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Report No. DODIG-2013-123 August 30, 2013

Inspector General

United States
Department of Defense



Army Needs To Improve Mi-17 Overhaul Management and Contract Administration

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Acronyms and Abbreviations

ACC	Army Contracting Command
ACO	Administrative Contracting Officer
ACC: (b) (4)	ACC: (b) (4)
CLIN	Contract Line Item Number
CoC	Certificate of Conformance
COR	Contracting Officer's Representative
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
FAR	Federal Acquisition Regulation
IDIQ	Indefinite-Delivery, Indefinite-Quantity
NSRWA	Non-Standard Rotary Wing Aircraft
ODRP	Office of Defense Representative Pakistan
PARC	Principal Assistant Responsible for Contracting
PEO	Program Executive Officer
PMO	Project Management Office
SES	Science and Engineering Services
ACC: (b) (4)	ACC: (b) (4)
QASP	Quality Assurance Surveillance Plan
U.S.C.	United States Code



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August 30, 2013

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Army Needs To Improve Mi-17 Overhaul Management and Contract Administration (Report No. DODIG-2013-123)

~~(FOUO)~~ We are providing this report for review and comment. The Army Contracting Command-Redstone contracting officer allowed the prime contractor to receive \$6.2 million in advance payments in violation of the Federal Acquisition Regulation and United States Code, and Army officials allowed the contractor to purchase \$8.1 million in parts for Mi-17 overhauls that will not occur. In total, we identified about \$7.7 million in questionable advance payments and higher part prices paid to the contractor.

We considered management comments on a draft of this report when preparing the final report. DOD Directive 7650.3 requires that recommendations be resolved promptly. The Army Contracting Command-Redstone, Principal Assistant Responsible for Contracting, comments and the Program Executive Officer, Aviation, comments were partially responsive. As a result of the Principal Assistant Responsible for Contracting, comments, we redirected Recommendations A.4 and A.5 and Recommendation C.1 to the Executive Deputy to the Commanding General, U.S. Army Materiel Command in Recommendations A.2.a, A.2.b, and C.1. We also added and directed Recommendations A.2.c, A.2.d, and A.2.e to the Executive Deputy. As a result of the Program Executive Officer, Aviation, comments, we redirected report Recommendation B.2.a to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology in Recommendation B.3. For renumbering of recommendations, please see the recommendations section of each finding. We request that the Executive Deputy to the Commanding General, U.S. Army Materiel Command and the Assistant Secretary of the Army for Acquisition, Logistics, and Technology provide comments to the revised and redirected recommendations by September 30, 2013.

If possible, send a Microsoft Word (.doc) file and portable document format (.pdf) file containing your comments to audacm@dodig.mil. Pdf copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-~~(b) (6)~~ (DSN 664-~~(b) (6)~~).

~~(b) (6)~~
DoD OIG: (b) (6)

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Assistant Inspector General
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Results in Brief: Army Needs To Improve Mi-17 Overhaul Management and Contract Administration

What We Did

Our objective was to determine whether Army officials properly awarded and administered the Mi-17 overhaul effort under contract W58RGZ-09-D-0130-0102 in accordance with Federal and DoD regulations and policies.

What We Found

Non-Standard Rotary Wing Aircraft (NSRWA) Project Management Office (PMO) officials and the Army Contracting Command (ACC)-Redstone contracting officer did not properly procure a Mi-17 parts inventory and did not effectively administer the contract for the overhaul of five Pakistani Mi-17 aircraft.

The ACC-Redstone contracting officer allowed advance payments in violation of United States Code and the Federal Acquisition Regulation. The contracting officer believed there was an exception for advance payments to a foreign subcontractor. As a result, the DoD paid Science and Engineering Services several million dollars for advance payments to a foreign subcontractor for Mi-17 overhaul services of aircraft never delivered to the overhaul facility.

The NSRWA PMO directed the procurement of an \$8.1 million Mi-17 parts inventory without performing a technical analysis or using existing DoD inventory, after the Office of Defense Representative Pakistan placed an operational hold on the scheduled overhauls. NSRWA PMO officials believed they had performed a technical analysis on the Mi-17 parts inventory and simply did not consider using DoD's existing parts

inventory. As a result, the contracting officer and NSRWA PMO established an \$8.1 million Mi-17 parts inventory to support Pakistani Mi-17 overhauls that will not occur. In addition, the contracting officer and NSRWA PMO officials misspent a total of \$7.1 million, or 88 percent of the \$8.1 million. This amount included \$4.5 million for unnecessary Mi-17 parts that were not needed based on historical data, and \$2.6 million for Mi-17 parts that were already in existing DoD inventory.

The contracting officer did not determine a fair and reasonable price for the Mi-17 parts inventory procured to support five Pakistani aircraft under Task Order 0102. The contracting officer did not require subcontractor competition, obtain cost and pricing data, or perform a price reasonableness determination or cost analysis in accordance with the Federal Acquisition Regulation. As a result, the Army will pay \$1.3 million in excess of previously received parts prices and storage costs.

The contracting officer did not develop a Quality Assurance Surveillance Plan or designate a Contracting Officer's Representative and improperly issued a Certificate of Conformance for inventory parts, some of which were critical safety items, to support the five Pakistani overhauls. This increased the risk that the overhauls and parts inventory would not comply with contract requirements. Furthermore, there is increased risk of installing nonconforming critical safety items onto Mi-17 aircraft during overhauls.

In total, we identified \$7.7 million in potential monetary benefits. (See Appendix G for details on potential monetary benefits.)

What We Recommend

We recommended the Program Executive Officer (PEO), Aviation, direct the NSRWA PMO to perform a full inventory review of all Mi-17 parts currently in DoD inventories, develop internal controls to identify long lead items, review NSRWA PMO’s actions in procuring Mi-17 parts inventories, and evaluate NSRWA PMO’s procedures for conducting technical analyses.

We recommended the ACC-Redstone Principal Assistant Responsible for Contracting (PARC)/Director, Contracting and Acquisition Management Office, recoup questioned costs of \$7.5 million of advance payments and unreasonable prices paid for the parts inventory, provide training to the ACC-Redstone NSRWA Directorate contracting officer assigned to this task order, and improve quality assurance oversight of the contractor.

Management Comments and Our Response

Comments from the PEO, Aviation and the ACC-Redstone PARC were partially responsive. As a result of the PEO, Aviation, comments, we redirected a recommendation to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology. As a result of the ACC-Redstone PARC comments, we added and redirected recommendations to the Executive Deputy to the Commanding General, U.S. Army Materiel Command. We request that management provide a response to this report by September 30, 2013. Please see the following recommendations table.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Assistant Secretary of the Army for Acquisition, Logistics, and Technology	B.3	
Executive Deputy to the Commanding General, U.S. Army Materiel Command	A.2.a, A.2.b, A.2.c, A.2.d, A.2.e, and C.1	
Program Executive Officer, Aviation		B.2.a, B.2.b, and B.2.c
Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office	B.1.a	A.1.a, A.1.b, A.1.c, A.1.d, B.1.b, C.2.a, C.2.b, C.2.c, C.2.d, C.2.e, C.3, D.1, D.2, D.3, D.4, and D.5

Please provide comments by September 30, 2013.

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Introduction

Objective

Our audit objective was to determine whether Army officials properly awarded and administered indefinite-delivery, indefinite-quantity (IDIQ) contract W58RGZ-09-D-0130 Task Order 0102 for the overhaul and modification of Mi-17 aircraft in accordance with Federal and DoD regulations and policies. This is the first of two reports on Task Order 0102 with Science and Engineering Services (SES) for the support of Mi-17 aircraft. This report will answer whether Army officials properly awarded and administered the Mi-17 overhaul effort under Task Order 0102. The second report will discuss the Mi-17 cockpit modification effort also performed under Task Order 0102.

Background on NSRWA PMO and IDIQ Contract

On September 1, 2007, Army Sustainment Contracting Command, Rock Island, Illinois, awarded a single award, 5-year IDIQ contract (Original Contract No. W52P1J-07-D-0039) to SES to provide all services necessary to support the Program Executive Office Aviation's Logistical Support Facility. Contracting responsibilities were transferred from Rock Island to the Army Contracting Command (ACC) in Redstone Arsenal, Alabama, in June 2009. The contract number was changed to W58RGZ-09-D-0130 with a ceiling value of \$208,939,327. The period of performance was extended to April 30, 2013. ACC-Redstone has solicited bids for the follow-on IDIQ contract.

On January 19, 2010, the Under Secretary of Defense for Acquisition, Technology, and Logistics issued an Acquisition Decision Memorandum that directed the Army to establish a Project Management Office (PMO) responsible for executing procurement, sustainment, and technical support to meet user requirements for Non-Standard Rotary Wing Aircraft (NSRWA). The NSRWA PMO manages the procurement and maintenance of Mi-17 aircraft for DoD and partner nations, such as Afghanistan, Iraq, and Pakistan.

U.S. Army officials established the NSRWA PMO at Redstone Arsenal in Huntsville, Alabama, under the U.S. Army Program Executive Office for Aviation. The NSRWA PMO's mission is to procure, field, and sustain NSRWA for DoD, allied countries, or as directed by the Under Secretary of Defense for Policy in support of other contingency operations. The NSRWA PMO responsibilities include the procurement of aircraft and parts, modification and overhauls, and logistical support for maintaining and sustaining the Mi-17 aircraft.

On November 5, 2010, the Acting Assistant Secretary of the Army for Acquisition, Logistics, and Technology issued a memorandum to the Heads of U.S. Army Contract Activities establishing the NSRWA procurement process and designating the U.S. ACC-Redstone as the single DoD contracting organization responsible for pre-award and post-award functions for NSRWA.

Task Order 0102

~~(FOUO)~~ ACC-Redstone awarded contract W58RGZ-09-D-0130-0102 (Task Order 0102), a cost-plus fixed fee type contract for six DoD Mi-17 cockpit modifications, to SES on September 28, 2010, for \$9 million¹. As of December 7, 2012, a total of 40 modifications have been made to Task Order 0102 since contract award, and the contract value has grown to more than \$52 million. This report discusses the review of the five Pakistani Mi-17 overhauls awarded on modification 4 and the procurement of Mi-17 parts inventory funded on modification 9, a total award of \$21.8 million. Appendix B provides a timeline for Task Order 0102 and specific actions taken pertaining to the acquisition of the Pakistan Mi-17 overhauls and parts inventory.

Pakistani Mi-17 Overhauls

~~(FOUO)~~ On April 1, 2011, the ACC-Redstone contracting officer modified Task Order 0102 to add new work to the task order for five Pakistani Mi-17 overhauls. The contracting officer established a new cost-plus fixed fee contract line item number (CLIN) 0006 for the overhauls, totaling \$12.8 million. SES subcontracted with ACC: (b) (4) overhaul company, to perform the Mi-17 overhauls. Subsequently, ACC: (b) (4) partnered with its affiliated company, ACC: (b) (4), to perform the overhauls in DoD OIG: (b) (4), Russia. The period of performance for the overhauls was originally from April 2011 through December 2011, but because of delays, ACC-Redstone extended performance to September 2012. On May 9, 2011, the contracting officer modified the task order to authorize SES to procure a Mi-17 parts inventory to support the five Pakistani Mi-17 overhauls. ACC-Redstone finalized the parts inventory in December 2011 for \$8.1 million, and SES subcontracted with ACC: (b) (4) to procure the Mi-17 parts inventory and store the parts in the ACC: (b) (4) storage facility in DoD OIG: (b) (4), Russia. In September 2012, the NSRWA PMO requested that the contracting officer terminate the Pakistan overhauls and modify the task order to procure overhaul services for five Afghan Mi-17s.

Review of Internal Controls

DoD Instruction 5010.40, “Managers’ Internal Control Program (MICP) Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses in the award and administration of the Mi-17 overhauls and parts inventory under Task Order 0102. Specifically, NSRWA PMO officials directed the procurement of the Mi-17 parts inventory without performing a technical analysis and without assessing and using existing DoD inventory. Also, the ACC-Redstone did not require subcontractor competition, obtain cost and pricing data, document a price reasonableness determination, conduct negotiations, perform cost analysis, or request a technical analysis

¹ Task Order 0102 funded 4 aircraft modifications valued at \$7,995,320 and established an option for 2 additional aircraft modifications valued at \$964,490 for a total award value of \$8,959,810 (\$9 million rounded).

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before contracting for the parts inventory in accordance with the Federal Acquisition Regulation (FAR). Furthermore, the contracting officer allowed the prime contractor to receive advance payments in violation of the United States Code (U.S.C.) and the FAR and did not establish required quality assurance controls. We will provide a copy of the final report to the senior official responsible for internal controls in the Army.

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Finding A. Improper Advance Payments

The ACC-Redstone contracting officer did not effectively administer Task Order 0102 for the overhaul of five Pakistani Mi-17 aircraft. Specifically, the contracting officer allowed the prime contractor, SES, to receive advance payments in violation of U.S.C.² and the FAR to make advance payments to its foreign subcontractor. This occurred because the contracting officer erroneously believed that a FAR exception applied for advance payments to foreign subcontractors, stating that prepayments were customary in eastern European countries because of subcontractors' limited financial resources. Additionally, the contracting officer did not accept responsibility for administration of the improper advance payments, incorrectly stating that the administrative contracting officer (ACO) and contract auditor bore responsibility to determine whether the subcontractor advance payments were allowable costs.

~~(FOUO)~~ As result, the DoD paid SES \$6.2 million for advance payments to a foreign subcontractor for Mi-17 overhaul services of aircraft never delivered to the overhaul facility. After the DoD made the advance payments, the DoD requiring activity decided to terminate for convenience³ the overhaul services portion of the contract. To end the contract, SES proposed \$~~ACC: (b) (4)~~ in termination costs in addition to the advance payments already received for work never performed. The contracting officer needs to take timely and appropriate contract action to recover funds paid for services not rendered. In addition, ACC-Redstone should use fixed-price contracts and more prudent contract financing methods with less risk to the Army when acquiring Mi-17 overhaul services.

Advance Payment Criteria

An advance payment is a contract financing payment. FAR Part 32, "Contract Financing," prescribes policies and procedures for contract financing and defines contract financing payments as authorized Government disbursement of monies to a contractor before acceptance of supplies or services by the Government. Advance payments are the least preferred method of contract financing. According to the FAR, contracting officers should not authorize advance payments when other types of contract financing are reasonably available to the contractor. Advance payments are advances of money by the Government to a prime contractor before, in anticipation of, and for the purpose of complete performance under one or more contracts. FAR Subpart 32.4, "Advance Payments for Non-Commercial Items," provides policies and procedures for advance payments on prime contracts and subcontracts. FAR subpart 32.4 prohibits the use of advance payments for contracts unless appropriate under U.S.C. and only if specific statutory requirements are met.

² Section 3324, Title 31, United States Code and Section 2307, Title 10, United States Code.

³ As defined by the FAR, "termination for convenience" means the exercise of the Government's right to completely or partially terminate performance of work under a contract when it is in the Government's interest.

Under section 3324, title 31, United States Code (31 U.S.C. § 3324), agencies may not make advance payments on contracts unless the payments are specifically authorized by law. The Armed Services Procurement Act (10 U.S.C. § 2307) authorizes advance payments under contracts for property and services provided (1) the agency head determines that advance payments are in the public interest, and (2) adequate security is provided. Security may be in the form of liens in favor of the Government on any property being acquired, on the balance of advanced funds held by the contractor, or on property acquired for performance of the contract.

The FAR also defines which subcontract financing payments are acceptable for reimbursement under cost-reimbursement prime contracts. FAR 32.110, "Payment of subcontractors under cost-reimbursement prime contracts," states that the contracting officer can accept subcontract financing payments as reimbursable costs of the prime contract only if the payments are made under the criteria in Subpart 32.5 for customary progress payments based on costs, 32.202-1 for commercial item purchase financing or 32.1003 for performance-based payments.

Contracting Officer Approved Unauthorized Advance Payments

~~(FOUO)~~ In violation of 31 U.S.C. § 3324 and the FAR, the ACC-Redstone contracting officer allowed SES to receive \$6.2 million in advance payments for the purpose of making advance payments to its foreign subcontractor. Payment terms established in May 2011 between SES and its foreign subcontractor provided for a ^{ACC: (b) (4)} prepayment at subcontract award, a ^{ACC: (b) (4)} payment at induction of the aircraft into overhaul, and various performance-based payments for the remaining ^{ACC: (b) (4)}, for a total of \$^{ACC: (b) (4)} in payments. In June 2011, SES submitted an invoice to the Army for \$^{ACC: (b) (4)} that included \$^{ACC: (b) (4)} for the initial advance payment to the subcontractor and about \$^{ACC: (b) (4)} in fees to SES. Because of DoD's initial delay in delivering the aircraft, the subcontractor requested that SES advance the ^{ACC: (b) (4)} payment due at induction as an additional prepayment. SES management concurred, altered their subcontract payment terms, and invoiced the Army for an additional \$^{ACC: (b) (4)} in September 2011. In June and October 2011, the DoD paid SES about 50 percent of the Mi-17 overhaul CLIN value, more than \$6 million, without any material work performed or delivery of the aircraft to the contractor.

In violation of 31 U.S.C. § 3324 and the FAR, the ACC-Redstone contracting officer allowed SES to receive \$6.2 million in advance payments.

FAR 32.110 does not provide for subcontractor advance payments as reimbursable costs under a cost-reimbursement contract. The contracting officer stated she became aware of the advance payment when SES provided the contracting office its Project Summary Report in June 2011. However, once notified of the advance payment, the contracting officer did not notify SES that the advance payment was not a reimbursable cost under Task Order 0102, restrict further advance payments, recover the advance payment already paid, or ensure that statutory and FAR requirements for advance payments were met.

The agency head is required under 10 U.S.C. § 2307 to determine that advance payments are in the public interest. In addition, 10 U.S.C. § 2307 requires adequate collateral security to be provided. However, the contracting officer neither obtained agency head approval nor ensured that adequate collateral security was obtained from the contractor in accordance with the statutory requirements.

Although required by FAR subpart 32.4, SES never applied for advance payments authority. Neither Task Order 0102 nor the SES Logistics Support Facility IDIQ contract contained FAR Clause 52.232-12, "Advance Payments." The contracting officer never modified Task Order 0102 to incorporate the Advance Payments clause or otherwise provide for advance payments.

Furthermore, the contracting officer did not provide an analysis to justify the advance payments in accordance with FAR subpart 32.4. FAR subpart 32.4 requires the agency to ensure that the advance payments will not exceed the contractor's interim cash needs,

The contracting officer did not provide an analysis to justify the advance payments in accordance with FAR Subpart 32.4.

based on an analysis of the cash flow required for contract performance, consideration of the reimbursement or other payment cycle, and to the extent possible, employment of the contractor's own working capital. Additionally, FAR 32.407, "Interest," states that the contracting officer will

charge interest on the daily unliquidated balance of all advance payments. However, the contracting officer did not charge interest on the unliquidated balance of advance payments, and as of May 2013, the Army had neglected to assess and receive up to about \$209,000 in interest payments.⁴ The ACC-Redstone Principal Assistant Responsible for Contracting (PARC) should review the performance of the contracting officer at the NSRWA Directorate, who administered task order W58RGZ 09-D-0130-0102, and as a result of that review, initiate administrative action as appropriate.

Contracting Officer's Advance Payment Justification

~~(FOUO)~~ The ACC-Redstone contracting officer stated that FAR subpart 32.4 did not apply to advance payments for purchases of supplies or services in foreign countries. FAR subpart 32.4 provides policies and procedures for advance payments on prime contracts and subcontracts. The contracting officer specifically referred the audit team to FAR 32.404, "Exclusions." FAR 32.404 excludes the FAR subpart 32.4 limitations and prohibitions on the use of advance payments for purchase of supplies or services in foreign countries, if the purchase price does not exceed \$15,000 (or equivalent amount of the applicable foreign currency) and the advance payment is required by the laws or government regulations of the foreign country concerned. Therefore, FAR subpart 32.4 does apply because the advance payments to SES were \$6.2 million, well exceeding the \$15,000 threshold. The ACC-Redstone PARC should verify that contracting officers comply with requirements in 31 U.S.C. § 3324 and FAR part 32 before allowing

⁴ Appendix A outlines the methodology for calculating estimated interest.

~~(FOUO)~~ contractors to receive contract financing. Also, the ACC-Redstone PARC should review all current NSRWA directorate contracts and solicitations to verify compliance with 31 U.S.C. § 3324 and FAR part 32.

~~(FOUO)~~ The ACC-Redstone contracting officer also stated that the use of 50-percent prepayments was customary in eastern European countries because of their limited financial resources. However, under DoD OIG: (b) (4) task order DoD OIG: (b) (4) also managed by the ACC-Redstone contracting officer, the DoD established DoD OIG: (b) (4) performance-based payments for delivery of each Mi-17 aircraft to the overhaul facility and subsequent induction of each aircraft into overhaul. Under the DoD OIG: (b) (4) task order, DoD did not make advance payments to DoD OIG: (b) (4) nor were prepayments provided to the eastern European overhaul subcontractor. Therefore, the 50-percent prepayment is not always customary in eastern European countries.

Responsibility for Authorizing Advance Payments

The ACC-Redstone contracting officer did not accept responsibility for the improper advance payments to SES. In response to questions whether the advance payments were reimbursable costs in accordance with FAR 32.110, the contracting officer stated that the Defense Contract Management Agency (DCMA) ACO and Defense Contract Audit Agency (DCAA) auditor bore responsibility to determine whether the prepayments were allowable.

The ACC-Redstone contracting officer retained inspection and acceptance functions for CLIN 0005 and 0006 under Task Order 0102 and informed DCMA that a Contracting Officer's Technical Representative, who reported to the contracting officer, would be assigned to perform these functions. As result, DCMA did not verify whether payments were allowable and commensurate to the work performed. DCMA managed the Mi-17 overhaul CLIN to ensure only that the contractor did not charge more than the CLIN ceiling. The DCMA ACO stated that if DCMA had been assigned inspection and acceptance oversight functions for the Mi-17 overhauls, he would not have approved SES to make advance payments to its foreign subcontractor.

DCAA auditors perform interim invoice evaluations as a non-audit service; therefore, these evaluations are not intended to identify unallowable costs claimed by the contractor that would be found when performing substantive testing. Rather, DCAA auditors perform an administrative evaluation of interim invoices to verify that the amounts claimed are not more than the amount due to the contractor in accordance with the contract terms before approval of provisional payment. DCAA's policy is to perform annual incurred cost audits to determine the overall acceptability of the contractor's claimed costs, and these audits are usually performed on a contractor-wide basis, as

⁵ In September 2010, Space and Missile Defense Command awarded task order DoD OIG: (b) (4) to DoD OIG: (b) (4) DoD OIG: (b) (4) was to perform overhaul and repair services on Mi-17 and Mi-35 variant aircraft and to provide flexible options for overhaul and repair of additional Mi-17 variant aircraft. The task order was modified in April 2011 to provide overhauls for four Pakistan Mi-17 aircraft. By November 2011, the task order was reassigned to the ACC-Redstone NSRWA directorate.

opposed to on individual contracts. DCAA-incurred cost reviews are not meant to substitute for oversight by contracting officers or their designated representatives.

The ACC-Redstone contracting officer never assigned a Contracting Officer's Technical Representative for the overhaul effort and retained the Contracting Officer's Representative (COR) functions. However, the contracting officer did not perform the COR functions or review interim invoices to verify that services billed to the task order were actually performed and were reasonable and necessary to perform the task order. In retaining contract administration and COR functions, the contracting officer was responsible for oversight of payments made to SES to include administering and approving the advance payments. Because the contracting officer failed to comply with basic principles of the FAR when administering and approving advance payments, the ACC-Redstone PARC should require the ACC-Redstone NSRWA Directorate contracting officer to receive training necessary to administer contract financing in accordance with FAR part 32. Finding D provides more information on quality assurance surveillance shortcomings under Task Order 0102.

