **Report Date:** September XX, 2002

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*Circle the appropriate rating for the following statements.*

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	N/A
1. The report was clear, readable, and logically organized.	5	4	3	2	1	N/A
2. The report was concise and to the point.	5	4	3	2	1	N/A
3. We effectively communicated the audit objectives, scope, and methodology.	5	4	3	2	1	N/A
4. The report contained sufficient information to support the finding(s) in a balanced and objective manner.	5	4	3	2	1	N/A

***Overall, how would you rate the report?***

- Excellent       Fair  
 Very Good       Poor  
 Good

***If you have any additional comments or wish to elaborate on any of the above responses, please write them here. Use additional paper if necessary.*** \_\_\_\_\_

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**How did you use the report?** \_\_\_\_\_

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**How could we improve our report?** \_\_\_\_\_

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**How would you identify yourself? (Select one)**

- |   |  |
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| <input type="checkbox"/> Congressional Staff  | <input type="checkbox"/> Media           |
| <input type="checkbox"/> NASA Employee  | <input type="checkbox"/> Public Interest |
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**May we contact you about your comments?**

Yes: \_\_\_\_\_ No: \_\_\_\_\_

Name: \_\_\_\_\_

Telephone: \_\_\_\_\_

Thank you for your cooperation in completing this survey.

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