Action Needed To Recover Payment

~~(FOUO)~~ The DoD paid SES \$6.2 million in advance payments for Mi-17 overhaul services although the aircraft to be overhauled were never delivered to the overhaul facility, assessed for damage, or inducted into overhaul. In this regard, the

The DoD paid SES \$6.2 million in advance payments for Mi-17 overhaul services although the aircraft to be overhauled were never delivered to the overhaul facility.

ACC-Redstone contracting officer did not take any action to recover advance payments after suspending work in September 2011 or after issuing an official stop work order in March 2012. Reimbursement of the prime contractor for subcontract advance payments places undue risk of loss on the Government if a non-performing subcontractor fails to repay the unliquidated balance of the advance payment. Furthermore, by providing advance

payments, the Government loses ability to retain payment leverage for poor performance or nonperformance, to include significant schedule delays that previously occurred under other DoD Mi-17 overhaul contracts. The foreign subcontractor stated that DoD advance payments will not be reimbursed if the overhauls do not occur.

~~(FOUO)~~ In March 2012, the ACC-Redstone contracting officer requested SES to provide a not-less-than estimate for terminating for convenience the overhaul effort. In response, SES proposed termination costs of \$^{ACC: (b) (4)} in addition to the \$6.2 million in advance payments already received, for a combined total of \$^{ACC: (b) (4)}. The proposed \$7 million settlement for overhaul services not performed is not reasonable. In comparison, the contracting officer requested ^{DoD OIG: (b) (4)} under task order ^{DoD OIG: (b) (4)} for Mi-17 overhauls, to provide estimated termination costs. ^{DoD OIG: (b) (4)} estimated costs totaled \$^{ACC: (b) (4)}, but, after reducing ^{ACC: (b) (4)} estimate for costs not germane to the SES overhauls, the estimate was adjusted to \$^{ACC: (b) (4)}. Based on auditor analysis, the

~~(FOUO)~~ \$7 million SES estimate was more than two and a half times more than our estimate for a reasonable cost position.⁶

~~(FOUO)~~ Because SES performed no material work and has not provided documentation to support the costs claimed, beyond two subcontractor invoices for prepayments, the \$6.2 million payment is a questioned cost and represents an overpayment to the contractor. In accordance with FAR Subpart 32.6, "Contract Debts," timely and appropriate contract action is necessary to recover funds for services not rendered. The ACC-Redstone PARC should take contractual action to recoup \$6.2 million in advance payments paid to the contractor plus applicable interest due in accordance with FAR 32.407.

Prudent Contract Type and Payment Terms

ACC-Redstone should use fixed-price contracts and more prudent contract financing methods with less risk to the Army for acquiring Mi-17 overhaul services. The ACC-Redstone contracting officer modified Task Order 0102 to procure Mi-17 overhaul services using a cost-reimbursement CLIN instead of procuring the services on a fixed-price basis. FAR Subpart 16.3, "Cost-Reimbursement Contracts," states that the contracting officer will use cost-reimbursement contracts only when:

The ACC-Redstone contracting officer modified Task Order 0102 to procure Mi-17 overhaul services using a cost-reimbursement CLIN instead of procuring the services on a fixed-price basis.

- circumstances do not allow the agency to define its requirements sufficiently to allow for a fixed-price type contract, or
- uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract.

The contracting officer believed that uncertainties of the conditions of the aircraft to be overhauled did not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract action. However, in the past, DoD sufficiently defined requirements for Mi-17 overhauls services to allow fixed-price type contracts. Mi-17 overhaul services are typically provided by foreign subcontractors that use firm-fixed-price subcontracts for the standard overhaul services. The overhaul services under Task Order 0102 were predominantly contracted for on a firm-fixed-price subcontract. Additionally, as a result of prior contracts, DoD had sufficient cost history for Mi-17 overhaul services that would have facilitated firm-fixed-pricing for Mi-17 overhaul services.

The use of a firm-fixed-price contract would have placed the risk of performance costs on the prime contractor, to include the risk associated with the prime contractor's use of a risky contract financing arrangement with its foreign subcontractor. A firm-fixed-price contract provides maximum incentive for the contractor to control costs and to perform

⁶ Appendix A outlines methodology for determining a reasonable cost position.

effectively; in addition, a firm-fixed-price contract imposes a minimum administrative burden on the contracting parties. Furthermore, the use of a fixed-price contract would have enabled the contracting officer to establish a more prudent contract financing arrangement directly with the prime contractor.

~~(FOUO)~~ Performance-based payments are the preferred Government financing method when the contracting officer finds them practical and when the contractor agrees to their use. Performance-based payments require the accomplishment of certain measurable events before contractor payment. Under ^{DoD OIG: (b) (4)} task order ^{DoD OIG: (b) (4)}, to provide overhaul services on four Pakistan Mi-17 aircraft, the contract action was firm-fixed-price with performance-based payments. In March 2012, the ACC-Redstone contracting officer issued a stop work order of Pakistan Mi-17 overhauls on both this task order and SES Task Order 0102. To illustrate the positive impact of using a fixed-price contract with performance-based payments, at the issuance of the stop work order, the DoD paid SES \$6.2 million under its cost contract as compared to only ^{DoD OIG: (b) (4)} \$0 paid to ^{DoD OIG: (b) (4)} under its fixed-price contract. The ACC-Redstone PARC should develop a strategy to transition the NSRWA Directorate overhaul contracts to fixed-price contracts with performance-based payments to the maximum extent practicable.

Status of Overhauls

NSRWA PMO requested the contracting officer to terminate the Pakistan Mi-17 overhauls and to modify the task order to procure overhaul services for five Afghanistan Mi-17s. In September 2012, the contracting officer subsequently modified Task Order 0102 to direct SES to commence overhauls on five Afghanistan Mi-17s.

Conclusion

~~(FOUO)~~ The use of advance payments, without appropriate justification, approval, and security violated U.S.C. and the FAR. DoD paid the contractor \$6.2 million for overhaul services not performed. If timely and appropriate contract action is not taken, DoD continues to risk not recovering those dollars on services not performed.

Management Comments on the Finding and Our Response


The Executive Deputy to the Commanding General, U.S. Army Materiel Command, endorsed and forwarded comments from the Commander, ACC, and the ACC-Redstone PARC. The Commander, ACC, concurred with the ACC-Redstone PARC comments, and the ACC-Redstone PARC provided comments on the finding. A summary of the comments from the ACC-Redstone PARC on the finding follow, with our response.


ACC-Redstone PARC Comments on Advance Payments


The ACC-Redstone PARC did not agree that an improper advance payment occurred. She stated that the first payment constituted an advance payment made by the prime contractor, SES, under a commercial subcontract in accordance with FAR 32.202-1,

“Policy.” She further stated that ACC-Redstone did not have sufficient information to determine whether the second payment was a proper milestone payment as claimed by SES and that she expected to obtain more information to clarify this issue.

~~(FOUO)~~ The ACC-Redstone PARC stated that the contracting officer was unaware until after the fact that the first payment of \$3,115,451 was invoiced. The ACC-Redstone’s investigation determined that this payment constituted an advance payment made by the prime contractor, SES, under a commercial subcontract in accordance with FAR 32.202-1. As justification for a payment made in accordance with FAR 32.202-1, the ACC-Redstone PARC cited the following:

- Mi-17 overhauls are a commercial item.
- SES confirmed that requiring advance payments is a customary commercial practice among firms certified to provide Mi-17 overhauls.
- The advance payments were in the Government's best interest to obtain the overhaul services. The ACC-Redstone PARC noted that ^{ACC: (b) (4)} subcontract proposals for the Mi-17 overhauls ^{ACC: (b) (4)} .
- The prime contractor was responsible to meet the requirements of the FAR in subcontracting; however, the ACC-Redstone PARC stated that she learned that SES did not obtain security from its subcontractor as required and that the procuring contracting officer will now require SES to provide adequate security for the advance payments.
- The first advance payment constituted 14.7 percent of the total task order value of \$21,754,866 and thus lies within the 15-percent ceiling for advanced commercial payments.

~~(FOUO)~~ The ACC-Redstone PARC stated that according to the subcontract agreement, ^{ACC: (b) (4)} 

The ACC-Redstone PARC stated that DCAA approved invoice number BVN 0033,⁷ in the amount of \$4,062,880.88, in January 2012. The ACC-Redstone PARC stated that as part of the ACC-Redstone’s investigation, the contracting officer requested an explanation of the accelerated payment from SES. SES explained that the contract schedule was aggressive, requiring ^{ACC: (b) (4)} to issue ^{ACC: (b) (4)} .

The ACC-Redstone PARC further stated that at the time of execution of modification 09, there was no indication of the potential for extended delays in inducting aircraft for overhaul, and “these delays have exacerbated the problem.” The ACC-Redstone PARC stated that ACC-Redstone would investigate whether the second payment was proper and that if the payment was found to be improper, ACC-Redstone would issue a demand letter to the prime contractor for refund to the Government.

⁷ The invoices in question for advance payments for overhaul services included BVN 0017 and BVN 0024, not BVN 0033 as referenced by the ACC-Redstone PARC.

Our Response

~~(FOUO)~~ We disagree with the ACC-Redstone PARC's position that the advance payments made to SES were proper. As discussed in the report, SES received advance payments in the amount of \$6.2 million without performing any overhaul services. The Government paid SES in June and October 2011 a total of \$6.2 million for the purpose of overhauling five Pakistan Mi-17 overhauls. As of the end of May 2013, approaching 2 years after payment, no aircraft have been delivered to the contractor, and the Army has not received overhaul services. ACC-Redstone identified that the payments will be applicable to Afghanistan overhauls, per the modification to the task order. However, as of May 2013, these aircraft have not left Afghanistan, and no overhaul services have been performed on the Afghanistan aircraft. ACC-Redstone has allowed SES and its subcontractor to retain these payments, interest free for services not performed. The non-actions of ACC-Redstone and its contracting officer are not in the best interest of the Army.

As detailed in the report, the contracting officer became aware of the advance payments in June 2011 and made no attempt to recoup the advance payments because she thought that the advance payments were customary in eastern European countries and that FAR 32.404 applied to the advance payments. However, the contracting officer did not state, as now stated by the ACC-Redstone PARC, that the payments were allowable because Mi-17 were commercial items and because the subcontract payments were made in accordance with FAR 32.202-1. ACC-Redstone's application of FAR 32.202-1 as justification for a proper advance payment is after the fact. FAR 32.110 does authorize the contracting officer to reimburse a prime contractor for subcontract commercial financing payments made in accordance with FAR 32.202-1. However, we disagree with the ACC-Redstone PARC's statement that the first advance payment made by SES to its foreign subcontractor was in accordance with FAR 32.202-1, as discussed below.

~~(FOUO)~~ Although the PARC stated that the advanced subcontract payment was made pursuant to FAR 32.202-1, the ACC-Redstone PARC incorrectly calculated the amount allowed for an advance payment by applying the 15 percent allowed to the total of the prime contract, rather than to the subcontract in question. In accordance with FAR 32.202-1, prior to any performance of work under the contract the aggregate of commercial advance payments shall not exceed 15 percent of the contract price. Therefore, for the advance payment made by SES under a commercial subcontract to be in compliance with FAR 32.202-1, as stated by the ACC-Redstone PARC, SES's advance payment to its subcontractor should not have exceeded 15 percent of the subcontract price. The ACC-Redstone PARC incorrectly applied the 15 percent to the prime contract, stating that the first payment (\$3.1 million) constituted 14.7 percent of the total task order value of \$21.8 million and thus was within the 15 percent ceiling for advanced commercial payments. However, the overhaul services subcontract in question was valued at \$11.4 million. The \$21.8 million represented the total amount funded for CLIN 0006 (overhaul services) and CLIN 0005 (parts inventory) on Task Order 0102 for the prime contractor, SES, to conduct the Pakistan overhauls and procure a parts inventory. SES awarded a separate subcontract for the inventory of parts, valued at \$7.1 million, on December 29, 2011. Based on ACC-Redstone's justification in citing

~~(FOUO)~~ FAR 32.202-1, the first subcontractor advance payment should not have exceeded \$1.7 million, or 15 percent of the \$11.4 million subcontract. The first subcontract advance payment exceeded the amount allowed by the FAR for a commercial advance payment by \$1.1 million. The second subcontract advance payment raised the total paid to 50 percent of the overhaul cost, exceeding the 15-percent threshold by about \$4 million. Furthermore, SES's subcontract did not comply with FAR 32.202-1 because SES, as cited by the ACC-Redstone PARC, did not obtain adequate security from the foreign subcontractor. Therefore, SES's advance payment to its subcontractor was not in accordance with FAR 32.202-1 or in accordance with FAR 32.110. The contracting officer should not have reimbursed SES for those subcontract advance payments.

~~(FOUO)~~ We also disagree with the ACC-Redstone PARC that advance payments to obtain the overhaul services were in the Government's best interest. The ACC-Redstone PARC stated that ^{ACC: (b) (4)} [REDACTED]. The ACC-Redstone PARC's statements overly generalize the two proposals and obscure the key distinction as to when the payments were to be due under each proposal. As identified in ^{ACC: (b) (4)} [REDACTED] proposal, the first payment was a ^{ACC: (b) (4)} [REDACTED] advance payment at "commencement of the effort," which was essentially at award of the subcontract and before induction of the aircraft into the overhaul facility. As a result, SES paid a ^{ACC: (b) (4)} [REDACTED] advance payment to ^{ACC: (b) (4)} [REDACTED] before work began on the Mi-17 aircraft. The other subcontractor's proposal provided for a payment of ^{ACC: (b) (4)} [REDACTED] on acceptance of each aircraft into the overhaul facility, meaning that the aircraft would have to be physically at the overhaul facility before any payments for overhaul services were made on the subcontract. However, ^{ACC: (b) (4)} [REDACTED] received a ^{ACC: (b) (4)} [REDACTED] payment for simply signing the subcontract. As noted in the report, advance payments are the least preferred method of contract financing because of their inherent risk to the Government, as shown by the \$6.2 million in advance payments made to SES for work that has never been performed. The ACC-Redstone contracting officer should have used a more prudent contract financing method for procuring overhaul services to reduce the risk to the Army.

~~(FOUO)~~ For the second advance payment, the ACC-Redstone PARC incorrectly referenced invoice number BVN 0033 approved by DCAA on January 6, 2012. The correct invoice that lists charges for the second advance payment was invoice number BVN 0024, received on September 20, 2011, for CLIN 0006 in the amount of \$3.1 million. In contrast, invoice number BVN 0033 was for the procurement of the Mi-17 parts inventory, not for Mi-17 overhaul services. The \$4.1 million payment for invoice number BVN 0033 was for reimbursement of another subcontract advance payment representing 50 percent of the parts inventory cost procured to support the Mi-17 overhauls that did not occur. Although not discussed explicitly in the report, the 50-percent advance payment for the procurement of Mi-17 parts was also an improper advance payment. This brings the total improper advance payments to about \$10.3 million. We did not report on this advance payment in the report because the parts were delivered and because recoupment of the advance payment was not necessary.

The ACC-Redstone PARC further stated that extended delays in inducting aircraft for overhaul have "exacerbated the problem." We understand that delays occurred that

prevented induction of the aircraft into overhaul; however, delays in aircraft delivery did not justify the use of advance payments in violation of the FAR. Specifically, the Logistical Support Facility IDIQ contract contained a FAR clause that afforded SES the opportunity to submit a claim in response to Government delay of work. In addition, the aircraft delivery delays further demonstrate the need for NSRWA PMO and the ACC-Redstone Contracting Office to re-evaluate their acquisition planning for Mi-17 overhauls. In the report, we recommended the use of performance-based payments under firm-fixed price contracts for the execution of Mi-17 overhauls that would reduce the financial risk to the Army in case of delays. In conclusion, SES's subcontractor payments did not comply with FAR 32.202-1 for commercial item financing for which SES has retained payment for work not performed. As recommended in the report, the advance payments with applicable interest should be recouped from SES.

ACC-Redstone PARC Comments on Replacing Pakistan Aircraft With Afghanistan Aircraft under Task Order 0102

The ACC-Redstone PARC stated that contrary to the finding, the contract for Mi-17 overhauls was not terminated; rather, when it became evident that the Pakistan aircraft would not become available for overhaul, the NRSWA Program Manager replaced these aircraft with an existing requirement for five Mi-17s in support of Afghanistan forces. She further stated that the Afghanistan requirement was still valid and that ACC-Redstone's intention was to overhaul the five aircraft.

Our Response

The report did not indicate that the contracting officer contractually terminated the Mi-17 overhauls. As stated in the report, the DoD requiring activity for the Pakistan effort decided to terminate for convenience the overhaul services, and the NSRWA PMO requested the contracting officer to terminate the Pakistan Mi-17 overhauls. However, the contracting officer did not initiate a formal contract action to terminate the Pakistan Mi-17 overhauls.

The PMO also requested that Task Order 0102 be modified to include the overhaul of five Mi-17 aircraft from Afghanistan. Rather than terminating for convenience the Pakistan Mi-17 overhauls and initiating a new procurement for the Afghanistan Mi-17 overhauls, the contracting officer modified the task order in September 2012 to deobligate funds for CLINs 0005 and 0006 (Pakistan overhaul effort) and established CLIN 0013AA for the overhaul of five Afghanistan Mi-17 aircraft. CLIN 0013AA's value equaled the combined total of CLINs 0005 and 0006.

~~(FOUO)~~ According to the PMO, the high termination cost that would have occurred had the Government terminated for convenience drove the decision to swap the Afghanistan aircraft for the Pakistan aircraft. The PMO further stated that other courses of action were considered for the Afghanistan overhauls, ^{ACC: (b) (4)}

when the NSRWA PMO and the ACC-Redstone NSRWA Contracts Division made the decision.

~~(FOUO)~~ Therefore, the Army's advance payment of \$6.2 million for the Pakistan effort, although no work had been performed, heavily influenced the PMO and contracting office's decision to modify the task order to procure the Afghanistan overhauls. As discussed in the report, the foreign subcontractor articulated that it would not return the advance payments if the overhauls did not occur. Furthermore, SES's proposed costs to terminate the Pakistan effort, which included about \$6 million in subcontractor advance payments, were not reasonable. Accordingly, the contracting officer, instead of recouping the advance payments for work not performed and formally negotiating a fair and reasonable termination settlement for the Pakistan effort, allowed SES to retain the improper advance payments and awarded modification 39 to Task Order 0102 to swap the Pakistan aircraft for Afghanistan aircraft.

~~(FOUO)~~ Whether the decision to swap the aircraft actually preserved any DoD funds is unclear, because the Army is still potentially liable for the increased costs associated with the contract action to swap the aircraft. In July 2012, the ACC-Redstone contracting officer requested a cost impact proposal from SES for substituting Afghanistan aircraft instead of the Pakistan aircraft. In August 2012, SES submitted its cost impact proposal, which indicated that ^{ACC: (b) (4)} [REDACTED] for the overhaul of the five Afghanistan Mi-17s. Although advised of SES's increased costs for the overhauls, the contracting officer awarded modification 39 on September 26, 2012, which clearly stated that there was no change in contract price as a result of the modification. In submitting the signature page for the modification, SES notified the contracting officer of its intent to submit an Economic Price Adjustment for cost increases related to the Afghanistan overhauls before induction of the first aircraft and stressed that SES had already provided a qualified proposal that identified the cost impact associated with the Afghanistan effort. So far, the contracting officer has not funded the task order to cover the increased costs or incorporated SES's proposal for the five Afghanistan Mi-17 overhauls into the contract. As a result, SES does not intend to induct the first Afghanistan aircraft until the contracting officer increases the funding for the overhaul effort under CLIN 0013AA by about \$^{ACC: (b) (4)} [REDACTED].⁸

In consideration of the above matters, we made an additional recommendation that the Executive Deputy to the Commanding General, U.S. Army Materiel Command, review the contract action to swap the aircraft for overhaul and validate whether the contract modification was proper and that adequate funds were available to cover SES's increased costs.

ACC-Redstone PARC Comments on Contract Administration, Customary Payments, and Subcontractor Proposal

The ACC-Redstone PARC stated that the Logistical Support Facility contract and Task Order 0102 designated DCMA as the contract administration office. The ACC-Redstone PARC further provided details on invoicing procedures under Task Order 0102 and stated

⁸ CLIN 0013AA from CLINs 0005 and 0006 still had \$900,000 in funding that was originally identified for over and above work.

that neither the ACC-Redstone contracting officer nor DCMA was involved in the approval process for the invoices. She stated that provisions in the Logistical Support Facility IDIQ contract, Task Order 0102, and its contract modifications did not require the ACC-Redstone contracting officer or the NSRWA PMO to review or approve Task Order 0102 invoices. The ACC-Redstone PARC also identified that when the ACC-Redstone contracting officer awarded modification 9 in May 2011, available documentation did not indicate that the ACC-Redstone contracting officer or NSRWA PMO should intervene in the payment process. She further stated that DCAA, through their invoice review process, did not highlight a need for the ACC-Redstone contracting officer or NSRWA PMO to intervene in the payment process.

~~(FOUO)~~ The ACC-Redstone PARC indicated that invoice number BVN 0024, dated September 20, 2011, in the amount of \$3,115,451 and invoice number BVN 0033,⁹ dated January 31, 2012, in the amount of \$4,062,881 were submitted directly to DCAA for payment, in accordance with normal invoicing procedures under cost type contracts.

The ACC-Redstone PARC confirmed that the contracting officer did receive the Project Summary Report (cost report) in June 2011 and stated that the contracting officer requested a review of the report by NSRWA PMO to validate the accuracy of the report. She stated that the NSRWA PMO did not indicate any discrepancies in the report. At this point, she stated that the contracting officer had not received a copy of SES's purchase requisition dated May 9, 2011, and thus did not have knowledge of advance payments being made before actual work was performed under the Mi-17 overhaul effort.

The ACC-Redstone PARC further stated that although the contracting officer became aware of the concerns with these payments in October 2011, via communications between the requiring activity and the NSRWA PMO, she was not initially concerned because subcontractor payments were made according to customary practices in the European aviation sustainment environment, the payments were contained in the subcontractor proposal, and the contracting officer assumed that the prime contractor had received proper documentation to support their invoices.

Our Response

We disagree with the ACC-Redstone PARC that the contracting officer adequately performed her duties and responsibilities relative to the improper advance payments. FAR 1.602-2, "Responsibilities," states that contracting officers are responsible for ensuring performance of all necessary actions for effective contracting and ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships. As identified in the finding, the contracting officer retained contract administration and COR functions under Task Order 0102 for CLINs 0005 and 0006; however, she did not perform the COR functions or review

⁹ The invoices in question for advance payments for overhaul services included BVN 0017 and BVN 0024, not BVN 0033, as referenced by the ACC-Redstone PARC.

interim invoices to verify that services billed to the task order were actually performed and were reasonable and necessary to perform the task order.¹⁰

Regardless of the invoice review process, the Project Summary Reports delivered to the contracting office clearly identified the advance payments. As confirmed by the ACC-Redstone PARC, the contracting officer was aware of the advance payments in June and October 2011, respectively. Although the contracting officer suspended work in September 2011 and issued a stop work order in March 2012, the contracting officer did not take action to recover payments that were not commensurate to the work performed (contractor's performance) nor in accordance with the terms of the contract, which had no provisions for advance payments.

~~(FOUO)~~ The ACC-Redstone PARC stated that a factor why the contracting officer was not initially concerned was that the subcontractor payment was made in accordance with customary practices in the European aviation sustainment environment. Regardless of whether advance payments are customary, the contracting officer is responsible for protecting the Government's interest and complying with the FAR. Based on our review of other Mi-17 overhaul contracts and subcontracts, prime contractors typically made 20-to 50-percent payments on delivery of the aircraft to the subcontractor's overhaul facility and subsequent induction of the aircraft into overhaul. For example, under Northrop Grumman contract W9113M-07-D-0007-0021, Mi-17 overhauls were subcontracted to ACC: (b) (4). ACC: (b) (4) payment terms provided for a ACC: (b) (4) payment after delivery of the aircraft to ACC: (b) (4) facility. Northrop Grumman personnel stated that as an industry practice, these payments were typically required on receipt of the aircraft at the overhaul facility. As referenced in the finding, DoD OIG: (b) (4) task order DoD OIG: (b) (4) established DoD OIG: (b) (4) percent performance-based payments on delivery of each Mi-17 aircraft to the overhaul facility. In comparison, under Task Order 0102, advance payments were made to SES although the aircraft were never delivered to the overhaul facility, assessed for damage, or inducted into overhaul.

~~(FOUO)~~ Also, according to the ACC-Redstone PARC, another factor why the contracting officer was not concerned was that the payments were contained in the subcontractor proposal. We agree that the initial ACC: (b) (4) advance payment provision was contained in the subcontractor proposal. The ACC-Redstone PARC states that the first payment constituted an advance payment made by the prime contractor, SES, under a commercial subcontract in accordance with FAR 32.202-1. However, the ACC: (b) (4) advance payment did not comply with FAR 32.202-1, which restricts the aggregate of commercial advance payments to no more than 15 percent of the contract price before work commenced. Although not in compliance with FAR 32.202-1, the contracting officer did not challenge the subcontract payment terms. Furthermore, as confirmed by the ACC-Redstone PARC, the second ACC: (b) (4)

¹⁰ For further explanation see report pages 7 and 8.

ACC-Redstone PARC Comments on Commercial Items

The ACC-Redstone PARC provided comments supporting classification of Mi-17 overhauls as a commercial item as defined in FAR 2.101, "Definitions." The ACC-Redstone PARC stated that the Mi-17 aircraft is one of the most proliferated commercial aircraft in the world and that overhaul services performed on Mi-17 aircraft are essentially the same for both civil and military variants. She stated that the U.S. Army airworthiness standards for the Mi-17 aircraft are a commercial derivative airworthiness based on the Russian Interstate Aviation Committee certification. The ACC-Redstone PARC stated that there were 27 companies or facilities around the globe that were Interstate Aviation Committee-certified to overhaul Mi-17 aircraft, and that overhaul services from these facilities were available for civil Mi-17s.

The ACC-Redstone PARC also stated that the prime contract with SES was not commercial because the contract scope was to provide a full spectrum of engineering, manufacturing, and logistics for all Program Executive Office, Aviation-managed air platforms. She further stated that commercial subcontracts were used for the acquisition of supplies and services related to specific delivery orders.

Our Response

~~(FOUO)~~ The Government Accountability Office states that "determining whether or not a product or service is a commercial item is largely within the discretion of the contracting agency." Based on the comments provided by the ACC-Redstone PARC, the ACC-Redstone's classification of Mi-17 overhauls as a commercial item does not appear unreasonable. However, in this case, the ACC-Redstone's classification of Mi-17 overhauls as commercial items was an after the fact explanation to justify why the contracting officer allowed \$6.2 million in advance payments to be made to SES for work that was never performed. The audit team was not advised by the contracting officer or NSRWA PMO at any point during the audit that they had made a determination in accordance with the Defense Federal Acquisition Regulation Supplement (DFARS) 212.102, "Applicability" to classify Mi-17 overhauls as a commercial item. Specifically, in response to our request for justification for the advance payments, the contracting officer referred the audit team to FAR Subpart 32.404, "Exclusions," under FAR Subpart 32.4, "Advance Payment for Non-Commercial Items" and not 32.202-1, under FAR Subpart 32.2, "Commercial Item Purchase Financing," as now referenced by the ACC-Redstone PARC.

As defined in FAR 2.101, a "commercial item" means any item, other than real property, that is of a type customarily used by the general public or by non-governmental entities for purposes other than governmental purposes, and has been sold, leased, or licensed to the general public, or has been offered for sale, lease, or license to the general public. According to FAR Part 10, "Market Research," if market research establishes that the Government's need may be met by a type of item or service customarily available in the commercial marketplace that would meet the definition of a commercial item at FAR 2.101, "the contracting officer shall solicit and award any resultant contract using the policies and procedures in Part 12," "Acquisition of Commercial Items." However,

based on review of prior and recently issued contracts and task orders for Mi-17 overhaul services, contracting officers were not using FAR part 12 procedures. Additionally, the DFARS requires contracting officers to provide a written determination within the contract file when acquiring commercial items for acquisitions exceeding \$1 million. In conducting this audit and audit work for Report No. DoDIG-2012-135, "Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays," dated September 27, 2012, the audit team did not find ACC-Redstone official's written determination or other documentation in the contract file to identify Mi-17 overhaul services as a commercial item.

The FAR strictly prohibits the acquisition of commercial items under a cost type contract. Although the ACC-Redstone PARC classified the Mi-17 overhauls as a commercial item, both she and the ACC-Redstone contracting officer believed that a cost type contract was more appropriate for the acquisition of Mi-17 overhauls. This thinking does not align with the requirements in the FAR for using fixed-price contracts to acquire commercial items. In acquiring the overhauls, the contracting officer could have issued a firm-fixed-price task order or acquired the overhauls under Task Order 0102 with a firm-fixed-price CLIN, which could have facilitated performance-based or progress payments to SES without the risks associated with advance payments.

Recommendations, Management Comments, and Our Response

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, endorsed and forwarded comments from the Commander, ACC, and the ACC-Redstone PARC. The Commander, ACC, concurred with the ACC-Redstone PARC comments, and the ACC-Redstone PARC provided comments on the recommendations. The Executive Deputy to the Commanding General, U.S. Army Materiel Command, considered ACC's response to be in concurrence with Recommendations A.1, A.2, A.3, and A.6.

Redirected, Renumbered, Revised, and Added Recommendations

After reviewing comments from the ACC-Redstone PARC, we revised and redirected Recommendations A.4 and A.5 to the Executive Deputy to the Commanding General, U.S. Army Materiel Command, and renumbered them as A.2.a and A.2.b. We also added and directed Recommendations A.2.c, A.2.d, and A.2.e to the Executive Deputy. As a result, Recommendations A.1, A.2, A.3, and A.6 were respectively renumbered to A.1.a, A.1.b, A.1.c, and A.1.d.

A.1. We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting:

a. Verify that contracting officers comply with requirements in 31 United States Code § 3324 and Federal Acquisition Regulation part 32 before allowing contractors to receive contract financing.

ACC-Redstone PARC Comments

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, agreed with the recommendation when endorsing comments from the ACC-Redstone PARC. The ACC-Redstone PARC partially agreed. She disagreed that an improper advance payment occurred. However, the ACC-Redstone PARC stated that as of February 13, 2013, in order to maintain adequate oversight of the contract administration performed by contracting officers, she had reduced the review and approval thresholds for all contract actions issued under the NSRWA programs. She also stated that both ACC-Redstone and Headquarters ACC perform program management reviews of random contracts to assure adherence to regulations, to include requirements in 31 United States Code § 3324 and FAR part 32. In auditor followup, ACC-Redstone stated that the threshold reductions would be incorporated into the ACC-Redstone Standard Operating Procedure 715-1, planned for revision by June 2013.

Our Response

The ACC-Redstone PARC's comments were responsive and no further comments are required.

b. Require that the ACC-Redstone Non-Standard Rotary Wing Aircraft Directorate contracting officer receive training necessary to administer contract financing in accordance with Federal Acquisition Regulation part 32.

ACC-Redstone PARC Comments

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, agreed with the recommendation when endorsing comments from the ACC-Redstone PARC. The ACC-Redstone PARC partially agreed. She disagreed that an improper advance payment occurred. However, the ACC-Redstone PARC will require that the ACC-Redstone NSRWA Directorate contracting officer attend, by June 30, 2013, the ACC-Redstone Contracting Officer Boot Camp course as a general refresher and knowledge update. In auditor followup, an ACC-Redstone official stated that instead of the Boot Camp course, ACC-Redstone officials were planning a Contracting Officer Refresher Course, specifically designed for NSRWA Directorate personnel. ACC-Redstone stated that the curriculum of the course would include the administration of contract financing in accordance with FAR part 32.

Our Response

The ACC-Redstone PARC's comments were responsive and no further comments are required.

c. Review all current Non-Standard Rotary Wing Aircraft Directorate contracts and solicitations to verify compliance with 31 United States Code § 3324 and Federal Acquisition Regulation part 32.

ACC-Redstone PARC Comments

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, agreed with the recommendation when endorsing comments from the ACC-Redstone PARC. The ACC-Redstone PARC partially agreed. She disagreed that an improper advance payment occurred. However, the ACC-Redstone PARC stated she would direct, by June 30, 2013, an assessment of Mi-17 overhaul contracts and solicitations to verify compliance with 31 United States Code § 3324 and FAR part 32. The ACC-Redstone PARC stated that only Mi-17 overhaul contracts and solicitations would be reviewed because only overhaul work performed overseas by foreign contractors on Mi-17 aircraft were likely to present a need for advance payments.

Our Response

The ACC-Redstone PARC's comments were responsive and no further comments are required. However, we request that results of the assessment be forwarded on completion to the Executive Deputy to the Commanding General, U.S. Army Materiel Command, and our office for review.

d. Review the performance of the ACC-Redstone contracting officer at the Non-Standard Rotary Wing Aircraft Directorate, who administered task order W58RGZ 09-D-0130-0102. The contracting officer allowed advance payments in violation of United States Code and the Federal Acquisition Regulation (Finding A); did not request a technical analysis before accepting the contractor's proposal for an Mi-17 parts inventory (Finding B); did not require subcontractor competition; did not obtain cost and pricing data; did not document a price reasonableness determination; did not conduct negotiations; and did not perform cost analysis on the proposed Mi-17 parts inventory in accordance with the Federal Acquisition Regulation (Finding C); did not develop a Quality Assurance Surveillance Plan, designate a Contracting Officer's Representative, or properly issue a Certificate of Conformance for the inventory of parts used to support the Mi-17 aircraft overhauls (Finding D). As a result of that review, initiate administrative action as appropriate.

ACC-Redstone PARC Comments

~~(FOUO)~~ The Executive Deputy to the Commanding General, U.S. Army Materiel Command, agreed with the recommendation when endorsing comments from the ACC-Redstone PARC. The ACC-Redstone PARC partially agreed. She disagreed that an improper advance payment occurred. However, the ACC-Redstone PARC stated that she established a special review team of senior (GS-14) level staff to perform a full review of Mi-17 contract files and contracting officer performance for compliance with all applicable regulations, policies, and procedures. She stated that Headquarters ACC augmented this special team with a senior price analyst. The ACC-Redstone PARC stated that the team began conducting the review March 4, 2013, and is expected to submit a report of findings and corrective actions to Deputy Assistant Secretary of the Army (Procurement) in April 2013. The ACC-Redstone PARC stated she would consider the findings of this review team in deciding whether the contracting officer's performance merits administrative action. The ACC-Redstone PARC further stated that

as a result of initial findings and procurement management reviews, the contracting officer attended a recently developed, 7-day ACC-Redstone pricing course in March 2013 that reinforces costing techniques and a variety of associated subject matter. The ACC-Redstone PARC stated that the contracting officer will also attend the ACC-Redstone Contracting Officer Boot Camp course as a refresher and knowledge update. The ACC-Redstone PARC also noted the extensive involvement of the contracting officer in responding to this and other recent audits related to the contracting officer's contracts under the complex Mi-17 program and that this involvement provided practical experience and knowledge that will be invaluable to the contracting officer's future performance.

Our Response

The ACC-Redstone PARC's comments were responsive and no further comments are required. However, in light of the issues with this contracting officer's performance identified in this report and in Report No. DoDIG-2012-135, "Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays," dated September 27, 2012, and the contracting officer's supervisory role as a Division Chief in the NSRWA Directorate, we added Recommendation A.2.c requesting that the Executive Deputy to the Commanding General, U.S. Army Materiel Command validate that the ACC-Redstone review adequately considered the deficiencies of contracting officer performance identified in the reports and that appropriate actions were taken.

A.2. We recommend that the Executive Deputy to the Commanding General, U.S. Army Materiel Command:

a. ~~(FOUO)~~ **Direct contractual action to recoup up to \$6.2 million in questioned costs for advance payments paid to Science and Engineering Services plus applicable interest due in accordance with the FAR. As redirected, we request that the Executive Deputy to the Commanding General, U.S. Army Materiel Command provide comments on the recommendation in response to the final report by September 30, 2013.**

ACC-Redstone PARC Comments

~~(FOUO)~~ The ACC-Redstone PARC disagreed with the finding that an improper advance payment occurred. As discussed in the comments to the finding, the PARC stated that ACC-Redstone officials determined that the first payment (\$3.1 million) of the \$6.2 million in question costs was an advance commercial payment in compliance with FAR 32.202-1. She further stated that the ACC-Redstone contracting officer is continuing the investigation of the second payment to determine whether it was proper and that appropriate action will be taken for refund if the payment is found to be improper. She stated that this action would be completed by June 30, 2013.

Our Response

~~(FOUO)~~ The ACC-Redstone PARC comments were not responsive. As result, we elevated the recommendation to the Executive Deputy to the Commanding General, U.S. Army Materiel Command to initiate action to recover overpayments for services not

performed. We fundamentally disagree with the ACC-Redstone PARC's conclusion that the first advance payment was proper. Task Order 0102 did not authorize the payment of advance payments to SES. Nevertheless, the ACC-Redstone contracting officer allowed SES to receive \$6.2 million in advance payments in violation of 31 U.S.C. § 3324 and the FAR.

b. Review ACC-Redstone's use of cost contracts and contract financing for Mi-17 related acquisitions and require ACC-Redstone to develop a strategy to transition the Non-Standard Rotary Wing Aircraft Directorate's overhaul contracts to fixed-price contracts with performance-based payments to the maximum extent practicable. As redirected, we request that the Executive Deputy to the Commanding General, U.S. Army Materiel Command provide comments on the recommendation in response to final report by September 30, 2013.

ACC-Redstone PARC Comments

The ACC-Redstone PARC disagreed that a fixed-price contract type was appropriate for the NSRWA Directorate's overhaul contracts. The ACC-Redstone PARC's experience with the acquisition situations surrounding these and similar overhaul contracts is that the performance uncertainties (for example, condition of the aircraft, variety of configuration, service life variability) associated with this work were such that the contractor could not make reasonable estimates of their cost impact. Regardless, the ACC-Redstone PARC stated that ACC-Redstone expected that Mi-17 overhaul work performed overseas by foreign contractors would continue to be performed ^{ACC: (b) (4)} subcontracts.

Our Response

The comments of the ACC-Redstone PARC were not responsive. As a result, we redirected the recommendation to the Executive Deputy to the Commanding General, U.S. Army Materiel Command. ACC-Redstone's treatment of Mi-17 overhaul services as commercial items is inconsistent with its use of cost type contracts. FAR part 12 and subpart 16.3 prohibit the use of cost type contracts for the procurement of commercial items. ACC-Redstone official's classification of Mi-17 overhauls as commercial items combined with its argument against the use of fixed price contracts for acquiring such services does not comply with the FAR.

~~(FOUO)~~ Regardless whether Mi-17 overhaul services are classified as commercial or non-commercial, fixed-price prime contracts have been used to procure these services. Furthermore, the Mi-17 overhaul services are performed by ^{ACC: (b) (4)}. According to FAR 16.104, "Factors in selecting contract types," the extent and nature of proposed subcontracting is a factor to be considered. As stated in the finding, the overhaul services under Task Order 0102 were ^{ACC: (b) (4)}, representing ^{ACC: (b) (4)} percent of the CLIN 0006 aircraft overhaul value. The ACC-Redstone PARC agreed that the Government has adequate historical cost information for these types of services as well as historical cost information for the major components. FAR 16.103, "Negotiating contract type," states that contracting officers should avoid protracted use of cost-reimbursement

contracts after experience provides a basis for firmer pricing. Additionally, the use of a fixed-price contract for the procurement of aircraft overhaul services does not preclude the use of an over and above CLIN to address work discovered during the course of performing aircraft overhauls that is not covered by the line item(s) for the basic work under the contract.

As a result, we request that the Executive Deputy to the Commanding General, U.S. Army Materiel Command, re-evaluate the use of cost contracts and contract financing used for the procurement of Mi-17 related acquisitions and implement procedures to transition more of these contracts to fixed-price type with prudent contract financing arrangements, such as performance based payments.

c. Review actions taken by ACC-Redstone PARC in response to Recommendation A.1.d to validate whether actions taken were adequate and appropriate in the review of the performance of the ACC-Redstone contracting officer at the Non-Standard Rotary Wing Aircraft Directorate, who administered task order W58RGZ 09-D-0130-0102. As a result of that review, initiate administrative action as appropriate. We request that the Executive Deputy to the Commanding General, U.S. Army Materiel Command provide comments on the recommendation in response to the final report by September 30, 2013.

d. Review actions taken by the ACC-Redstone contracting officer with respect to the Task Order 0102 contract action to swap Pakistan Mi-17 aircraft overhauls and parts inventory requirements on CLINs 0005 and 0006 for Afghanistan Mi-17 aircraft overhaul and parts inventory requirements on CLIN 0013AA to determine whether the contract modification was proper, adequate funds were available to cover SES's increased costs, and initiate appropriate administrative action as necessary. We request that the Executive Deputy to the Commanding General, U.S. Army Materiel Command provide comments on the recommendation in response to the final report by September 30, 2013.

e. Review any claims submitted by SES under Task Order 0102 related to the Pakistan Mi-17 overhauls to verify that the claims were proper and correctly administered by the NSRWA directorate contract office. We request that the Executive Deputy to the Commanding General, U.S. Army Materiel Command provide comments on the recommendation in response to the final report by September 30, 2013.

Finding B. Unnecessary Parts Purchased for Mi-17 Overhauls

NSRWA PMO officials and the ACC-Redstone contracting officer did not clearly identify and properly procure a Mi-17 parts inventory.¹¹ Specifically, after the Office of Defense Representative Pakistan (ODRP)¹² placed an operational hold on the scheduled overhauls, the NSRWA Project Manager unilaterally directed, and the contracting officer procured, a Mi-17 parts inventory instead of procuring parts on an as-needed basis through the over and above process. Furthermore, the PMO did not perform a technical analysis or check existing DoD inventories before initiating the procurement of the Mi-17 parts inventory. Similarly, the contracting officer did not request a technical analysis for the parts inventory before accepting the prime contractor's proposal.

These actions occurred because the NSRWA PMO officials did not want a break in overhaul operations and therefore ordered Mi-17 parts considered long lead items. The NSRWA Project Manager authorized the purchase of the parts so that the subcontractor could be ready to begin overhauls when the operational hold was lifted. In addition, NSRWA PMO officials thought that they had performed a technical analysis on the Mi-17 parts inventory and simply did not consider using DoD's existing parts inventory. Lastly, the contracting officer relied on a prior NSRWA PMO technical analysis of Mi-17 overhauls that did not include a parts inventory to support the procurement.

As a result, the Army established an \$8.1 million Mi-17 parts inventory to support Pakistani Mi-17 overhauls that will not occur. In addition, the contracting officer and NSRWA PMO officials misspent a total of \$7.1 million, or 88 percent of the \$8.1 million. Specifically, the contracting officer and NSRWA PMO officials procured parts worth about \$4.5 million that were unnecessary based on historical data and parts worth about \$2.6 million that were already in DoD inventory.

Over and Above Work

Contracts for aircraft maintenance, repair, and overhaul commonly include over and above work requirements, and when they do, the DFARS Subpart 217.77, "Over and Above Work," requires contracting officers to establish a separate contract line item for over and above work. DFARS defines "over and above work" as work discovered during the course of performing overhaul, maintenance, and repair efforts not covered by the line item(s) for the basic work under the contract and is necessary to satisfactorily complete the contract. On discovery of the need for over and above work, the contractor submits a work request for Government review, verification, and authorization to

¹¹ (FOUO) The \$^{ACC: (b) (4)} Mi-17 parts inventory cost included \$^{ACC: (b) (4)} of Mi-17 parts, \$^{ACC: (b) (4)} for storage space, and \$^{ACC: (b) (4)} for an authenticity check of the Mi-17 parts.

¹² (FOUO) Central Command's ODRP, ^{ACC: (b) (4)}

proceed. According to the ACC-Redstone PARC, “over and above efforts can only be added once they [overhaul, maintenance, and repair efforts] are clearly identified.”

Mi-17 Parts Procured Without Assessment

NSRWA PMO officials and the ACC-Redstone contracting officer used \$8.1 million to procure a Mi-17 parts inventory instead of procuring parts on as-needed basis through the over and above process. In May 2011, the ACC-Redstone contracting officer awarded modification 9 to Task Order 0102 to establish a \$9 million CLIN for the over and above work. The modification also established pricing for Mi-17 replacement parts if a part on the five Pakistani Mi-17 aircraft could not be overhauled and needed to be replaced.

ODRP personnel notified NSRWA PMO officials in September 2011 that the Pakistan overhaul efforts ^{ACC: (b) (3), 10 USC § 130c} [REDACTED]

[REDACTED]. Subsequently, ODRP directed the suspension of the overhaul effort under Task Order 0102. Thereafter, the NSRWA Project Manager unilaterally decided to procure an inventory of Mi-17 parts in preparation for the five Pakistani Mi-17 overhauls and in November 2011 directed the ACC-Redstone contracting officer to authorize SES to establish a Mi-17 parts inventory. In December 2011, the ACC-Redstone contracting officer approved SES to procure the Mi-17 parts inventory using the funds obligated for over and above work. According to ODRP personnel, they did not provide direction to the NSRWA PMO for the execution of the Mi-17 parts inventory procurement after the operational hold.

According to the subcontractor, ^{ACC: (b) (4)} [REDACTED], the key element in proper management of over and above requirements is that the inspection takes place on-site at the customer’s location, thereby enabling the client to limit the number of over and above requirements. The statement of work required the contractor to travel to Pakistan and perform a certified assessment on the five aircraft to determine the extent of repair needed before overhauls began. Neither NSRWA PMO officials nor the contractor had access to the aircraft to conduct an assessment of the five Pakistani Mi-17 aircraft. Without access, the NSRWA PMO procured replacement parts, but not through the over and above process; instead NSRWA PMO relied on SES and ^{ACC: (b) (4)} [REDACTED] to provide a recommended list of parts to establish an inventory in advance of the overhauls.

Neither NSRWA PMO officials nor the contractor had access to the aircraft to conduct an assessment of the five Pakistani Mi-17 aircraft.

Therefore, the NSRWA PMO directed and the contracting officer procured the Mi-17 parts without the benefit of a certified assessment that would have specifically identified the over and above work required. Because the contracting officer failed to comply with basic principles of the DFARS when contracting for over and above work, the ACC-Redstone PARC should provide training to the ACC-Redstone NSRWA Directorate contracting officer on contracting for over and above work in accordance with DFARS Subpart 217.77.

Long Lead Items Lacked Justification

According to NSRWA PMO officials, they established the \$8.1 million parts inventory because they did not want a break in overhaul operations and therefore ordered Mi-17 parts they considered long lead items. However, the PMO did not have justification for ordering Mi-17 parts as long lead items. Army Regulation 700-18, "Provisioning of U.S. Army Equipment," states that long lead items are those identified as requiring advance ordering to meet delivery schedules. On November 4, 2011, SES informed the ACC-Redstone contracting officer that because of the Government delay, the overhaul period of performance would be extended to 9 months from the originally planned 6 months. In determining which parts to include in the parts inventory, PMO officials relied on recommended parts lists provided by SES and ACC: (b)
(4). However, SES and ACC: (b)
(4) did not provide parts' lead times in their recommended lists. PMO officials directed the procurement of the parts inventory without obtaining lead time information or identifying which parts warranted advance ordering to prevent a delay to the 9-month schedule. The PEO, Aviation, should develop internal controls that require NSRWA PMO officials to identify long lead items that justify advance ordering to meet delivery schedules.

NSRWA Project Manager Procured Mi-17 Parts Inventory Although Aircraft Were on Operational Hold

The NSRWA Project Manager unnecessarily established the \$8.1 million Mi-17 parts inventory to support Pakistani Mi-17 overhauls that will not occur. The NSRWA Project Manager stated that he authorized the Mi-17 parts inventory to be established because the requiring activity, ODRP, requested that he be ready to immediately begin overhauls if the operational hold were lifted. Therefore, the NSRWA Project Manager decided to be prepared and directed the procurement of parts in November 2011. However, the operational hold was never lifted, and in May 2012, ODRP directed the termination of the five Pakistani Mi-17 overhauls. The NSRWA Project Manager could not provide documentation to support he was requested by ODRP to be ready to immediately begin overhauls if the operational hold were lifted.

Technical Analysis Missing for Parts Inventory

The ACC-Redstone contracting officer did not request and the NSRWA PMO did not perform a technical analysis before authorizing SES to procure the Mi-17 parts inventory. As result, the contracting officer and NSRWA PMO officials authorized the procurement of parts worth about \$4.5 million that were not needed based on historical data.

Technical Analysis Needed Before Authorization To Procure Parts

The ACC-Redstone contracting officer did not request that NSRWA PMO officials perform a technical analysis before authorizing SES to procure the Mi-17 parts inventory. FAR 15.404-1, "Proposal Analysis Techniques," states that the contracting officer should request personnel having specialized knowledge, skills, experience, or capability in engineering, science, or management perform a technical analysis of types and quantities

of material. On December 23, 2011, SES submitted its Mi-17 parts inventory proposal to the contracting officer and she immediately¹³ approved the proposal without verifying that NSRWA PMO officials had performed a technical analysis on the Mi-17 parts inventory. We reviewed the contracting file and were unable to find a technical analysis for the Mi-17 parts inventory. When questioned, the ACC-Redstone contracting officer provided the NSRWA PMO technical analysis of Mi-17 overhauls. However, the technical analysis that the contracting officer provided did not include a parts inventory for the five Pakistani Mi-17 overhauls. In addition, the technical analysis performed on the Mi-17 overhauls occurred 9 months before SES submitted its Mi-17 parts inventory proposal. Because the contracting officer failed to comply with the basic principles of the FAR for proposal analysis, the ACC-Redstone PARC should require the ACC-Redstone NSRWA Directorate contracting office to receive training necessary for performing proposal analysis in accordance with FAR 15.404-1 to determine that the types and quantities of items are reasonable.

NSRWA PMO Officials Did Not Perform a Technical Analysis

~~(FOUO)~~ NSRWA PMO officials did not perform a technical analysis on the parts inventory. The NSRWA PMO Mi-17 Product Manager thought that other NSRWA PMO officials performed a technical analysis on SES's Mi-17 parts list proposal. However, the Product Manager could not provide the analysis performed on the parts inventory that demonstrated the need for and reasonableness of the proposed part types and quantities in accordance with FAR 15.404-1(e). An NSRWA PMO official, whose responsibility was to perform the analysis of the parts, stated that he did not agree to the 127 Mi-17 parts that SES proposed in September 2011. In December 2011, the responsibility to perform the technical analysis was changed to another NSRWA PMO official, who arbitrarily chose to purchase the Mi-17 parts inventory based on the \$9 million budgeted for over and above work. SES provided this NSRWA PMO official with three parts lists

developed by ACC: (b) (4). The three parts lists consisted of a quantity of 101 parts valued at \$5 million, 103 parts valued at \$6 million, and 127 parts valued at \$7 million. The NSRWA PMO official approved the parts valued at \$7 million without modifying the part quantities or excluding any of the parts. SES adjusted the \$7 million proposal for the parts inventory by adding \$^{DoD OIG: (b) (4)} in SES fees for purchasing the parts, \$^{DoD OIG: (b) (4)} for storage space at ACC: (b) (4) facility in ^{DoD OIG: (b) (4)}, Russia, and \$^{DoD OIG: (b) (4)} for an authenticity check of the Mi-17 parts performed by ACC: (b) (4).

The NSRWA PMO official approved the parts valued at \$7 million without modifying the part quantities or excluding any of the parts.

The NSRWA PMO official should have questioned the need for the \$8.1 million Mi-17 parts inventory. The NSRWA PMO official stated that he wanted to leave \$1 million of the \$9 million obligated on CLIN 0005 for over and above work and the NSRWA PMO Mi-17 Product Manager agreed with his decision. The NSRWA PMO official stated his decision to procure the \$8.1 million Mi-17 parts inventory was based on his knowledge

¹³ The ACC-Redstone contracting officer approved SES's \$8.1 million Mi-17 parts inventory proposal within 1 hour after receiving it.

and experience of Mi-17 aircraft. However, the \$8.1 million Mi-17 parts inventory he approved cost \$4.4 million higher than the historical average for parts procured for five Pakistani Mi-17 aircraft. For example, on Northrop Grumman task order W9113M-07-D-0007-0021 (Task Order 0021), the DoD procured on average \$^{ACC: (b) (4)} per aircraft for over and above work, including main and tail rotary blade sets, as a result of the completion of ^{AC} Pakistani Mi-17 overhauls. Projecting the cost for five aircraft would total about \$^{ACC: (b) (4)} (\$^{ACC: (b) (4)} x 5 Mi-17 aircraft). Table 1 provides details about the average parts procured per overhaul.

Table 1. Parts Procured for Previous Pakistani Mi-17 Overhauls Under Task Order 0021

Overhaul Facility	Pakistani Mi-17 Overhauls Completed ¹⁴	Total Parts Procured	Average Parts Procured Per Overhaul
^{ACC: (b) (4)}	^{ACC: (b) (4)}	^{ACC: (b) (4)}	^{ACC: (b) (4)}
^{ACC: (b) (4)}	^{ACC: (b) (4)}	^{ACC: (b) (4)}	^{ACC: (b) (4)}
^{ACC: (b) (4)}	^{ACC: (b) (4)}	^{ACC: (b) (4)}	^{ACC: (b) (4)}
^{ACC: (b) (4)}	^{ACC: (b) (4)}	^{ACC: (b) (4)}	^{ACC: (b) (4)}
Total*	21	\$14,706,319	\$700,301

*Total amounts are not exact because of rounding.

NSRWA PMO personnel stated that the NSRWA PMO official chose the parts list that provided the most robust parts inventory because ODRP indicated the aircraft were in degraded condition and had been stripped of many useful parts. However, according to the previous contracting officer and program management office official for the 21 Pakistani Mi-17 overhauls under Task Order 0021, Pakistani Mi-17s are normally stripped of useful parts to improve the operational readiness of the rest of the fleet. Therefore, procuring a robust parts inventory was questionable because previous Pakistani Mi-17 aircraft were also stripped of useful parts, and the average dollar amount of parts procured was historically lower than that of the Mi-17 parts inventory. The PEO, Aviation, should evaluate NSRWA PMO's procedures for conducting technical analyses and implement a standardized process for conducting and documenting technical analysis in accordance with FAR 15.404-1(e).

NSRWA PMO Official Approved Parts That Had Never Been Replaced on Previous Pakistani Mi-17 Overhauls

~~(FOUO)~~ The NSRWA PMO official approved about \$2.6 million in Mi-17 parts for Task Order 0102 that DoD had never replaced during previous Pakistani Mi-17 overhauls. We reviewed the historical cost proposals, including over and above cost, for 21 Pakistan

¹⁴ On Northrop Grumman Task Order 0021, three Pakistani Mi-17 aircraft are being overhauled at ^{DoD OIG: (b) (4)} as of February 2013. We did not include these three aircraft in our analysis of Mi-17 parts procured on Task Order 0102 because these aircraft were severely battle damaged and required substantiality more work and parts than a normal overhaul of an Mi-17 aircraft.

~~(FOUO)~~ Mi-17 overhauls under Northrop Grumman Task Order 0021. Northrop Grumman used four Mi-17 overhaul facilities to procure Mi-17 parts for the 21 Pakistani Mi-17 overhauls, including ^{ACC: (b) (4)} [REDACTED]. Table 1 on page 29 provides a listing of the overhaul facilities, overhauls completed, and total parts procured. We found that 28 of the 127 parts proposed by ^{ACC: (b) (4)} [REDACTED], valued at about \$2.6 million, had never been replaced on the previous overhauls (See Table 2.) For example, a main gearbox was procured for Task Order 0102 for \$^{ACC: (b) (4)} [REDACTED] but had never been replaced during 21 previous Pakistani Mi-17 overhauls. The NSRWA PMO’s technical analysis should have identified these parts as unnecessary.

~~(FOUO)~~ **Table 2. Mi-17 Parts Procured for Task Order 0102 That Were Never Replaced on Previous Pakistani Mi-17 Overhauls**

Part	Cost Per Part	QTY	Total Dollar Value Misspent
^{ACC: (b) (4)} [REDACTED]	^{ACC: (b) (4)} [REDACTED]	^{ACC: (b) (4)} [REDACTED]	^{ACC: (b) (4)} [REDACTED]
Subtotal			
SES Fees			
Total		28	\$2,559,983

NSRWA PMO Officials Purchased Larger Part Quantities Than Previously Replaced on Pakistani Mi-17 Overhauls

~~(FOUO)~~ The NSRWA PMO official also approved about \$1.9 million in Mi-17 part quantities for Task Order 0102 that exceeded the expected historical quantity needed for the overhaul of five Pakistani Mi-17s. Our review of 21 previous Mi-17 overhauls found that 32 of the 127 Mi-17 parts purchased exceeded historical quantities expected to be needed during the five Mi-17 overhauls. See Appendix C for unnecessary Mi-17 part quantities. For example, one engine was replaced during 21 previous Mi-17 overhauls.

~~(FOUO)~~ However, the NSRWA PMO official approved the procurement of two engines on the Mi-17 parts list. Historical quantities indicate that two engines would be unreasonable for five Mi-17 aircraft because only one engine was replaced during 21 previous Mi-17 overhauls. Therefore, the NSRWA PMO could have put about \$1.1 million to better use if the other engine was removed from the Mi-17 parts list. The Assistant Secretary of the Army (Acquisition, Logistics, and Technology), should perform a review of the Non-Standard Rotary Wing Aircraft Program Management Office officials' actions in establishing an \$8.1 million Mi-17 parts inventory without justification for advance ordering and a technical analysis, and as appropriate initiate administrative action.

NSRWA PMO Officials Did Not Procure Mi-17 Parts Previously Replaced on Other Overhauls

NSRWA PMO officials did not procure Mi-17 parts that were replaced during previous Pakistani Mi-17 overhauls. The Mi-17 parts inventory approved by the NSRWA PMO officials was missing tail rotor blades that were replaced along with main rotor blades for all the previous 21 Pakistani Mi-17 overhauls. In addition, according to a DoD OIG technical expert, exposure to the desert or mountainous terrain in Southwest Asia causes excessive wear and tear to main and tail rotor blades, and replacement of these parts occurs more frequently. Therefore, we concluded the NSRWA PMO officials failed to determine that tail rotors would also have needed replacement along with the main rotor blades because NSRWA PMO officials did not perform a technical analysis on the parts inventory.

NSRWA PMO Officials Procured Existing Mi-17 Parts

~~(FOUO)~~ NSRWA PMO officials procured about \$2.6 million in Mi-17 parts that were in existing DoD inventory. The NSRWA PMO Mi-17 Product Manager stated he did not consider using existing inventory. Of the 127 Mi-17 parts procured, 46 parts were in DoD inventory that the NSRWA PMO managed. Appendix D provides a complete list of the Mi-17 parts in existing DoD inventory. As of June 2012, ^{ACC: (b) (4)} had in its ^{DoD OIG: (b) (4)} warehouse DoD-owned Mi-17 parts purchased under Task Order 0021 with Northrop Grumman for Pakistani overhauls. For example, an Mi-17 engine procured for about \$ ^{ACC: (b) (4)} and five main rotor blade sets procured for about \$ ^{ACC: (b) (4)} were in the DoD inventory. The NSRWA PMO could have used these parts rather than order additional parts. As a result, the NSRWA PMO spent about \$2.6 million on Mi-17 parts already in DoD inventory. The PEO, Aviation, should require that the NSRWA PMO perform a full inventory review of all Mi-17 parts currently in DoD inventories.

Conclusion

The ACC-Redstone contracting officers and NSRWA PMO officials need to improve procurement procedures for the procurement of Mi-17 parts. The ACC-Redstone contracting officers and NSRWA PMO officials should use technical analysis to significantly reduce the waste of DoD funds on unneeded Mi-17 parts for Mi-17 overhauls. In addition, by purchasing Mi-17 parts for over and above work only after the

need is identified and validated, NSRWA PMO officials would reduce the risk of DoD purchasing parts for overhauls that will never be performed. As a result, the contracting officer and NSRWA PMO officials wasted \$7.1 million by not using these required procurement techniques.

Management Comments on the Finding and Our Response

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, endorsed and forwarded comments from the Commander, ACC, and the ACC-Redstone PARC. The Commander, ACC, concurred with the ACC-Redstone PARC comments, and the ACC-Redstone PARC provided comments on the finding. In addition, the PEO, Aviation, provided comments on Finding B recommendations.

ACC-Redstone PARC Comments on the Finding

~~(FOUO)~~ The ACC-Redstone PARC stated that NSRWA PMO officials identified the Mi-17 parts needed for the Pakistani Mi-17 overhauls and decided to order parts in advance to expedite the overhauls of the Mi-17 aircraft. In addition, she disagreed that the ACC-Redstone contracting officer did not request a technical analysis for the Mi-17 parts inventory. The ACC-Redstone PARC stated that the NSRWA PMO Assistant Product Manager for Sustainment confirmed that in December 2011, he conducted a technical analysis for all three SES Mi-17 parts lists. Furthermore, the NSRWA PMO Assistant Product Manager for Sustainment chose the list which provided the most robust Mi-17 parts inventory because of ODRP ^{ACC: (b) (4)} [REDACTED]. Lastly, the ACC-Redstone PARC stated that the ACC-Redstone contracting officer relied on the technical analysis to expedite approval of the Mi-17 parts inventory proposal.

Our Response

The facts do not support the ACC-Redstone PARC's response. When the NSRWA PMO officials identified the list of parts to be procured, neither the ^{ACC: (b) (4)} [REDACTED] Mi-17 aircraft to identify the parts needed for the aircraft overhauls. In addition, our analysis, as discussed in the finding, showed that NSRWA PMO officials did not conduct a review of parts installed during the previous 21 Pakistani Mi-17 overhauls (historical usage) to develop the list and instead relied on the subcontractor to develop the list. Had NSRWA PMO officials conducted a review of historical usage, the officials would have realized that the subcontractor proposed parts that had never been replaced during previous overhauls, included unreasonable parts quantities, and excluded parts that had been replaced on all 21 previous overhauls.

Further, we disagree with the ACC-Redstone PARC response that the ACC-Redstone contracting officer relied on the technical analysis to expedite approval of the Mi-17 parts inventory proposal. FAR 15.404-1(e) requires that before procurement of parts, the ACC-Redstone contracting officer must request a technical analysis to demonstrate the need for and reasonableness of the proposed part types and quantities. The

documentation provided by the NSRWA PMO officials to support their technical analysis of the parts list consisted of an e-mail from the NSRWA PMO Assistant Product Manager for Sustainment to the prime contractor agreeing to the Mi-17 parts list proposed by the subcontractor with no changes. This e-mail was not sent to the contracting officer, and there was no documentation in the contract file to show that the ACC-Redstone contracting officer requested a technical analysis or that NSRWA PMO officials provided the contracting officer a technical analysis on the parts. We requested that the NSRWA PMO provide a technical analysis when the contracting officer was unable to provide the technical analysis. When the PMO provided the e-mail discussed above, we concluded that the ACC-Redstone contracting officer expedited the approval of the parts proposal without a demonstrated need or reasonableness.

Recommendations, Management Comments, and Our Response

Redirected and Renumbered Recommendations

After reviewing comments from the PEO, Aviation, we redirected report Recommendation B.2.a to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology in Recommendation B.3. Recommendations B.2.b, B.2.c, and B.2.d were respectively renumbered as B.2.a, B.2.b, and B.2.c.

B.1. We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office:

a. Require the Army Contracting Command-Redstone Non-Standard Rotary Wing Aircraft Directorate contracting officer to receive training necessary for performing proposal analysis in accordance with Federal Acquisition Regulation 15.404-1 to determine that the types and quantities of items are reasonable.

ACC-Redstone PARC Comments

The ACC-Redstone PARC disagreed, stating that she did not agree with our allegation that a technical analysis was not properly performed. She stated that the NSRWA PMO Assistant Product Manager for Sustainment conducted a technical analysis for the Mi-17 parts inventory. Also, the ACC-Redstone PARC referred to comments provided on Finding B above.

Our Response

The ACC-Redstone PARC comments were not responsive. As stated above, we disagree with the ACC-Redstone PARC's statement that a technical analysis was properly performed. The NSRWA PMO failed to perform a technical analysis of the Mi-17 parts list procured by the ACC-Redstone contracting officer. We request that the ACC-Redstone PARC reconsider her position on the recommendation and provide comments on the final report.

b. Require the Army Contracting Command-Redstone Non-Standard Rotary Wing Aircraft Directorate contracting officer to receive training on contracting for over and above work in accordance with Defense Federal Acquisition Regulation Supplement Subpart 217.77.

ACC-Redstone PARC Comments

The ACC-Redstone PARC agreed, stating that over and above work was not treated appropriately in accordance with DFARS 217.77. In addition, the ACC-Redstone PARC stated that the ACC-Redstone Director will address over and above work with all ACC-Redstone contracting officers and establish clearly defined over and above procedures by May 31, 2013. Also, the ACC-Redstone PARC will use DCMA assistance in training and establishment of over and above procedures.

Our Response

The ACC-Redstone PARC's comments were responsive, and no further comments are required.

B.2. We recommend that the Program Executive Officer, Aviation:

a. Require that the Non-Standard Rotary Wing Aircraft Project Management Office perform a full inventory review of all Mi-17 parts currently in Department of Defense inventories.

PEO, Aviation, Comments

~~(FOUO)~~ The PEO, Aviation, agreed, stating that NSRWA PMO officials are improving the inventory data by tracking the ownership and current location of the Mi-17 parts. PMO officials will continue to monitor and verify part quantities and their location for ongoing Mi-17 aircraft overhauls. During auditor follow-up NSRWA PMO officials stated that the completion date for tracking all Mi-17 parts in DoD inventories is September 30, 2013. Also, the PEO stated that the Mi-17 parts identified in Appendix D were used to support three other Pakistan Mi-17 aircraft being overhauled at DoD OIG:
(b) (4) under Task Order 0021 and that it was in the Government's best interest to use the parts on Mi-17 overhauls under the same contract.

Our Response

The comments from the PEO, Aviation, were responsive, and no further comments are required.

b. Develop internal controls that require Non-Standard Rotary Wing Aircraft Project Management Office officials to identify long lead items that justify advance ordering to meet delivery schedules.

PEO, Aviation, Comments

The PEO, Aviation, agreed, stating that NSRWA PMO officials are analyzing historical data from over and above reports to determine the parts that are replaced during Mi-17 overhauls. NSRWA PMO officials will use the historical data analysis to develop trend

analysis to identify the Mi-17 parts required during future overhauls and use this to justify requirements for advance ordering of long lead parts. During auditor follow-up NSRWA PMO officials stated that the completion date for analysis of historical data is July 30, 2013.

Our Response

The comments from the PEO, Aviation, were responsive, and no further comments are required.

c. Evaluate NSRWA PMO's procedures for conducting technical analyses and implement a standardized process for conducting and documenting technical analysis in accordance with FAR 15.404-1(e).

PEO, Aviation Comments

The PEO, Aviation, agreed, stating that immediate changes are being implemented to standardize the process for conducting and documenting technical analyses. Also, NSRWA PMO officials will work with the ACC-Redstone contracting officers and the Army Aviation and Missile Life Cycle Management Command Pricing Team to ensure that technical analyses are performed and documented in accordance with FAR 15.

Our Response

The comments from the PEO, Aviation, were responsive, and no further comments are required.

B.3. We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) perform a review of the Non-Standard Rotary Wing Aircraft Project Management Office officials' actions in establishing an \$8.1 million Mi-17 parts inventory without justification for advance ordering and a technical analysis and as appropriate, initiate administrative action. As redirected, we request that that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) provide comments on the recommendation in response to the final report by September 30, 2013.

PEO, Aviation Comments

~~(FOUO)~~ The PEO, Aviation, agreed with our original recommendation but stated that a technical analysis had already been performed on the Mi-17 parts inventory. In addition, the PEO stated that the parts inventory was based on frequently replaced parts on the "entire spectrum" of Mi-17 overhauls conducted by Interstate Aviation Committee and Original Equipment Manufacture facilities and that a significant portion of these parts would be used to replace parts on aircraft that were in degraded condition. Also, the PEO stated that changes in political landscape can cause an operational hold to occur suddenly with unknown timeframe duration. Before the operational hold, the NSRWA PMO officials contracted for the Mi-17 overhauls with aggressive delivery schedules. Furthermore, he stated that the decision was a "programmatic decision" to provide

ACC: (b) (4) with a Mi-17 parts inventory to minimize the impact of delay of the overhauls and expedite the return of the aircraft to Pakistan.

Our Response

The comments from the PEO, Aviation, were not responsive. As a result, we redirected the recommendation to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology. We disagree with the PEO's statement that a technical analysis was performed and note that the PEO did not refute that NSRWA PMO officials misspent \$4.5 million on unnecessary Mi-17 parts. During the course of the audit, we contacted NSRWA PMO three times to obtain its technical analysis on the Mi-17 parts inventory and did not receive a response. NSRWA PMO officials were unable to provide a technical analysis that supported that the parts inventory was developed based on parts frequently replaced on the "entire spectrum" of Mi-17 overhauls. The only documentation on record clearly showed that the subcontractor proposed a list of parts that was accepted by program officials without question. In this era of shrinking budgets and added emphasis on economies and efficiencies, the NSRWA PMO needs to exercise increased stewardship over taxpayer monies.

Finding C. Mi-17 Parts Inventory Pricing Problems

The ACC-Redstone contracting officer did not determine whether prices were fair and reasonable for the \$8.1 million Mi-17 parts inventory procured to support the overhaul of five Pakistani Mi-17 aircraft under Task Order 0102. Specifically, the ACC-Redstone contracting officer did not require subcontractor competition, obtain cost and pricing data, document a price reasonableness determination, conduct negotiations, or perform cost analysis on the proposed Mi-17 parts inventory in accordance with the FAR. This occurred because the ACC-Redstone contracting officer relied on a previous price reasonableness analysis she had performed on a notional¹⁵ list of replacement parts. As a result, the Army did not obtain the benefits of either competition or negotiation based on price and costing data for the Mi-17 parts inventory and therefore, overspent about \$1.3 million for parts and storage costs previously received at a less expensive price.

Background

In April 2011, the ACC-Redstone contracting officer requested SES submit parts prices based on a list of 23 separate Mi-17 parts. The list was developed by the Government to replace parts needed for the overhaul of the five Pakistani aircraft. See Appendix E for the original parts list. SES ^{ACC: (b) (4)}

^{ACC: (b) (4)} to provide prices for the Mi-17 parts. SES provided the ACC-Redstone contracting officer ^{ACC: (b) (4)} for the Mi-17 parts. ^{ACC: (b) (4)} ^{ACC: (b) (4)}

, and according to the ACC-Redstone contracting officer, the price for the Mi-17 parts was determined to be reasonable based ^{ACC: (b) (4)}

^{ACC: (b) (4)} In May 2011, the ACC-Redstone contracting officer awarded modification 9 to Task Order 0102 to establish a CLIN for over and above work performed during the Mi-17 overhauls. She placed sufficient funding on the new CLIN to procure the list of 23 separate Mi-17 parts.

Contracting Officer Awarded Mi-17 Parts Inventory Without Competition

When the ACC-Redstone contracting officer decided to procure a Mi-17 parts inventory in December 2011, the ACC-Redstone contracting officer did not require SES to re-compete the Mi-17 parts inventory procurement although the parts inventory significantly differed from the parts list that SES had received competitive prices for in April 2011.

~~(FOUO)~~ In August 2011, while planning the parts inventory procurement, the ACC-Redstone contracting officer requested that SES provide a Mi-17 parts inventory proposal to support the five Pakistani Mi-17 aircraft overhauls without providing SES a specific

¹⁵ “Notional” is defined as presenting an idea of a thing, action, or quality. The list of 23 separate Mi-17 parts was the notional list of replacement parts. (See Appendix E.)

(FOUO) list of parts for the Mi-17 parts inventory. To establish the Mi-17 parts inventory, SES obtained a list of recommended Mi-17 parts from ^{ACC: (b) (4)}, the subcontractor that SES was using to perform the Mi-17 overhauls. In December 2011, SES submitted a proposal to the contracting officer for \$8.1 million to establish a Mi-17 parts inventory consisting of 69 separate items with a total quantity of 127 Mi-17 parts. This inventory significantly differed from the 23 Mi-17 parts valued at \$2.8 million for which the contracting officer had earlier received competitive prices. The inventory differed by about \$5.2 million, including:

- \$ ^{ACC: (b) (4)}¹⁶ in increased quantities and prices;
- \$ ^{ACC: (b) (4)} for 79 additional Mi-17 parts;
- \$ ^{ACC: (b) (4)} for storage cost; and
- \$ ^{ACC: (b) (4)} for an authenticity check on the Mi-17 parts.

According to the Office of Management and Budget “Guidelines for Increasing Competition and Structuring Contracts for the Best Results,” competition drives down costs, motivates better contractor performance, helps to curb fraud and waste, and promotes innovation. The Office of Management and Budget’s guidelines proved true because the prices for 22 separate Mi-17 parts on both lists were significantly higher on the December 2011 SES proposal. The contracting officer did not require SES to perform subcontractor competition for the Mi-17 parts inventory because ^{ACC: (b) (4)}

The contracting officer did not require SES to perform subcontractor competition for the Mi-17 parts inventory.

^{ACC: (b) (4)} on the earlier parts list. As a result, the Army did not obtain the benefits of competition when establishing the Mi-17 parts inventory. FAR Subpart 44.2, “Consent to Subcontracts,” requires contracting officers to consider whether adequate

price competition was obtained before consenting to the subcontract. Because the contracting officer failed to comply with basic principles of the FAR when consenting to subcontract, the ACC-Redstone PARC should provide training to the ACC-Redstone NSRWA Directorate contracting officer for consenting to subcontract requirements in accordance with FAR subpart 44.2.

Contracting Officer Did Not Obtain Cost and Pricing Data

The ACC-Redstone contracting officer did not obtain cost and pricing data for the Mi-17 parts inventory. FAR 15.403-4, “Requiring Cost or Pricing Data,” states that cost and pricing data are required, unless an exception applies or a waiver is granted, for any modification expected to exceed \$700,000, whether or not pricing data were initially required. The contract files cited no exceptions or waivers for the \$8.1 million Mi-17 parts inventory. In May 2011, the contracting officer issued modification 9 to Task Order 0102 for \$9 million without obtaining cost and pricing data. According to FAR 15.404-1, cost and pricing data allow the contracting officer to evaluate the reasonableness of individual cost elements by performing cost analysis. Furthermore,

¹⁶ The exact increase in quantities and prices is \$ ^{DoD OIG: (b) (4)}.

FAR 2.101 states that cost or pricing data are facts that can be reasonably expected to contribute to the soundness of estimates of future costs and to the validity of determination of costs already incurred. As a result, the Army did not receive the benefits of obtaining cost and pricing data. Because the contracting officer failed to comply with the basic principles of the FAR for obtaining cost and pricing data, the ACC-Redstone PARC should provide training to the ACC-Redstone NSRWA Directorate contracting officer for obtaining cost and pricing data. Also, the ACC-Redstone PARC, should establish procedures to verify that the NSRWA Directorate contracting officers obtain cost and pricing data for modifications expected to exceed \$700,000 in accordance with FAR 15.403-4.

Contracting Officer Did Not Document a Price Reasonableness Determination or Conduct Negotiations

The ACC-Redstone contracting officer did not document her price reasonableness determination or conduct negotiations for the Mi-17 parts inventory. According to FAR 15.406-3, “Documenting the Negotiation,” the contracting officer must document the principal elements of the negotiated agreement in the contract file to include the fair and reasonable pricing determination. In addition, FAR 15.406-1, “Prenegotiation Objectives,” states that the prenegotiation objectives establish the Government’s initial negotiation position. The contracting file did not contain price reasonableness determination documentation for the Mi-17 parts inventory to show that the contracting officer established a prenegotiation objective before negotiations. Because the contracting officer failed to comply with basic principles of the FAR for documenting negotiations, the ACC-Redstone PARC should provide training to the ACC-Redstone NSRWA Directorate contracting officer for documenting price negotiations in accordance with FAR Part 15.406-3.

FAR 15.405, “Price Negotiations,” states that performing cost analysis develops a negotiation position that permits the contracting officer and the offeror an opportunity to reach agreement on a fair and reasonable price. However, the contracting officer did not perform cost analysis on SES’s \$8.1 million Mi-17 parts inventory proposal to document

The contracting officer did not perform cost analysis on SES’s \$8.1 million Mi-17 parts inventory proposal.

a prenegotiation objective to develop a negotiation position. In addition, the contracting officer did not document her price reasonableness determination or conduct negotiations for the Mi-17 parts inventory because she relied on her previous price

reasonableness analysis and negotiations of a notional list of replacement parts. Because the contracting officer failed to comply with basic principles of the FAR for conducting price negotiations, the ACC-Redstone PARC should provide training to the ACC-Redstone NSRWA Directorate contracting officer for conducting price negotiations in accordance with FAR Part 15.405.

Contracting Officer Did Not Perform Cost Analysis

The ACC-Redstone contracting officer did not perform cost analysis on the \$8.1 million Mi-17 parts inventory and will pay¹⁷ about \$1.3 million more for parts and storage costs than submitted on previous cost estimates received from the contractor. See Appendix G for summary of potential monetary benefits. FAR 15.404-1 states that cost analysis will be used to evaluate the reasonableness of individual cost elements when cost or pricing data are required. The contracting officer may use various cost analysis techniques and procedures to ensure a fair and reasonable price. An example of such techniques is the comparison of costs proposed by the offeror for individual cost elements with previous cost estimates submitted from the offeror for the same or similar items.

Contracting Officer Will Pay Higher Prices for Mi-17 Parts

~~(FOUO)~~ The ACC-Redstone contracting officer will pay about \$1.2 million more for the procurement of 48 of the 127 Mi-17 parts than submitted on previous cost estimates received from SES. Appendix F provides a comparison of ~~(b) (4)~~ original part prices that the contracting officer received in May 2011 and ~~(b) (4)~~ final part prices that SES proposed and the contracting officer approved in December 2011. The contracting officer approved SES's \$8.1 million proposal to procure the Mi-17 parts inventory from ~~(b) (4)~~, at a price ~~(b) (4)~~ percent higher than ~~(b) (4)~~ parts prices submitted and received in May 2011. For example, the contracting officer allowed SES to charge \$~~(b) (4)~~ for a main gearbox that cost \$~~(b) (4)~~ when she received the first Mi-17 parts list 8 months earlier. As a result, the contracting officer will pay about \$1.2 million more for Mi-17 parts because she did not perform cost analysis on SES's Mi-17 parts inventory proposal.

Contracting Officer Accepted Higher Subcontractor Storage Cost

~~(FOUO)~~ The ACC-Redstone contracting officer accepted storage costs about \$~~(b) (4)~~ or ~~(b) (4)~~ times more than ~~(b) (4)~~ proposed on a previous contract she administered. SES proposed \$~~(b) (4)~~ for 500 square feet of storage space at ~~(b) (4)~~, Russia, facility for ~~(b) (4)~~ months based on ~~(b) (4)~~ quoted storage cost. This totals \$~~(b) (4)~~ per square foot per month to store the Mi-17 parts. ~~(b) (4)~~ previously provided storage space at a cost of \$~~(b) (4)~~ per square foot per month. As a result, the contracting officer accepted about \$~~(b) (4)~~ in higher storage cost because she did not perform cost analysis on SES's Mi-17 parts inventory proposal. Therefore, the Executive Deputy to the Commanding General, U.S. Army Materiel Command, should conduct an independent cost analysis in accordance with FAR 15.401-1 to validate that a fair and reasonable price is determined for the 127 Mi-17 parts, storage space and authenticity check and recoup any questionable costs paid to SES. In addition, because the contracting officer failed to comply with basic principles of the FAR for using cost analysis before awarding contracts, the ACC-Redstone PARC, should provide training to

¹⁷ As of December 2012, SES has invoiced for 90 percent of the \$8.1 million Mi-17 parts inventory and will invoice for the remaining 10 percent on receipt of final subcontractor invoice.

¹⁸ ~~(FOUO)~~ The proposed storage space also included \$~~(b) (4)~~ in SES's fees.

~~(FOUO)~~ the ACC-Redstone NSRWA Directorate contracting officer for using cost analysis before awarding contracts in accordance with FAR 15.404-1.

Conclusion

The ACC-Redstone contracting officer needs to improve the award of Mi-17 task orders. The ACC-Redstone contracting officers should require subcontractor competition, obtain cost and pricing data, perform cost analysis, document price reasonableness determinations, and conduct negotiations in establishing a fair and reasonable price in accordance with the FAR to prevent the DoD from paying higher prices. Furthermore, by not using these FAR required techniques, the contracting officer overspent \$1.3 million for parts and storage costs that were previously received at a less expensive price.

Management Comments on the Finding and Our Response

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, endorsed and forwarded comments from the Commander, ACC, and ACC-Redstone PARC. The Commander, ACC, concurred with the ACC-Redstone PARC comments, and the ACC-Redstone PARC, provided comments on the finding.

ACC-Redstone PARC Comments on the Finding

The ACC-Redstone PARC stated that the contracting officer has not requested a definitization proposal for the price of the Mi-17 inventory items that were added to the contract on modification 9. The ACC-Redstone PARC further stated that the ACC-Redstone contracting officer will establish price reasonableness for the Mi-17 parts inventory and request a proposal for the Mi-17 parts inventory that includes all cost elements from SES. The contracting officer will perform a cost analysis on the definitization proposal to determine whether the Mi-17 parts are proposed at a fair and reasonable price. The ACC-Redstone PARC stated that the contracting officer will conduct negotiations with SES to definitize all over and above work including the parts inventory. In addition, she stated that a certificate of current cost and pricing data will be obtained from SES at the end of negotiations. The ACC-Redstone PARC stated that the time period between the award of modification 9 and the definitization of the modification may seem extensive, but to conclude that the contracting officer overspent millions of dollars on the Mi-17 parts inventory is premature before the definitization of modification 9. Lastly, the ACC-Redstone PARC stated that the contracting officer will conduct research to determine whether there is a reasonable basis for the large increase in subcontractor storage cost.

Our Response

The ACC-Redstone PARC's statement that the contracting officer had not definitized Modification 9 is incorrect. On December 23, 2011, SES submitted a proposal to the ACC-Redstone contracting officer totaling \$8.1 million to procure a Mi-17 parts inventory consisting of 69 separate items with a total quantity of 127 Mi-17 parts. SES's proposal included all cost elements, including the storage costs for the Mi-17 parts and the costs of conducting authenticity checks on Mi-17 parts. That same day, the

ACC-Redstone contracting officer authorized SES personnel to proceed with the purchase and execution of the \$8.1 million Mi-17 parts inventory. On May 9, 2011, the contracting officer added modification 09 to contract W58RGZ-09-D-0130/0102. One of the purposes of modification 09 was to “authorize Science and Engineering Services, Inc. (SESI) to establish an [Mi-17 parts inventory] to prevent a break in production/service due to a shortage of parts.” The contracting officer’s notice to proceed with the purchase and execution of the Mi-17 parts inventory resulted in an obligation under the contract. Indeed, the DoD has already paid SES for 90 percent of the cost of the parts inventory. As stated in the finding, the contracting officer did not obtain cost and pricing data, perform cost analysis, conduct negotiations, and document a price reasonableness determination in accordance with the FAR before entering in the obligation under the contract to purchase the Mi-17 parts inventory.

Recommendations, Management Comments, and Our Response

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, endorsed and forwarded comments from the Commander, ACC, and the ACC-Redstone PARC. The Commander, ACC, concurred with the ACC-Redstone PARC comments, and the ACC-Redstone PARC provided comments on the recommendations. The Executive Deputy to the Commanding General, U.S. Army Materiel Command, considered ACC’s response to be in concurrence with Recommendations C.1, C.2.a, C.2.b, C.2.c, C.2.d, and C.2.e.

Redirected Recommendation

As a result of the nonresponsive comments received from the ACC-Redstone PARC, we redirected Recommendation C.1 to the Executive Deputy to the Commanding General, U.S. Army Materiel Command, to assess the ACC-Redstone contracting officer’s actions in procuring the Mi-17 parts inventory.

C.1. We recommend that the Executive Deputy to the Commanding General, U.S. Army Materiel Command conduct an independent cost analysis in accordance with Federal Acquisition Regulation 15.401-1 to validate that a fair and reasonable price is determined for the 127 Mi-17 parts, storage space and authenticity check and recoup any questionable costs with specific consideration to the \$1,306,957 in higher prices for 48 parts and storage expenses paid to Science and Engineering Service. As redirected, we request that that the Executive Deputy to the Commanding General, U.S. Army Materiel Command provide comments on the recommendation in response to the final report by September 30, 2013.

ACC-Redstone PARC Comments

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, agreed with the recommendation when endorsing comments from the ACC-Redstone PARC. The ACC-Redstone PARC partially agreed, stating that the ACC-Redstone contracting officer will conduct proposal analysis on the Mi-17 parts inventory in accordance with FAR 15.404-1. The ACC-Redstone PARC stated that the ACC-

Redstone contracting officer could not yet confirm if she will pay \$1.3 million more for parts and storage costs than submitted on previous cost estimates received from the contractor. Lastly, the ACC-Redstone PARC stated that she will request a proposal from the contractor by May 31, 2013, and complete the proposal analysis by July 31, 2013.

Our Response

The comments from the ACC-Redstone PARC were not responsive, as an obligation under the contract was already agreed to for the parts inventory costs. We redirected Recommendation C.1 to the Executive Deputy to the Commanding General, U.S. Army Materiel Command to assess ACC-Redstone contracting officer actions in procuring the Mi-17 parts inventory.

We disagree with the ACC-Redstone PARC statement that the ACC-Redstone contracting officer could not perform cost analysis on the contractors Mi-17 parts inventory because the price of the parts inventory has not been definitized. On December 23, 2011, the ACC-Redstone contracting officer received SES's Mi-17 parts inventory proposal that contained sufficient information for her to do a complete and meaningful analyses. The contracting officer did not perform any cost analysis as required by the FAR 15.404-1 before approving SES's proposal for Mi-17 parts, storage costs, and authenticity check on the parts on December 23, 2011.

~~(FOUO)~~ In addition, we previously reported that the ACC-Redstone contracting officer did not perform a price reasonableness analysis during an earlier audit performed on Mi-17 overhauls. In Report No. DODIG-2012-135, "Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays," dated September 27, 2012, we reported that the ACC-Redstone did not determine price reasonableness on a ^{ACC: (b) (4)} request for equitable adjustment before directing Northrop Grumman to invoice the U.S. Government for \$3.7 million. Because the ACC-Redstone contracting officer again accepted the contractor's proposed prices with disregard for Federal regulations, we redirected the recommendation to conduct an independent cost analysis to the Executive Deputy to the Commanding General, U.S. Army Materiel Command.

C.2. We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office provide training to the Army Contracting Command-Redstone Non-Standard Rotary Wing Aircraft Directorate contracting officer for:

- a. Consenting to subcontract requirements in accordance with Federal Acquisition Regulation Subpart 44.2.**
- b. Obtaining cost and pricing data for modifications expected to exceed \$700,000, as required by Federal Acquisition Regulation Subpart 15.4.**
- c. Documenting contract fair and reasonable price determinations in accordance with Federal Acquisition Regulation 15.406-3.**

d. Conducting price negotiations in accordance with Federal Acquisition Regulation 15.405.

e. Using cost analysis before awarding contracts in accordance with Federal Acquisition Regulation 15.404-1.

ACC-Redstone PARC Comments

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, agreed with the recommendation when endorsing comments from the ACC-Redstone PARC. The ACC-Redstone PARC, partially agreed, stating that the ACC-Redstone contracting officer required SES to perform subcontracting competition for the Mi-17 parts inventory and SES competed the original parts list attached to modification 9 of Task Order 0102. Also, the ACC-Redstone PARC stated that the contracting officer will request a proposal for the revised parts list and conduct a proposal analysis on the Mi-17 parts inventory. In addition, the ACC-Redstone PARC stated that suggesting that the contracting officer acted improperly was premature, because the Mi-17 parts inventory had not been definitized. The contracting officer will obtain cost and pricing data, document a fair and reasonable price determination, conduct price negotiations, and conduct a cost analysis as required by FAR 15.4 in the definitization of the Mi-17 parts inventory.

The ACC-Redstone PARC agreed that ACC-Redstone did find shortfalls in proper documentation that are being addressed through additional training and increased levels of review. In addition, ACC-Redstone contracting officers will attend a pricing course by the end of May 2013 that reinforces costing techniques. The ACC-Redstone PARC also stated that on February 13, 2013, she reduced the review and approval thresholds for all contract actions to maintain adequate oversight of contract administration performed by the ACC-Redstone contracting officers. The ACC-Redstone PARC reduced the approval threshold for contract actions for the ACC-Redstone contracting officer from \$10 million to \$1 million.

Our Response

We disagree with the ACC-Redstone PARC's statement that the ACC-Redstone contracting officer performed her responsibilities as a contracting officer in accordance with FAR 15.4 because the parts inventory has not been definitized. As stated in our response to recommendation C.1, the contractor submitted a proposal for the Mi-17 parts inventory and the ACC-Redstone contracting officer accepted the proposal. Also, the parts have been delivered to Russia and the DoD has paid for 90 percent of the Mi-17 parts. Therefore, the ACC-Redstone contracting officer failed to perform her responsibilities as a contracting officer by accepting the Mi-17 parts inventory proposal without obtaining cost and pricing data, conducting a cost analysis, documenting a fair and reasonable price determination, and conducting price negotiations.

The ACC-Redstone PARC comments were responsive in reference to C.2 recommendations and no further comments are required. Although we commend ACC-Redstone's efforts in training the ACC-Redstone contracting officers, the

ACC-Redstone PARC's comments are incorrect when stating that the Mi-17 parts inventory was fully competed and the parts inventory has not been definitized. As outlined in Finding C, the \$8.1 million Mi-17 parts inventory that the contracting officer authorized was not awarded in a climate of fair and open competition.

C.3. We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office establish procedures to verify that the Non-Standard Rotary Wing Aircraft Directorate contracting officers obtain cost and pricing data for modifications expected to exceed \$700,000 in accordance with Federal Acquisition Regulation 15.403-4.

ACC-Redstone PARC Comments

The ACC-Redstone PARC agreed, stating that the ACC-Redstone Pricing Directorate will be involved all in all actions that exceed the \$700,000 threshold for obtaining cost and pricing data. The ACC-Redstone PARC stated that she reduced the review and approval thresholds for all NSRWA contract actions to maintain adequate oversight of ACC-Redstone contracting officers' contract administration. The ACC-Redstone PARC stated that before negotiations with the contractor, that Pricing Directorate officials must review and approve the Price Objective Memorandum. The ACC-Redstone PARC also stated that ACC-Redstone contracting officers can no longer waive the requirement for the Price Negotiation Memorandum. In addition, the Pricing Directorate officials must review and approve the Price Negotiation Memorandum before award.

Our Response

The ACC-Redstone PARC's comments were responsive, and no further comments are required.

Finding D. Improved Contract Quality Assurance Required for Aircraft Overhauls

~~(FOUO)~~ The ACC-Redstone contracting officer did not effectively administer contractor performance under Task Order 0102 of contract W58RGZ-09-D-0130 for the overhaul of five Pakistani Mi-17 aircraft and the purchase and storage of Mi-17 inventory parts. Specifically, the contracting officer did not develop a Quality Assurance Surveillance Plan (QASP) or designate a COR for Task Order 0102. In addition, the contracting officer improperly issued a Certificate of Conformance (CoC) for inventory parts used to support the Mi-17 aircraft overhauls, some of which were aviation critical flight safety items. The contracting officer did not develop a QASP because she assumed that one had already been developed and did not designate a COR because she thought that the level of oversight provided by DCMA and the NSRWA PMO was sufficient to assess contractor performance. The contracting officer also believed she had the authority to issue a CoC for the inventory parts, but she did not. As a result, the ACC-Redstone contracting officer reduced assurance that the \$12.8 million overhaul effort would have been performed in accordance with the terms and conditions of the contract; furthermore, there is increased risk of installing nonconforming aviation critical flight safety items onto Mi-17 aircraft during overhauls.

Quality Assurance Requirements

According to FAR Subpart 46.4, “Government Contract Quality Assurance,” a QASP should be prepared in conjunction with the statement of work. Additionally, Government contract quality assurance should be performed on subcontracted supplies or services when doing so is in the Government’s best interest. According to FAR Subpart 1.6, “Career Development, Contracting Authority, and Responsibilities,” the contracting officer is responsible for formally designating and authorizing a COR for all contracts and orders that are not firm-fixed-price. Additionally, FAR subpart 16.3 states that a cost-reimbursement contract may be used only when adequate Government resources are available, including the designation of at least one qualified COR before award of the contract or order.

The Contracting Officer Did Not Develop a QASP

Although FAR subpart 46.4 states that a QASP should be prepared in conjunction with the statement of work, the ACC-Redstone contracting officer did not initially develop a QASP for the Mi-17 overhaul effort and the Mi-17 parts inventory under Task Order 0102. A QASP would have been in the Army’s best interest. A QASP for this effort would list all tasks requiring surveillance with the methods of surveillance to be used to determine whether the contracted supplies and services conformed to requirements. Because the five Pakistani Mi-17 aircraft overhauls were scheduled to be performed at a subcontractor facility in DoD OIG: (b) (4), Russia, the contracting officer should have planned effective quality assurance by developing a QASP.

In addition, by not developing a QASP, the contracting officer did not establish quality assurance procedures for aviation critical safety items in the Mi-17 parts inventory before installation on the aircraft. Although the overhauls were delayed 6 months and ODRP requested termination in May 2012, the contracting officer procured \$8.1 million of

The contracting officer did not develop a QASP for the Mi-17 overhaul effort and parts inventory.

Mi-17 parts inventory that will be stored at the subcontractor facility in Russia without oversight. The contracting officer did not develop a QASP for the Mi-17 overhaul effort and parts inventory because she assumed that a QASP for Task Order 0102 had already been developed. The

ACC-Redstone PARC should review all other NSRWA contracts to either verify that QASPs were developed for each one or else validate in writing whether it is in the Government's best interest is to develop a QASP.

On October 30, 2012, the contracting officer provided a QASP for Task Order 0102; however, the QASP contained several deficiencies. The contracting officer provided an undated QASP for Task Order 0102, 10 months after our site-visit. The contracting officer implied that the QASP was developed for the overhaul of the five Afghanistan Mi-17 aircraft that were added to Task Order 0102 on September 26, 2012. The contracting officer did not sign or approve the QASP and also did not identify the contract number, task order, and specific effort with which the QASP was associated.

Furthermore, the QASP did not include several contract requirements outlined in the contract statement of work. Additionally, the monitoring methods, acceptable quality levels, and performance ratings for each of the performance tasks in the QASP were vague and subjective. The QASP did not always provide a means to measure contractor performance. As a result of the subjective nature of the QASP, assessing the contractor's performance as required by DFARS Subpart 246.4, "Government Control Quality Assurance," will prove difficult. The ACC-Redstone PARC should require the ACC-Redstone NSRWA Directorate contracting officer to revise the QASP to reflect all critical requirements in the contract statement of work. Also, revise the QASP to include objective, measurable performance standards to facilitate the assessment of the contractor's performance.

Contracting Officer Did Not Designate a COR

Task Order 0102 is a cost-plus fixed fee contract action; therefore, the contracting officer was required to designate a COR to comply with FAR Subparts 1.6 and 16.3. However, not until October 2012 did the contracting officer appoint a COR, about 1.5 years after the contracting officer modified Task Order 0102 to add the Mi-17 overhaul and parts inventory efforts. Without a COR on-site in ^{DoD OIG: (b) (4)} [REDACTED], Russia, to provide oversight of the Mi-17 overhauls and parts inventory, the Mi-17 overhaul effort increasingly risked not being performed in accordance with contractual terms and conditions. The ACC-Redstone PARC should review all other NSRWA cost reimbursement contracts, including task orders, to verify a COR has been designated for all contracts that are not firm-fixed price.

According to the contracting officer, a COR was not appointed for the Mi-17 overhaul effort because DCMA personnel were on-site at SES's prime contractor facility in Huntsville, Alabama, and technical personnel within NSRWA PMO were overseeing the contract. The contracting officer did not believe that a COR was necessary with that level of oversight. However, the Mi-17 work was to be performed in Russia, not Alabama, and according to the contracting officer, the technical personnel within NSRWA PMO were not performing full COR duties.

Contracting Officer Improperly Issued a CoC for Mi-17 Parts Inventory

The ACC-Redstone contracting officer improperly issued a CoC that allowed ACC: (b) (4), a foreign subcontractor, to receive aviation critical safety Mi-17 parts for overhauls at its facility in DoD OIG: (b) (4), Russia, without U.S. Government inspection. A CoC is a contractor-generated document that is shipped with the parts or supplies. The contracting officer authorizes the CoC instead of authorizing source inspection. When a CoC is used, Government acceptance is based solely on the CoC with no further final inspection or acceptance inspection, such as inspections of kind, count, and condition. According to DCMA, a CoC allows the contractor to self-certify the deliverable product, and the Government will not question the product during acceptance. According to FAR 46.504, "Certificate of Conformance," a CoC may be used at the discretion of the contracting officer when:

- acceptance on the basis of a contractor's CoC is in the Government's interest;
- small losses would be incurred because of defect;
- because of the contractor's reputation or past performance, the supplies or services furnished will likely be acceptable, and any defective work will be replaced, corrected, or repaired without contest.

The contracting officer incorrectly authorized the use of a CoC for the inventory of Mi-17 parts for Task Order 0102. In June 2011, the contracting officer issued a modification to Task Order 0102 that changed the inspection requirement on the Mi-17 overhauls and parts inventory from requiring inspection at point of origin to requiring a CoC, instead of Government inspection. However, the contracting officer issued the CoC even though the parts inventory contained aviation critical safety items and the issuance of the CoC was not in the Government's best interest. According to a DoD OIG technical expert,¹⁹ 68 of the 127 parts in the Mi-17 parts inventory were aviation critical safety items that ACC: (b) (4) received and is storing at its facility in Russia.²⁰ DFARS 209.270-2, "Definitions," defines an aviation critical safety item as a part that contains a characteristic of which any failure, malfunction, or absence of which would cause a catastrophic or critical failure, an unacceptable risk of personal injury or loss of life, or an uncommanded engine shutdown that jeopardizes safety. According to the DoD OIG

¹⁹ The OIG technical expert is a U.S. Air Force helicopter instructor pilot with 26 years of experience and about 3,300 hours of flying experience in a variety of helicopters.

²⁰ As of December 2012, 58 of the 68 critical safety items were received at ACC: (b) (4) facility in Russia.

technical expert, common U.S. military practice is to inspect aviation critical safety items using visual or other inspection methods on receipt or installation of the item. However, with the contracting officer's use of a CoC, the U.S. Government will not inspect the parts.

Because of the aviation critical safety items in the Mi-17 parts inventory, the criteria required in FAR 46.504 for authorizing the contracting officer to issue a CoC were not met. Specifically, using a CoC was not in the Government's best interest because with the use of a CoC, the Government will not inspect the aviation critical safety items in the Mi-17 parts inventory. Therefore, the ACC-Redstone PARC should require the ACC-Redstone NSRWA Directorate contracting officer to withdraw the CoC and require Government inspection of aviation critical safety items. Also require the Contracting Officer Representative to verify the adequacy of aviation critical safety items.

Using a CoC was not in the Government's best interest ... the Government will not inspect the aviation critical safety items in the Mi-17 parts inventory.

In addition, the contracting officer did not obtain approval from the head of the design control activity before issuing the CoC. DFARS 246.504, "Certificate of Conformance," requires approval by the head of the design control activity before the contracting officer authorizes a CoC for aviation critical safety items. Specifically, DFARS 246.504 states, "Before authorizing a certificate of conformance for aviation or ship critical safety items, obtain the concurrence of the head of the design control activity." Because 68 of 127 parts were aviation critical safety items, DFARS 246.504 required the contracting officer to obtain this approval. The contracting officer stated that she was the approval authority because the use of a CoC was at her discretion. Because the contracting officer did not comply with the basic principles of the FAR and DFARS for the use of a CoC, the ACC-Redstone PARC should require the ACC-Redstone NSRWA Directorate contracting officer to receive training on the use of a CoC in accordance with FAR 46.504 and DFARS 246.504.

Increased Risks of Receiving Overhaul Services and Parts That Do Not Meet Contractual and Safety Standards

~~(FOUO)~~ Because of the contracting officer's ineffective administration of the Mi-17 overhaul effort under Task Order 0102, there is increased risk of receiving Mi-17 overhaul services and parts that do not meet the terms and conditions of the contract. Additionally, there are increased risks of not meeting safety standards because Government inspection was not required for aviation critical flight safety items. Specifically, the contracting officer did not develop a QASP or designate a COR, and improperly issued a CoC for aviation critical safety items. As a result, the ACC-Redstone contracting officer has reduced assurance that the Mi-17 overhaul effort valued at \$12.8 million would have been performed in accordance with the terms and conditions of the contract. Additionally, until the CoC is withdrawn and a Government inspection of

~~(FOUO)~~ Mi-17 parts stored at a foreign subcontractor facility in DoD OIG: (b) (4), Russia, occurs, there is added risk of installing nonconforming aviation critical flight safety items onto overhauled Mi-17 aircraft.

Conclusion

The ACC-Redstone contracting officer needs to improve required quality assurance controls for the Mi-17 overhaul effort under Task Order 0102 as well as for all future contracts and task orders. Specifically, the contracting officer needs to revise the QASP, withdraw the current CoC, and cease issuing CoCs on all future efforts to allow for inspection of critical safety items by a Government representative. The ACC-Redstone contracting officer must take immediate action to reduce ACC-Redstone's risk of receiving Mi-17 overhaul services and parts inventory that do not adhere to contractual and safety standards.

Management Actions To Improve Quality Assurance

The ACC-Redstone contracting officer and NSRWA PMO took remedial action to address two of the specific quality assurance deficiencies. In October 2012, the contracting officer designated a COR and provided a QASP for task order 0102. These are positive actions that can improve quality assurance. However, the contracting officer needs to amend the QASP to correct other deficiencies identified in the finding.

Management Comments on the Finding and Our Response

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, endorsed and forwarded comments from the Commander, ACC, and the ACC-Redstone PARC. The Commander, ACC, concurred with the ACC-Redstone PARC comments, and the ACC-Redstone PARC provided comments on the finding.

ACC-Redstone PARC Comments on the Finding

The ACC-Redstone PARC stated the ACC-Redstone contracting officer will monitor and work with the NSRWA PMO to revise the QASP for accuracy and consistency to ensure proper contract performance. The ACC-Redstone PARC added that the contracting officer did not designate a COR initially, because at that time, there was no reason to indicate that the level of oversight provided by DCMA and the NSRWA PMO would not be sufficient to assess contractor performance. However, a COR was appointed by letter dated October 29, 2012. Furthermore, the contracting officer will work closely with the COR to assure proper contract management.

The ACC-Redstone PARC further stated that according to the ACO, a CoC was not submitted by the contractor. The ACC-Redstone PARC further stated that the contracting officer will execute an administrative modification to change inspection from CoC to origin. Although the contracting officer was not aware that 68 of 127 parts were critical safety items, modifying Task Order 0102 to require physical inspection will address the audit concerns.

Our Response

Although we agree with the designation of a COR on October 29, 2012, the level of oversight before this designation was deficient. As stated in the finding, contrary to comments received, DCMA personnel were on-site at SES's prime contractor facility in Huntsville, Alabama, and technical personnel within the NSRWA PMO, also in Huntsville, Alabama, were overseeing the contract. However, the Mi-17 overhaul work was to be performed in Russia, not Alabama, and the contracting officer was aware of this 1.5 years before designating a COR for the task order. According to the contracting officer, the technical personnel within the NSRWA PMO were also not performing full COR duties. Regarding the management corrective actions, we agree with the new oversight established and agree that the contracting officer should work closely with the COR to assure proper contract management. We also agree with the contract administrative modification to change inspection from CoC to Origin.

Recommendations, Management Comments, and Our Response

D. We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office:

1. Review all other Non-Standard Rotary Wing Aircraft contracts to verify a Quality Assurance Surveillance Plan has been developed for each one and that a Contracting Officer Representative has been designated for each non-firm-fixed-price contract action.

ACC-Redstone PARC Comments

The ACC-Redstone PARC agreed, stating that she has established a special review team of senior level staff to perform a full review of Mi-17 contract files and contracting officer performance for compliance with all applicable regulations, policies, and procedures. The ACC-Redstone PARC further stated that the Headquarters ACC augmented this special team with two senior price analysts. The team began conducting the review March 4, 2013, and is expected to submit a report of findings and corrective actions to the Deputy Assistant Secretary of the Army, Policy, in April 2013. Furthermore, other NSRWA contracts will be reviewed by May 31, 2013, to verify that a QASP is appropriate and included in the contract and that a COR has been designated for each non-firm-fixed-price contract action.

2. Review all Non-Standard Rotary Wing Aircraft contracts and task orders for which a Quality Assurance Surveillance Plan does not exist and validate whether the Government's best interest is to develop a Quality Assurance Surveillance Plan.

ACC-Redstone PARC Comments

The ACC-Redstone PARC agreed with the recommendation, stating she will direct, by May 31, 2013, an assessment of all NSRWA contracts and task orders for which a QASP does not exist and validate whether the Government's best interest is to develop a QASP.

3. Require the Army Contracting Command-Redstone Non-Standard Rotary Wing Aircraft Directorate contracting officer to revise the Quality Assurance Surveillance Plan for the overhaul of the five Afghanistan Mi-17 aircraft to reflect all critical requirements in the contract statement of work and to include objective, measurable performance standards to facilitate the assessment of the contractor's performance.

ACC-Redstone PARC Comments

The ACC-Redstone PARC agreed, stating she will require the contracting officer to revise the QASP by April 30, 2013. The revisions will include the overhaul of the five Afghanistan Mi-17 aircraft to reflect all critical requirements in the contract statement of work, to include objective, measurable performance standards to facilitate the assessment of the contractor's performance.

4. Require Army Contracting Command-Redstone Non-Standard Rotary Wing Aircraft Directorate contracting officer to withdraw the Certificate of Conformance and require Government inspection of flight critical parts. Also require the Contracting Officer Representative to verify the adequacy of flight critical parts.

ACC-Redstone PARC Comments

The ACC-Redstone PARC partially agreed, stating that the contractor did not submit a CoC. The ACC-Redstone PARC further stated she will require the contracting officer to execute a modification to change inspection from CoC to origin, by April 30, 2013. Also, the contracting officer will require the COR to verify the adequacy of flight critical parts by May 31, 2013.

5. Require the Army Contracting Command-Redstone Non-Standard Rotary Wing Aircraft Directorate contracting officer to receive training on the use of a Certificate of Conformance in accordance with Federal Acquisition Regulation 46.504 and Defense Federal Acquisition Regulation Supplement 246.504.

ACC-Redstone PARC Comments

The ACC-Redstone PARC agreed, stating that she will require the NSRWA Director to conduct refresher training on this subject by June 30, 2013.

Our Response

The ACC-Redstone PARC comments are responsive to the recommendations, and no further comments are required. The PARC acknowledges that the contractor did not submit a CoC; there was no U.S. Government or contractor inspection of aviation critical safety Mi-17 parts for overhauls at the foreign subcontractor facility in DoD OIG: (b) (4), Russia. However, the PARC actions to execute a modification to change inspection from CoC to origin and requirement for the COR to verify the adequacy of flight critical parts meets the intent of recommendation D.4.

Appendix A. Scope and Methodology

We conducted this performance audit from December 2011 through March 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our audit included the award and administration of contract W58RGZ 09-D-0130 Task Order 0102 for the overhaul and modification of Mi-17 aircraft. However, during the audit, we decided to segregate the review of the Mi-17 overhaul and the Mi-17 cockpit modification efforts. The scope of this report focused on the award and administration of the Mi-17 overhaul effort under Task Order 0102. We intend to conduct a separate review of the Mi-17 cockpit modification effort and to report on it separately.

We downloaded Task Order 0102 and modifications from the Electronic Document Access Web site. We downloaded an invoice for Northrop Grumman task order W9113M-07-D-0007-0021 from the Wide Area Workflow Web site. We visited NSRWA PMO, ACC-Redstone, and SES in Huntsville, Alabama, to obtain contract files, gather supporting documentation, and interview contracting officers, program management, DCMA personnel, and SES personnel. We interviewed DCAA personnel, the DCMA ACO, and ODRP personnel via telephone. We also obtained contract documentation, correspondence, and invoices through e-mail with the above personnel.

We reviewed Task Order 0102 and contract file documentation for compliance with the FAR, DFARS, and U.S.C. We reviewed the contract file to determine whether the ACC-Redstone contracting officer adequately determined price reasonableness for the Mi-17 parts inventory. We reviewed the contract file and relied on interviews with NSRWA PMO officials to determine whether a technical analysis was performed on the Mi-17 parts inventory. We relied on interviews with ODRP and NSRWA PMO officials to determine whether ODRP defined a requirement for a Mi-17 parts inventory and whether parts were ordered after the operational hold. We examined contractor invoices and disbursement history reports to identify advance payments made to SES for the overhaul services. We reviewed the contract file and relied on interviews with the ACC-Redstone and DCMA officials to determine whether the contracting officer established required quality assurance controls.

We based the Mi-17 parts inventory cost on an SES cost proposal. We compared the cost proposed by SES to previous Mi-17 parts quotes submitted by ^{ACC: (b) (4)} to determine increases in part prices. We reviewed SES invoices and disbursement history reports to determine the amount paid for the Mi-17 parts inventory. In addition, we reviewed an invoice provided by ^{ACC: (b) (4)} under the Northrop Grumman Task Order 0021 to determine the increase in storage cost under SES Task Order 0102. We reviewed Northrop Grumman Task Order 0021 cost proposals and an ^{ACC: (b) (4)} invoice to identify Mi-17 parts requiring replacement for 21 previous Pakistani Mi-17 overhauls.

We reviewed ^{(b) (4)} [REDACTED] list of existing DoD inventory to determine whether Mi-17 parts were in existing DoD inventory.

For estimating the cost of interest on the advance payments, we used applicable interest rates established by the Secretary of the Treasury as prescribed in the Advance Payments clause within the FAR. The FAR required the interest rates to be applied to the unliquidated balance each month using the applicable daily interest rate. Using the interest rates established by the Secretary of the Treasury, we calculated daily interest rates and applied those to the applicable balance of advance payments. We concluded the interest calculations as of the end of May 2013. The interest calculation was attributed to an “up to” value because the audit team did not receive documentation necessary to determine what portion of the advance payment was liquidated.

~~(FOUO)~~ For our analysis of the SES proposal for terminating the overhauls for convenience, we created two estimates based on independent information sources. For the first estimate, we used subcontractor documentation, provided under Northrop Grumman task orders, to calculate estimated daily idle facility rates in which we applied to the number of days attributed to the delay under Task Order 0102. Based on SES invoices and termination proposal, we added this calculation to estimated management costs, settlement costs, and fee. For the second estimate, we used ^{DoD OIG: (b) (4)} [REDACTED] estimated termination settlement costs under ^{DoD OIG: (b) (4)} [REDACTED] for comparison and adjusted the total by subtracting costs unrelated to the SES overhaul effort. We then applied an escalation factor to account for the additional aircraft under the SES task order. The two independent estimates were within ^{ACC: (b) (4)} [REDACTED] percent of each other. We compared the higher of the two estimates to SES’s proposed termination settlement cost estimate and determined that SES’s estimate exceeded our estimate by \$^{ACC: (b) (4)} [REDACTED]. The SES \$7 million proposed termination settlement was ^{ACC: (b) (4)} [REDACTED] times greater than our estimate.

Use of Computer-Processed Data

We relied on computer-processed data from Electronic Document Access Web site, Wide Area Workflow Web Site, and Mechanization of Contract Administration Services Disbursement History.

Electronic Document Access is a Web-based system that provides secure on-line access, storage, and retrieval of contract and contract modifications to authorized users throughout DoD. We compared the modifications obtained from Electronic Document Access Web site with those in the hardcopy contract file from ACC-Redstone. As a result of our analysis, we are confident data collected from the Electronic Document Access Web site were sufficiently reliable for the purpose of determining the value of the CLINs established under Task Order 0102.

Wide Area Workflow is a Web-based system for electronic invoicing, receipt, and acceptance. We compared the invoice obtained from Wide Area Workflow to the task order modification and disbursement history report. As a result of our analysis, we are

confident that data collected from Wide Area Workflow were sufficiently reliable for the purpose of determining payments requested under the task order.

The Mechanization of Contract Administration Services Disbursement History reports, which we received from the DCMA ACO, show the detailed obligation and disbursement transactions on the contract. We verified that the information was accurate by matching the disbursement amount from the Mechanization of Contract Administration Services Disbursement History reports to the total amount invoiced in Wide Area Workflow. As a result of our analysis, we are confident that data collected from the Mechanization of Contract Administration Services Disbursement History report were sufficiently reliable for determining the amount paid on the contract.

Use of Technical Assistance

We received technical assistance from a technical analyst from the DoD Office of Inspector General (OIG) Technical Analysis and Coordination Cell to analyze the Mi-17 parts inventory. The technical analyst reviewed the Mi-17 parts inventory to identify parts that were critical safety items.

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DOD IG) has issued two reports discussing NSRWA PMO and Mi-17 aircraft. Unrestricted DOD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

DOD IG

Report No. DODIG-2012-135, “Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays,” September 27, 2012

Report No. DODIG-2012-036, “DoD Needs to Improve Accountability and Identify Costs and Requirements for Non-Standard Rotary Wing Aircraft,” January 5, 2012

Appendix B. Timeline for Procurement of Mi-17 Overhauls and Parts Inventory

September 28, 2010 – ACC-Redstone contracting officials awarded W58RGZ-09-D-0130 Task Order 0102 to SES for Mi-17 cockpit modifications valued at about \$9 million.

March 17, 2011 – An ODRP official requested the Program Executive Office Aviation to assist in expediting the contract award for Mi-17 overhauls and modifications.

March 18, 2011 – An NSRWA PMO official informed ODRP officials that the U.S. Government will contract for five Mi-17 overhauls through the Logistics Support Facility contract. ACC-Redstone requested that SES submit a proposal for the overhaul of five Pakistan Mi-17 aircraft, and subsequently, ^{ACC: (b) (4)} [REDACTED].

March 25, 2011 – Based on SES’s evaluation of subcontractor proposals for the five Mi-17 overhauls, SES personnel determined that ^{ACC: (b) (4)} [REDACTED] set forth in the request for proposal.

March 28, 2011 – SES personnel notified the ACC-Redstone contracting office that SES selected ^{ACC: (b) (4)} [REDACTED] to perform the five Pakistan Mi-17 overhauls as result of the ^{ACC: (b) (4)} [REDACTED].

March 31, 2011 – An NSRWA PMO official issued a memorandum regarding the technical evaluation of SES’s proposal for the five Pakistani Mi-17 overhauls. NSRWA PMO agreed with SES’s proposed approach and noted only that travel costs seemed excessive.

April 1, 2011 – ~~(FOUO)~~ Although SES had not finalized the subcontract, ACC-Redstone contracting officials determined SES’s cost of \$13.8 million for five Mi-17 overhauls, based on the highest proposed subcontract value, was fair and reasonable. The ACC-Redstone contracting officer awarded Task Order 0102 modification 4 to SES for the overhaul of five Pakistani Mi-17 aircraft for \$13.8 million.

April 4, 2011 – The ACC-Redstone contracting officer requested SES personnel to propose prices for 23 Mi-17 replacement parts. The contracting officer requested SES personnel submit new parts prices if the aircraft could not be overhauled.

April 6, 2011 – A US Army Space and Missile Defense Command contracting officer awarded task order ^{DoD OIG: (b) (4)} [REDACTED], modification 6, to ^{DoD OIG: (b) (4)} [REDACTED] for the overhaul of four Mi-17 aircraft in support of Pakistan.

April 7, 2011 – SES personnel requested that both ^{ACC: (b) (4)} [REDACTED] and ^{ACC: (b) (4)} [REDACTED] personnel provide pricing and lead times for the 23 Mi-17 replacement parts.

April 12, 2011 – ^{ACC: (b) (4)} personnel provided their \$2.8 million Mi-17 original parts proposal to SES personnel. See Appendix E for list and prices of Mi-17 parts provided by ^{ACC: (b) (4)} personnel.

May 6, 2011 – An ACC-Redstone contract specialist documented a fair and reasonable cost determination for the Mi-17 overhauls based on final proposal revisions. According to the fair and reasonable cost determination, the Government evaluated the subcontractor's cost and past performance and did not take exception to SES's selection of ^{ACC: (b) (4)} as the subcontractor.

May 9, 2011 – ~~(FOUO)~~ The ACC-Redstone contracting officer awarded modification 9 to Task Order 0102. This modification established an over and above CLIN valued at \$9 million and incorporated pricing for Mi-17 parts in an event parts needed replacement during the overhaul of the five Pakistani aircraft. This modification also reduced the overhaul CLIN to \$ ^{ACC: (b) (4)} based on finalization of the subcontract with ^{ACC: (b) (4)}.

May 10, 2011 – ~~(FOUO)~~ SES personnel issued a firm-fixed-price purchase order to ^{ACC: (b) (4)} for \$ ^{ACC: (b) (4)} for the overhauls.

May 13, 2011 – ~~(FOUO)~~ ^{ACC: (b) (4)} personnel issued an invoice to SES for \$2.8 million for the overhaul of the five Mi-17 aircraft.

June 3, 2011 – ~~(FOUO)~~ The Government received a \$3.1 million SES invoice for CLIN 0006, the Mi-17 overhaul effort.

June 10, 2011 – The ACC-Redstone contracting officer issued Task Order 0102, modification 11, which changed the inspection on CLIN 0005, over and above work, and CLIN 0006, Mi-17 overhaul effort, from origin to CoC.

June 27, 2011 – SES personnel provided its May 2011 Project Summary Report to an ACC-Redstone contract specialist that identified the first advance payment to ^{ACC: (b) (4)}

July 7, 2011 – An ODRP official informed an NSRWA PMO official that ODRP leadership decided the shipment of Mi-17's for overhaul would not proceed until visas for ODRP officials were issued.

August 11, 2011 – The ACC-Redstone contracting officer authorized SES personnel to establish an inventory of Mi-17 parts in support of the overhaul of the five Pakistani Mi-17 aircraft contracted for in Task Order 0102, modification 9.

August 24, 2011 – ~~(FOUO)~~ SES personnel issued change order 1 to the firm-fixed-price purchase order with ^{ACC: (b) (4)} for the overhauls. The purpose of the change order was to change payment terms to add an additional prepayment for the Mi-17 overhaul

~~(FOUO)~~ effort; there was no monetary change. Also on this date, ^{ACC: (b) (4)} personnel issued an invoice for \$2.8 million for commencement of the Mi-17 overhaul effort to SES.

September 1, 2011 – In response to the contracting officer’s August 11, 2011, notification, SES personnel requested a list of parts to be included in the Mi-17 parts inventory.

September 15, 2011 – ^{ACC: (b) (4)} personnel provided SES a \$7 million recommended Mi-17 parts inventory list. The list included 69 separate parts with a total quantity of 127 Mi-17 parts. This is the same list of Mi-17 parts that SES personnel ultimately proposed on December 23, 2011.

September 20, 2011 – ~~(FOUO)~~ The Government received another \$3.1 million SES invoice against CLIN 0006, the Mi-17 overhaul effort. Additionally, SES personnel provided NSRWA PMO officials with ^{ACC: (b) (4)} \$7 million recommended Mi-17 parts inventory list for consideration and direction.

September 21, 2011 – NSRWA PMO officials and SES personnel met and discussed the delay because of temporary hold of performance on the contract as well as the nonrefundable prepayments to ^{ACC: (b) (4)} to hold spots in the production line to overhaul the aircraft.

September 22, 2011 – Via e-mail to ODRP officials, an NSWRA PMO official provided his interpretation of the terms “delay,” “suspension,” and “stop work.” As a result of these definitions, an ODRP official directed NSRWA PMO officials to suspend the Mi-17 overhauls.

September 28, 2011 – The ACC-Redstone contracting officer ordered a suspension of all efforts associated with the Pakistan Mi-17 aircraft under Task Order 0102 for CLIN 0006, the Mi-17 overhauls, and 0005, the Mi-17 parts inventory. The suspension notice also stated that the delay was considered temporary and should not be construed as a stop work notification. SES personnel subsequently notified ^{ACC: (b) (4)} personnel of the suspension and requested ^{ACC: (b) (4)} personnel submit a cost estimate because of delay of work.

October 17, 2011 – ~~(FOUO)~~ ^{ACC: (b) (4)} personnel notified SES personnel that as a result of the delay, if the aircraft were submitted for overhaul in 2012 instead of 2011, the overhaul period would be extended about 2 months and costs would increase by ^{ACC: (b) (4)} to ^{ACC: (b) (4)} percent.

October 28, 2011 – SES personnel sent a letter to the ACC-Redstone contracting officer acknowledging the suspension notice; however, SES personnel stated that its recent communication with the project office indicated a desire for SES to continue the effort to establish the Mi-17 parts inventory. SES personnel requested clarification from the contracting officer concerning the suspension of work as it pertained to the Mi-17 parts

inventory. SES personnel also informed the contracting officer of the cost and schedule repercussions because of the delay.

November 2011 – NSRWA PMO officials first verbally apprised ODRP officials of the possibility of canceling the ^{DoD OIG: (b) (4)} and SES Pakistan Mi-17 overhaul contracts during a video teleconference.

November 30, 2011 – An NSRWA PMO official instructed the ACC-Redstone contracting officer to send SES personnel authorization to execute the Mi-17 parts inventory for the Pakistani overhaul effort. The contracting officer complied and authorized SES personnel to proceed with the execution of the parts inventory under CLIN 0005.

December 5, 2011 – SES personnel requested an NSRWA PMO official to decide which list of parts NSRWA PMO wanted for the Mi-17 parts inventory. SES personnel attached a spreadsheet with options for parts from ^{ACC: (b) (4)} totaling \$ ^{ACC: (b) (4)}. SES planned on storing ^{ACC: (b) (4)}, Russia.

December 12, 2011 – An NSRWA PMO official e-mailed SES personnel stating that he wanted to proceed with the \$ ^{ACC: (b) (4)} parts list and to leave about \$ ^{ACC: (b) (4)} open for SES profit, other direct costs, and indirect costs.

December 23, 2011 – SES personnel submitted its \$ ^{ACC: (b) (4)} proposal for the Mi-17 parts inventory to the ACC-Redstone contracting officer, as well as SES's request to proceed with the Mi-17 parts inventory. Within 1 hour after SES personnel submitted their proposal, the ACC-Redstone contracting officer authorized SES personnel to proceed.

December 29, 2011 – SES personnel issued a firm-fixed-price purchase order to ^{ACC: (b) (4)} for ^{ACC: (b) (4)} for the Mi-17 parts inventory.

March 9, 2012 – An NSRWA PMO official issued a memorandum to an ACC-Redstone contract specialist requesting a stop work order for all Pakistani Mi-17 efforts on Task Order 0102.

March 22, 2012 – The ACC-Redstone contracting officer issued a stop work order to SES personnel for all work being done in pursuit of performance of aircraft overhaul for Pakistan owned aircraft work on Task Order 0102.

March 23, 2012 – SES personnel informed ^{ACC: (b) (4)} personnel of the stop work order and requested that ^{ACC: (b) (4)} personnel provide the total of funds that had been expended on the effort to date.

March 26, 2012 – The ACC-Redstone contracting officer informed SES personnel that the Government was contemplating a termination for convenience for all efforts

associated with the performance of aircraft overhaul for Pakistan (CLINs 0005 and 0006). The contracting officer requested SES personnel to provide a not-less-than amount for the termination of the overhaul effort.

April 16, 2012 – An NSRWA PMO official recommended to an ODRP official cancellation of the DoD OIG: (b) (4) and SES Mi-17 overhauls contracts. The ODRP official requested a full understanding of the financial impacts of a termination for convenience before deciding on cancellation.

April 30, 2012 – In response to the contracting officer’s March 26, 2012, request, SES personnel provided the contracting officer estimated closeout costs for CLINs 0005 and 0006 if a termination for convenience were issued.

May 31, 2012 – ODRP officials decided to fully terminate for convenience the DoD OIG: (b) (4) overhaul contract and partially terminate for convenience the overhaul effort under SES Task Order 0102. ODRP officials requested the continued procurement of the parts inventory under Task Order 0102.

September 26, 2012 – The ACC-Redstone contracting officer awarded W58RGZ-09-D-0130 Task Order 0102, modification 39. This modification deobligated funds for CLINs 0005 and 0006, and established CLIN 0013AA for the overhaul of five Afghanistan Mi-17 aircraft. CLIN 0013AA’s value equaled the combined total of CLINs 0005 and 0006.

October 29, 2012 – The ACC-Redstone contracting officer designated a COR for CLIN 0013AA under Task Order 0102. In addition, NSRWA PMO officials provided the ACC-Redstone contracting office with a QASP for the overhaul, return to service, heavy repair, and modification of non-standard aircraft under Task Order 0102.

(~~FOUO~~) Appendix C. Unnecessary Part Quantities

Part	Part Qty* Procured	Historical Part Qty Expected for Five Mi-17 Overhauls	Part Qty That Exceeded Historical Part Qty	Cost Per Part	Unreasonable Part Quantity Cost
ACC: (b) (4)	ACC: (b) (4)	ACC: (b) (4)	ACC: (b) (4)	ACC: (b) (4)	ACC: (b) (4)
Subtotal					\$ DoD OIG: (b) (4)
SES Fees					DoD OIG: (b) (4)
Total			32		\$1,851,994

*Qty equal quantity.

(~~FOUO~~) Appendix D. Existing DoD Inventory

Part	Cost	Quantity of Parts in Existing DoD Inventory	Savings If Existing DoD Inventory Was Used
ACC: (b) (4)	ACC: (b) (4)	ACC: (b) (4)	ACC: (b) (4)

(FOUO)

Part	Cost	Quantity of Parts in Existing DoD Inventory	Savings If Existing DoD Inventory Was Used
ACC: (b) (4)	ACC: (b) (4)	ACC: (b) (4)	ACC: (b) (4)
Subtotal			DoD OIG: (b) (4)
SES Fees			DoD OIG: (b) (4)
Total			\$2,645,284

(~~FOUO~~) Appendix E. Original Parts List

Part	ACC: (b) (4) Original Part Prices	QTY
ACC: (b) (4)	ACC: (b) (4)	ACC: (b) (4)
Total	\$2,844,970	23

¹The tail rotor was not included in the 69 separate parts established for the Mi-17 parts inventory.

(~~FOUO~~) Appendix F.
Part Prices

ACC: (b) (4)

Mi-17

Part	ACC: (b) (4) Original Part Prices	ACC: (b) (4) Final Part Prices	Pricing Difference	Qty*	Total Difference
ACC: (b) (4)	ACC: (b) (4)	ACC: (b) (4)	ACC: (b) (4)	ACC: (b) (4)	ACC: (b) (4)
Subtotal					DoD OIG: (b) (4)
SES Fees					DoD OIG: (b) (4)
Total					\$1,195,046

*Qty equal quantity.

~~(FOUO)~~ Appendix G. Summary of Potential Monetary Benefits

Recommendations	Type of Benefit	Amount of Benefit
A.2.a	Questioned costs. Recoup advance payments paid to contractor and applicable interest.	\$6,438,032
C.1	Questioned costs. Recoup unreasonable prices paid to contractor.	1,306,957
	Total	\$7,744,989

U.S. Army Materiel Command Comments

Final Report
Reference



REPLY TO
ATTENTION OF:

DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
4400 MARTIN ROAD
REDSTONE ARSENAL, AL 35898-5000

APR 17 2013

AMCIR

MEMORANDUM FOR Department of Defense Inspector General (DoDIG), ATTN:
Acquisition and Contract Management Division (Ms. Jacqueline L. Wicecarver),
4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Command Comments on DoDIG Draft Report – Army Needs To Improve Mi-17
Overhaul Management and Contract Administration (Project D2012AS-0075)

1. The US Army Materiel Command (AMC) has reviewed the subject draft report and the response from the US Army Contracting Command (ACC). ACC has responded as partially concurring with eleven of the report's recommendations. AMC considers ACC's response on ten of these eleven recommendations (A.1, A.2, A.3, A.6, C.1, C.2.a, C.2.b, C.2.c, C.2.d, and C.2.e) to be concur and actions have been initiated or completed that will meet the recommendation's intent. What ACC does not concur with are the findings that precipitated these ten recommendations. AMC endorses the enclosed ACC response as caveated here.

2. Please note that paragraphs marked For Official Use Only in the enclosed response are based on content of the paragraph and deemed exempt from release under the Freedom Of Information Act Exemption 4 except as otherwise identified.

3. The AMC point of contact is DoD OIG: (b) (6) (256) 450 DoD OIG: DSN 320 DoD OIG: or email:
DoD OIG: (b) (6)

DoD OIG: (b) (6)

Encl

Executive Deputy to the
Commanding General

Renumbered
Recommendation
A.1, A.2, A.3, and A.6
as Recommendation
A.1.a, A.1.b, A.1.c, and
A.1.d



REPLY TO
ATTENTION OF:

DEPARTMENT OF THE ARMY
U.S. ARMY CONTRACTING COMMAND
3334A WELLS ROAD
REDSTONE ARSENAL, AL 35898-5000

10 APR 2013

AMSCC-IR

MEMORANDUM FOR DoD OIG: (b) (6) Internal Review and Audit Compliance
Office, Headquarters, U.S. Army Materiel Command, 4400 Martin Road, Redstone Arsenal, AL
35898

SUBJECT: Army Needs to Improve Mi-17 Overhaul Management and Contract Administration
(Project No. D2012-D000AS-0075.000) (D1325) (636)

1. Reference memorandum and draft audit report, Inspector General, Department of Defense,
18 March 2013, subject as above.
2. The Army Contracting Command (ACC) concurs with the enclosed ACC-Redstone
comments.
3. The ACC point of contact is DoD OIG: (b) (6) Internal Review and Audit
Compliance Office, telephone (256) 955-DoD email: DoD OIG: (b) (6) @mail.mil.
DoD OIG: (b) (6)

Encl

CAMILLE M. NICHOLS
Major General, USA
Commanding



DEPARTMENT OF THE ARMY
ARMY CONTRACTING COMMAND - REDSTONE
BUILDING 5303 MARTIN ROAD
REDSTONE ARSENAL, ALABAMA 35898-5000

CCAM-PSP

3 April 2013

MEMORANDUM FOR DoD OIG: (b) (6) Internal Review and Audit Compliance Office,
U.S. Army Contracting Command, 3334A Wells Road, Redstone Arsenal, Alabama 35898-5000

SUBJECT: Response to DoD OIG Draft Report, Entitled, "Army Needs To Improve Mi-17
Overhaul Management and Contract Administration" Project No. D2012-D000AS-0075.000

1. The Army Contracting Command-Redstone provides the subject enclosed response.

2. The point of contact for this action is DoD OIG: (b) (6) CCAM-PSP, e-mail
DoD OIG: (b) (6) @mail.mil, commercial 256-842-DoD OIG: (b) (6) DSN 746-DoD OIG: (b) (6)

Encl

MARY C. DICKENS
Principal Assistant Responsible for Contracting

Encl

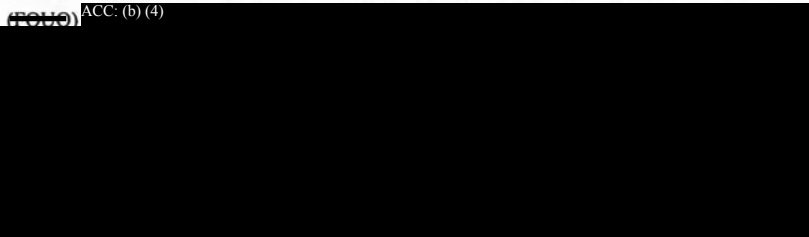
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Command Comments
DODIG Draft Report
"Army Needs To Improve Mi-17 Overhaul
Management and Contract Administration"
(Project No. D2012-D000AS-0075.000)

Finding A. Improper Advance Payments:

(FOUO) "The ACC-Redstone contracting officer did not effectively administer Task Order 0102 for the overhaul of five Pakistani Mi-17 aircraft. Specifically, the contracting officer allowed the prime contractor, SES, to receive advance payments in violation of U.S.C. and the FAR to make advance payments to its foreign subcontractor. This occurred because the contracting officer erroneously believed that a FAR exception applied for advance payments to foreign subcontractors, stating that pre-payments were customary in eastern European countries because of subcontractors' limited financial resources. Additionally, the contracting officer did not accept responsibility for administration of the improper advance payments, incorrectly stating that the administrative contracting officer (ACO) and contract auditor bore responsibility to determine whether the subcontractor advance payments were allowable costs.

(FOUO) ACC: (b) (4)



Command Comments on Finding A:

Contrary to the above finding, the contract for Mi-17 overhauls was not terminated; but rather when it became evident that the Pakistan aircraft would not become available for overhaul, the NRSWA PM replaced these aircraft with an existing requirement for five Mi-17s in support of Afghanistan forces. The Afghanistan requirement is still valid and it is our intention to overhaul the five aircraft.

As stated in the Draft Report, the Logistics Support Facility (LSF) Indefinite Delivery Indefinite Quantity (IDIQ) contract (Contract W52P1J-07-D-0039) was awarded by the Army Sustainment Command, Rock Island Contracting Center (RICC) to Science and Engineering Services, Inc. (SESI) of Huntsville, Alabama, on 31 August 2007. Effective 15 June 2009, the purchasing activity for the remaining period of performance of the contract was transferred to the U.S. Army Contracting Command – Redstone (ACC-RSA) and any subsequent delivery order (DO) has thus been entered under Contract W58RGZ-09-D-0130. On 28 September 2010, DO 0102 was

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Added
Recommendation
A.2.d

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awarded to LSF prime contractor SESI for sustainment and logistics support for the Mi-17 program administered by Non-Standard Rotary Wing Aircraft (NSRWA) Program Management Office (PMO), Redstone Arsenal, Alabama. DO 0102 was established on a Cost-Plus-Fixed-Fee (CPFF) basis.

(FOUO) ACC: (b) (4)



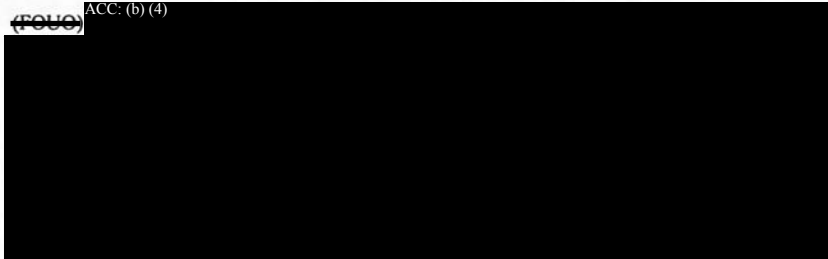
Concerning contract administration, Section A-9 of the LSF contract and DO 0102 designates Defense Contract Management Agency (DCMA), Contractor and Government Entity (CAGE) Code S0109A, as the contract administration office with the functions listed in FAR 42.302(a) (13). Although administration of DO 0102 was delegated to DCMA, the procuring contracting officer (PCO) for ACC-RSA supporting NSRWA PMO in no way abdicates her responsibility for contract management.

DO 0102 is a CPFF DO under the LSF IDIQ contract, against which the prime contractor invoices through Wide Area Work Flow (WAWF), a paperless contracting DOD-wide application designed to eliminate paper from the receipts and acceptance process of the DOD contracting lifecycle. When a contractor has an approved accounting system, the process for submittal and approval of invoices is as follows; the contractor submits their invoice through WAWF, the invoice flows directly to the Defense Contract Audit Agency (DCAA) for review and approval, and payment is made by the Defense Finance Accounting Service (DFAS). The two invoices in question were processed in accordance with this procedure. Therefore, neither the PCO nor DCMA was involved in the approval process. Further, there are no provisions in either the underlying LSF contract, DO 0102, or any contract modifications entered hereunder that required the PCO or the NSRWA PMO to review or approve these invoices. In addition, at the time Mod 09 was executed, there was nothing to indicate that the PCO or NSRWA PMO should intervene in the payment process, nor were any concerns highlighted by DCAA through their invoice review process that indicated the need to intervene in the payment process.

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~~(FOUO)~~ ACC: (b) (4)



The PCO did receive the Project Summary Report (cost report) in June 2011, as stated in the IG Report. The PCO requested a review of the report by NSRWA PMO to validate the accuracy of the report. The NSRWA PMO did not indicate that there were discrepancies in the report. At this point the PCO had not received a copy of SESI's purchase requisition dated 9 May 2011 and thus did not have any knowledge of payments being made prior to actual work being performed under the overhaul effort.

Although the PCO became aware of the concerns with these payments in October 2011 via communications between the ODRP and the NSRWA PMO, she was not initially concerned because these were subcontractor payments which were made pursuant to customary practices in the European aviation sustainment environment, the payments were contained in the subcontractor proposal, and the PCO assumed that the prime contractor had received proper documentation to support their invoices.

To clarify, the prime contract with SESI is not commercial because its scope is to provide a full spectrum of engineering, manufacturing and logistics for all PEO Aviation managed air platforms. However, commercial subcontracts are used for the acquisition of supplies and services related to the specific DOs. In that regard, Mi-17 overhauls are commercial items as defined in FAR 2.101. The Mi-17 aircraft is one of the most proliferated commercial aircraft in the world. Military and civil variants of the Mi-17 aircraft are essentially the same configuration. Both variants are produced in the same production facilities and overhauled in the same overhaul facilities. The differences exist in the military hardware that is installed on the aircraft, as well as some structural reinforcements that are required to accommodate the loads associated with the military equipment. The U.S Army airworthiness standards for the Mi-17 aircraft are a commercial derivative airworthiness based on the Russian IAC certification. The IAC certification is a civil certification. The original equipment manufacturer (OEM) requires that the Mi-17 aircraft, both civil and military, undergo a major depot level maintenance phase, or overhaul, on a prescribed interval of calendar years and flight hours. This is also true for all of the dynamic components. There are 27 companies/facilities around the globe that are IAC certified to overhaul Mi-17 aircraft. Thirteen of these are inside the Russian Federation, and the vast majority of the remaining 14 are in Eastern Europe. Overhaul services from these facilities are available for civil Mi-17s. Many of these facilities also have certifications from the OEM, Mil Moscow Helicopter Plant, for the overhaul of military Mi-17s.

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The overhaul services performed on Mi-17 aircraft are essentially the same for both civil and military variants. For both variants, the aircraft and the dynamic components undergo the same processes in this major maintenance phase. The obvious difference is the overhaul of any military hardware that is installed on the military variant aircraft. The other difference is the time between overhaul (TBO) and service life of the airframe and the components. These are determined by usage spectrum and as one might expect the TBO and service lives are shorter for military use aircraft as they operate in a more demanding usage spectrum. Based on the usage spectrum of military operations in Afghanistan, the OEM has advised the US Army to operate under service bulletin 2133, which is more restrictive than the Service Bulletin for civil variant aircraft. While this does not change the process or procedures of the overhaul service itself, it does impact the Over and Above Costs as it will require the replacement of components that would potentially have been overhauled and re-installed on the aircraft if it were operating under the civil service bulletin. None of the companies that offer these overhaul services are capable of providing certified cost and pricing data; nor are they willing to provide historical price information for these commercial services that have been provided to other customers. However, the US Government has adequate historical cost information for these type services, as well as historical cost information for the major components to develop a should-cost analysis and make a determination of a fair and reasonable cost.

(FOUO) ACC: (b) (4)



(FOUO) ACC: (b) (4)



SESI accelerated this

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payment to the subcontractor prior to induction and invoiced the government. This invoice VBN033 was approved by DCAA in the amount of \$4,062,880.88 on 6 Jan 12. The PCO requested an explanation of this acceleration from SESI as part of the subject investigation. The following excerpt was received in their response:

(FOUO) ACC: (b) (4)

[REDACTED]

The U.S.

Government had failed to make the aircraft available in a timely manner. The USG was in danger of breaking schedule of inducting the aircraft into overhaul. August 26, 2011, SES received an email from the NSRWA PM stating, "the PAK Overhaul restart as anticipated." SES considered this overhaul requirement effort was still valid and was doing everything possible to expedite the overhaul schedule. In order to reduce the schedule impact due to availability of the aircraft and continue to hold the reserved slots, SES revised the milestone payment schedule and issued the second milestone payment.

The PCO does not have sufficient information at this time to determine if this was a proper milestone payment as claimed by SESI and expects to obtain more information in order to clarify this issue.

At the time of execution of modification 09, there was no indication of the potential for extended delays in inducting aircraft for overhaul; and these delays have exacerbated the problem. ACC-RSA will investigate whether the second payment was proper and if the payment is found to be improper, ACC-RSA will issue a demand letter to the prime contractor for refund to the Government.

Recommendation A.1. "We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . verify that contracting officers comply with requirements in 31 United States Code § 3324 and Federal Acquisition Regulation part 32 before allowing contractors to receive contract financing."

(FOUO) Command Comments: Partial Concur. The ACC-RSA Principal Assistant Responsible for Contracting (PARC)/Director, Contracting and Acquisition Management Office (CAMO), hereinafter referred to in command comments as "the ACC-RSA PARC," does not agree with the IG's allegation that an improper advance payment occurred under the subject of this audit, Contract W58RGZ-09-D-0130, DO 0102. The first payment constitutes an advance payment made by the prime, SESI, under a commercial subcontract pursuant to FAR 32.202-1. We do not have sufficient information at this time to determine if the second payment was a

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Renumbered
Recommendation A.1
as Recommendation
A.1.a

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proper milestone payment as claimed by SESI and expect to obtain more information in order to clarify this issue. As of 13 February 2013, the ACC-RSA PARC reduced the review and approval thresholds for all contract actions issued under the NSRW Programs to maintain adequate oversight of the contract administration performed by PCOs. Also, both ACC-RSA and HQ ACC perform program management reviews of random contracts to assure adherence to regulations, to include requirements in 31 United States Code § 3324 and FAR Part 32.

Recommendation A.2. "We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . require that the Non-Standard Rotary Wing Aircraft Directorate contracting officer receive training necessary to administer contract financing in accordance with Federal Acquisition Regulation part 32."

Renumbered
Recommendation A.2
as Recommendation
A.1.b

Command Comments: Partial Concur. The ACC-RSA PARC does not agree with the IG's allegation that an improper advance payment occurred under the subject of this audit, Contract W58RGZ-09-D-0130, Task Order 0102. However, she will require the NSRWA Directorate PCO attend, by 30 June 2013 the ACC-RSA Contracting Officer (KO) Boot Camp course as a general refresher and knowledge update.

Recommendation A.3. "We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . review all current Non-Standard Rotary Wing Aircraft Directorate contracts and solicitations to verify compliance with 31 United States Code § 3324 and Federal Acquisition Regulation part 32."

Renumbered
Recommendation A.3
as Recommendation
A.1.c

Command Comments: Partial Concur. The ACC-RSA PARC does not agree with the IG's allegation that an improper advance payment occurred under the subject of this audit, Contract W58RGZ-09-D-0130, Task Order 0102. However, she will direct, by 30 June 2013, an assessment of Mi-17 overhaul contracts and solicitations to verify compliance with 31 United States Code § 3324 and Federal Acquisition Regulation part 32. Only Mi-17 overhaul contracts and solicitations will be reviewed because only overhaul work performed overseas by foreign contractors on Mi-17 aircraft is likely to present a need for advance payments.

~~(FOUO)~~ **Recommendation A.4.** "We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . take contractual action to recoup the \$6.2 million in questioned costs for advance payments paid to Science and Engineering Services plus applicable interest due pursuant to FAR 32.407."

Revised, redirected,
and renumbered
Recommendation A.4
as Recommendation
A.2.a

~~(FOUO)~~ **Command Comments: Non-Concur.** As discussed above, ACC-RSA has determined that the first payment (\$3.1M) of the \$6.2M question costs was an advance commercial payment in compliance with FAR 32.202. The PCO is continuing the investigation of the second payment

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to determine whether it was proper and appropriate action will be taken for refund if the payment is found to be improper. This will be completed by 30 June 2013.

Recommendation A.5. “We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . develop a strategy to transition the Non-Standard Rotary Wing Aircraft Directorate’s overhaul contracts to fixed-price contracts with performance-based payments to the maximum extent practicable.”

Revised, redirected,
and renumbered
Recommendation A.5
as Recommendation
A.2.b

~~(FOUO)~~ Command Comments: Non-Concur. ACC: (b) (4)

~~(FOUO)~~ [Per FOIA Exemption 6] **Recommendation A.6.** “We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . review the performance of the contracting officer at the Non-Standard Rotary Wing Aircraft Directorate, who administered task order W58RGZ 09-D-0130-0102. The contracting officer allowed advance payments in violation of United States Code and the Federal Acquisition Regulation (Finding A); did not request a technical analysis before accepting the contractor’s proposal for an Mi-17 parts inventory (Finding B); did not require subcontractor competition; did not obtain cost and pricing data; did not document a price reasonableness determination; did not conduct negotiations; and did not perform cost analysis on the proposed Mi-17 parts inventory in accordance with the Federal Acquisition Regulation (Finding C); and did not develop a Quality Assurance Surveillance Plan, designate a Contracting Officer’s Representative, or properly issue a Certificate of Conformance for the inventory of parts used to support the Mi-17 aircraft overhauls (Finding D). As a result of that review, initiate administrative action as appropriate.”

Renumbered
Recommendation A.6
as Recommendation
A.1.d

~~(FOUO)~~ [Per FOIA Exemption 6] **Command Comments: Partial Concur.** The ACC-RSA PARC does not agree with the IG’s allegation that an improper advance payment occurred under the subject of this audit, Contract W58RGZ-09-D-0130, DO 0102. The ACC-RSA PARC has established a special review team of senior (GS-14) level staff to perform a full review of Mi-17 contract files and PCO performance for compliance with all applicable regulations, policies and procedures. HQ ACC augmented this special team with a senior price analyst. The team began conducting the review 4 March 2013 and is expected to submit a report of findings and corrective actions to DASA (P) in April 2013. The ACC-RSA PARC will consider the findings of this review team in deciding if the PCO’s performance merits administrative action. However, as a result of initial findings and procurement management reviews, the PCO attended a recently developed, seven day ACC-RSA Pricing course in March 2013 that reinforces costing

Added
Recommendation
A.2.c

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techniques and a variety of associated subject matter. Also, the PCO will attend the ACC-RSA KO Boot Camp course as a refresher and knowledge update. The PARC also notes the extensive involvement of the PCO in responding to this and other recent audits related to the PCO's contracts under the complex Mi-17 program. This involvement provides practical experience and knowledge that will be invaluable to the PCO's future performance.

Finding B. Unnecessary Parts Purchased for Mi-17 Overhauls:

"NSRWA PMO officials and the ACC-Redstone contracting officer did not clearly identify and properly procure a Mi-17 parts inventory⁶. Specifically, after the Office of Defense Representative Pakistan (ODRP)⁷ placed an operational hold on the scheduled overhauls, the NSRWA Project Manager unilaterally directed, and the contracting officer procured, a Mi-17 parts inventory instead of procuring parts on an as-needed basis through the over and above process. Furthermore, the PMO did not perform a technical analysis or check existing DoD inventories before initiating the procurement of the Mi-17 parts inventory. Similarly, the contracting officer did not request a technical analysis for the parts inventory before accepting the prime contractor's proposal.

These actions occurred because the NSRWA PMO officials did not want a break in overhaul operations and therefore ordered Mi-17 parts considered long lead items. The NSRWA Project Manager authorized the purchase of the parts so that the subcontractor could be ready to begin overhauls when the operational hold was lifted. In addition, NSRWA PMO officials thought they had performed a technical analysis on the Mi-17 parts inventory and simply did not consider using DoD's existing parts inventory. Lastly, the contracting officer relied on a prior NSRWA PMO technical analysis of Mi-17 overhauls that did not include a parts inventory to support the procurement.

~~(FOUO)~~ As a result, the Army established an \$8.1 million Mi-17 parts inventory to support Pakistani Mi-17 overhauls that will not occur. In addition, the contracting officer and NSRWA PMO officials misspent a total of \$7.1 million or 88 percent of the \$8.1 million. Specifically, the contracting officer and NSRWA PMO officials procured parts worth about \$4.5 million that were unnecessary based on historical data and parts worth about \$2.6 million that were already in DoD inventory."

Command Comments on Finding B:

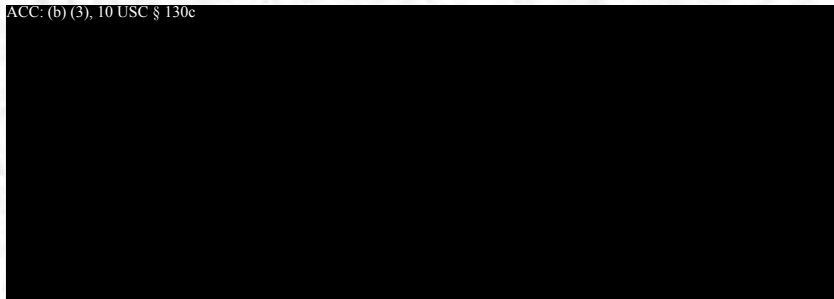
Contrary to the IG's allegations, the parts procured for this effort were identified by the PMO to be needed for the completion of the Pakistan overhaul. We expect the parts to be required for execution of the Afghanistan overhauls. Further, the NSRWA PMO chose to buy parts up front so that when the aircraft went to overhaul, sufficient parts would on hand, thus allowing for the expedited return of the aircraft to country.

~~(FOUO)~~ [Per FOIA Exemption 5] The IG report also alleges that the PCO did not request a current technical evaluation for the parts inventory, but instead accepted a prior technical

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ACC: (b) (3), 10 USC § 130c



Recommendation B.1.a. “We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . require the Non-Standard Rotary Wing Aircraft Directorate contracting officer to receive training necessary for performing proposal analysis in accordance with Federal Acquisition Regulation 15.404-1 to determine that the types and quantities of items are reasonable.”

Command Comments: Non-Concur. The ACC-RSA PARC does not agree with the IG’s allegation that a technical analysis was not properly performed. See command comments above.

Recommendation B.1.b. “We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . require the Non-Standard Rotary Wing Aircraft Directorate contracting officer to receive training on contracting for over and above work in accordance with Defense Federal Acquisition Regulation Supplement Subpart 217.77.”

Command Comments: Concur. The ACC-RSA PARC agrees that over and above work was not treated appropriately in accordance with Defense Federal Acquisition Regulation Supplement Subpart 217.77. Over and above work will be addressed thoroughly by 31 May 2013 with all Non-Standard Rotary Wing Aircraft Directorate PCOs by the new director of that directorate and clearly defined over and above procedures will be established. DCMA will be consulted for assistance in the training and the establishment of the over and above procedures.

Finding C. Mi-17 Parts Inventory Pricing Problems:

~~FOUO~~ “The ACC-Redstone contracting officer did not determine whether prices were fair and

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ACC: (b) (4)



Command Comments on Finding C:

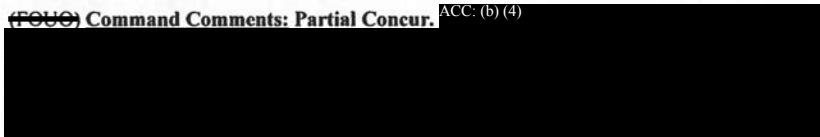
~~(FOUO)~~ ACC: (b) (4)



~~(FOUO)~~ Recommendation C.1. “We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . conduct an independent cost analysis in accordance with Federal Acquisition Regulation [15.404-1] to validate that a fair and reasonable price is determined for the 127 Mi-17 parts, storage space and authenticity check and recoup any questionable costs with specific consideration to the \$1,306,957 in higher prices for 48 parts and storage expenses paid to Science and Engineering Service.”

Redirected
Recommendation C.1

~~(FOUO)~~ Command Comments: Partial Concur. ACC: (b) (4)



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Recommendation C.2.a. “We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . provide training to the Non-Standard Rotary Wing Aircraft Directorate contracting officer for . . . consenting to subcontract requirements in accordance with Federal Acquisition Regulation subpart 44.2.”

~~(FOUO)~~ **Command Comments: Partial Concur.** ACC: (b) (4)

ACC-RSA has found through reviews of other Mi-17 procurements that shortfalls in proper documentation are systemic; these shortfalls are being addressed through additional training and increased levels of review. All NSRW PCOs will have attended a recently developed, seven day ACC-RSA Pricing course by the end of May 2013 that reinforces costing techniques and a variety of associated subject matter; and, as of 13 February 2013, the ACC-RSA PARC reduced the review and approval thresholds for all contract actions issued under the NSRW Programs to maintain adequate oversight of the contract administration performed by PCOs.

Recommendation C.2.b. “We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . provide training to the Non-Standard Rotary Wing Aircraft Directorate contracting officer for . . . obtaining cost and pricing data for modifications expected to exceed \$700,000, as required by Federal Acquisition Regulation subpart 15.4.”

Command Comments: Partial Concur. As discussed above, it is premature to suggest that the PCO acted improperly because a definitization of mod 09 has not occurred. The PCO will obtain cost and pricing data as required by FAR 15.4 in the definitization of Mod 09, if required. However, the PCO attended a recently developed, seven day ACC-RSA Pricing course in March 2013 that reinforces costing techniques and a variety of associated subject matter. ACC-RSA has found through reviews of other Mi-17 procurements that shortfalls in proper documentation are systemic; these shortfalls are being addressed through additional training and increased levels of review. All NSRW PCOs will have attended the ACC-RSA Pricing course by the end of May 2013; the ACC-RSA PARC reduced the review and approval thresholds for all contract actions issued under the NSRW Programs to maintain adequate oversight of the contract administration performed by PCOs.

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Recommendation C.2.c. “We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . provide training to the Non-Standard Rotary Wing Aircraft Directorate contracting officer for . . . documenting contract fair and reasonable price determinations in accordance with Federal Acquisition Regulation 15.406-3.”

Command Comments: Partial Concur. As discussed above, it is premature to suggest that the PCO acted improperly because a definitization of Mod 09 has not occurred. However, the PCO will document a fair and reasonable price determination in accordance with FAR 15.4 at definitization of Mod 09. However, this subject was addressed in the ACC-RSA Pricing course that the PCO took in March 2013. ACC-RSA has found through reviews of other Mi-17 procurements that shortfalls in proper documentation are systemic. ACC-RSA has found through reviews of other Mi-17 procurements that shortfalls in proper documentation are systemic; these shortfalls are being addressed through additional training and increased levels of review. All NSRW PCOs will have attended the ACC-RSA Pricing course by the end of May 2013; the ACC-RSA PARC reduced the review and approval thresholds for all contract actions issued under the NSRW Programs to maintain adequate oversight of the contract administration performed by PCOs.

Recommendation C.2.d. “We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . provide training to the Non-Standard Rotary Wing Aircraft Directorate contracting officer for . . . conducting price negotiations in accordance with Federal Acquisition Regulation 15.405.”

Command Comments: Partial Concur. As discussed above, it is premature to suggest that the PCO acted improperly because a definitization of Mod 09 has not occurred. The PCO will conduct price negotiations as required by Federal Acquisition Regulation subpart 15.405. However, this subject was addressed in the ACC-RSA Pricing course that the PCO took in March 2013. ACC-RSA has found through reviews of other Mi-17 procurements that shortfalls in proper documentation are systemic. ACC-RSA has found through reviews of other Mi-17 procurements that shortfalls in proper documentation are systemic; these shortfalls are being addressed through additional training and increased levels of review. All NSRW PCOs will have attended the ACC-RSA Pricing course by the end of May 2013; the ACC-RSA PARC reduced the review and approval thresholds for all contract actions issued under the NSRW Programs to maintain adequate oversight of the contract administration performed by PCOs.

Recommendation C.2.e. “We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . provide training to the Non-Standard Rotary Wing Aircraft Directorate

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contracting officer for . . . using cost analysis before awarding contracts in accordance with Federal Acquisition Regulation 15.404-1.”

Command Comments: Partial Concur. As discussed above, it is premature to suggest that the PCO acted improperly because a definitization of Mod 09 has not occurred. The PCO will conduct a cost analysis as required by Federal Acquisition Regulation subpart 15.404-1. However, this subject was addressed in the ACC-RSA Pricing course that the PCO took in March 2013. ACC-RSA has found through reviews of other Mi-17 procurements that shortfalls in proper documentation are systemic. ACC-RSA has found through reviews of other Mi-17 procurements that shortfalls in proper documentation are systemic; these shortfalls are being addressed through additional training and increased levels of review. All NSRW PCOs will have attended the ACC-RSA Pricing course by the end of May 2013; the ACC-RSA PARC reduced the review and approval thresholds for all contract actions issued under the NSRW Programs to maintain adequate oversight of the contract administration performed by PCOs.

Recommendation C.3. “We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . establish procedures to verify that the Non Standard Rotary Wing Aircraft Directorate contracting officers obtain cost and pricing data for modifications expected to exceed \$700,000 in accordance with Federal Acquisition Regulation 15.403-4.”

Command Comments: Concur. As of 13 February 2013, the ACC-RSA PARC reduced the review and approval thresholds for all contract actions issued under the NSRW Programs to maintain adequate oversight of the contract administration performed by PCOs. Additionally, for the NSRW Program, the ACC-Redstone Pricing Directorate will be involved in all actions exceeding the \$700,000 threshold when the requirement for obtaining Certified Cost or Pricing Data and a Certificate of Current Cost and Pricing Data (or a waiver there from), or Other than Certified Cost or Pricing Data, exists. A member of the pricing directorate must review and approve the Price Objective Memorandum (POM), prior to negotiations. Finally, a PCO can no longer waive the requirement for the Price Negotiation Memorandum (PNM) and a member of the Pricing Directorate must review/approve the PNM prior to award. The ACC-Redstone SOP 715-1, will be revised by 31 May 2013.

Finding D. Improved Contract Quality Assurance Required for Aircraft Overhauls:

“The ACC-Redstone contracting officer did not effectively administer contractor performance under Task Order 0102 of contract W58RGZ-09-D-0130 for the overhaul of five Pakistani Mi-17 aircraft and the purchase and storage of Mi-17 inventory parts. Specifically, the contracting officer did not develop a Quality Assurance Surveillance Plan (QASP) or designate a COR for Task Order 0102. In addition, the contracting officer improperly issued a Certificate of Conformance (CoC) for inventory parts used to

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support the Mi-17 aircraft overhauls, some of which were critical flight safety items. The contracting officer did not develop a QASP because she assumed one had already been developed and did not designate a COR because she thought the level of oversight provided by DCMA and the NSRWA PMO was sufficient to assess contractor performance. The contracting officer also believed she had the authority to issue a CoC for the inventory parts, but she did not. As a result, the ACC-Redstone contracting officer reduced assurance that the \$12.8 million overhaul effort would have been performed in accordance with the terms and conditions of the contract; furthermore, there is increased risk of installing nonconforming critical flight safety items onto Mi-17 aircraft during overhauls.”

Command Comments on Finding D:

The PCO will monitor and work with the NSRWA PMO to revise the Quality Assurance Surveillance Plan (QASP) for accuracy and consistency to ensure proper contract performance. The PCO did not designate a COR initially, because at that time there was no reason to indicate that the level of oversight provided by DCMA and the NSRWA PMO would not be sufficient to assess contractor performance. However, a COR was appointed by letter dated 29 October 2012. The PCO will work closely with the COR to assure proper contract management.

According to the ACO, no CoC was submitted by the contractor. The PCO will execute an administrative modification to change inspection from “CoC” to “origin.” While the PCO was not aware that 68 of 127 parts were critical safety items, modifying the DO to require physical inspection will address the IG’s concerns.

Recommendation D.1: “We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . review all other Non-Standard Rotary Wing Aircraft contracts to verify a Quality Assurance Surveillance Plan has been developed for each one and that a Contracting Officer Representative has been designated for each non-firm-fixed-price contract action.”

Command Comments: **Concur.** The ACC-RSA PARC has established a special review team of senior (GS-14) level staff to perform a full review of Mi-17 contract files and PCO performance for compliance with all applicable regulations, policies and procedures. HQ ACC augmented this special team with two senior price analysts. The team began conducting the review 4 March 2013 and is expected to submit a report of findings and corrective actions to DASA (P) in April 2013. Other NSRWA contracts will be reviewed by 31 May 2013 to verify that a QASP is appropriate and included in the contract and that a COR has been designated for each non-firm-fixed-price contract action.

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Recommendation D.2. "We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . review all Non-Standard Rotary Wing Aircraft contracts and task orders for which a Quality Assurance Surveillance Plan does not exist and validate whether the Government's best interest is to develop a Quality Assurance Surveillance Plan."

Command Comments: **Concur.** The ACC-RSA PARC will direct, by 31 May 2013, an assessment of all Non-Standard Rotary Wing Aircraft contracts and task orders for which a Quality Assurance Surveillance Plan (QASP) does not exist and validate whether the Government's best interest is to develop a QASP.

Recommendation D.3. "We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . require the Non-Standard Rotary Wing Aircraft Directorate contracting officer to revise the Quality Assurance Surveillance Plan for the overhaul of the five Afghanistan Mi-17 aircraft to reflect all critical requirements in the contract statement of work and to include objective, measurable performance standards to facilitate the assessment of the contractor's performance."

Command Comments: **Concur.** The ACC-RSA PARC will require the NSRWA Directorate PCO to revise, by 30 April 2013, the QASP for the overhaul of the five Afghanistan Mi-17 aircraft to reflect all critical requirements in the contract statement of work and to include objective, measurable performance standards to facilitate the assessment of the contractor's performance.

Recommendation D.4. "We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . require Non-Standard Rotary Wing Aircraft Directorate contracting officer to withdraw the Certificate of Conformance and require Government inspection of flight critical parts. Also require the Contracting Officer Representative to verify the adequacy of flight critical parts."

Command Comments: **Partial Concur.** The contractor did not submit a CoC. The ACC-RSA PARC will require the NSRWA Directorate PCO to execute the modification to change inspection from CoC to origin, by 30 April 2013. Also, the PCO will require COR to verify the adequacy of flight critical parts by 31 May 2013.

Recommendation D.5. "We recommend that the Army Contracting Command-Redstone Principal Assistant Responsible for Contracting/Director, Contracting and Acquisition Management Office . . . require the Non-Standard Rotary Wing Aircraft Directorate contracting officer to receive training on the use of a Certificate of Conformance in accordance with Federal Acquisition Regulation 46.504 and Defense Federal Acquisition Regulation Supplement 246.504."

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Command Comments: Concur. The ACC-RSA PARC will require the NSRWA Director to conduct refresher training on this subject by 30 June 2013.

Reference

Attachment 1: Pricing Development Course

Note: All FOUO paragraph markings in this document are based on content of the paragraph being exempt from release under FOIA Exemption 4, except as identified otherwise in brackets next to the FOUO marking.

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Pricing Development Course

The Pricing Development Course consists of hands-on exercises inclusive of a complete proposal evaluation practice set. The first four days present tools used in evaluating contractor's cost proposals and contracting regulations and requirements. The course begins with Bona Fide Need determinations and funding requirements.

A module on cost or pricing data is presented in detail explaining when contracting officers must obtain certified cost or pricing data and perform cost analysis. Differences between cost analysis and price analysis are covered in detail and when one or the other is appropriate, or in some cases a mixer of the two. Following the module on cost or pricing data requirements is a module on the Truth in Negotiation Act (TINA). In the TINA module, the course material covers the contractor's certification that all the data either submitted or properly identified is considered current, accurate, and complete. Also if it is later found that the data was not current, accurate, or complete, Government remedies available to rectify the harm to the negotiated contract(s) are identified. Included in the material are six case studies that the students must determine if the data submitted or identified was properly disclosed and if possible defective pricing exists. Once the case is analyzed, the student must determine and recommend corrective action.

Three modules are closely tied together - dispersion analysis, Cost Estimating Relationships (CERs) and learning curve applications. First, the students learn the dispersion patterns of a factor such as scrap material. Using EXCEL, the standard deviations are calculated and interpreted using the Bell Curve. After dispersion measurement is mastered, application is made to standard hours and then the development of learning curves. From learning curve development using regression analysis, the course material leads into overhead analysis using correlation analysis and a case study.

The next module is on contract types including incentive contracts. Characteristics of each type contract are covered in detail; elements of each type contract are reinforced through completion of exercises including incentive graphing. Cases are presented where the student must analyze the maturity of the product and the best contract type that shares risk between the Government and the contractor producing the most efficient contract performance. Closely tied to the type of contract is the calculation of the negotiation position on profit or fee. Beginning with the Cost Accounting Standard Form-Cost of Money (Form CASB-COM) and the transitional form -DD FORM 1861- students must complete the development of profit objectives using the Weighted Guidelines (DD FORM 1547) Form. Two different cases must be analyzed using Weighted Guidelines. Weights necessary to complete DD FORM 1547 are selected by applying criteria for determining weights above and below normal, the maturity of the acquired product, reliability of the cost estimate, contractor investments, and type of contract used.

At the end of the fourth day and completion of development of proposal evaluation tools, the remaining three days are devoted to a cost analysis practice set. The practice set contains a fifty-six page mock proposal that contains information which requires application of the tools learned in the first four days. Students must reproduce the practice proposal in EXCEL spreadsheets at the lowest cost estimate levels,

analyze the proposed cost, incorporate a quantitative analysis, technical evaluation, fact finding report, and field pricing report. All of the analyzed cost data must be incorporated into a negotiation cost position/objective and a profit/fee position calculated. When the cost and profit/fee positions are completed, the cost analysis is written in class and electronically submitted to the instructor. The last step is for the cost analysis to be incorporated into the Pre-negotiation Objective Memorandum (POM)

To summarize, the Pricing Development Course is a hands-on course that presents information, cost evaluation tools development, practical application using a practice set, and documentation of a cost analysis into a cost analysis report.

CCAM-PS

FEB 13 2013

MEMORANDUM FOR

Director, CCAM-AV
Director, SMDC-CAMO
Director, CCAM-PR

SUBJECT: Headquarters, Army Contracting Command (HQ ACC) Procurement Management Review (PMR) and Recommendations for Corrective Actions

1. References:

- a. Department of Defense Inspector General (DoDIG) Audit Report DODIG-2012-135, 27 September 2012, subject: Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays.
- b. Memorandum, Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology), SAAL-PP, 18 October 2012, subject: DoDIG Report 2012-135 Required Review of Mi-17 Contracting Officer Performance.
- c. Memorandum, U.S. Army Contracting Command, AMSCC-COA, 1 November 2012, subject: Headquarters, Army Contracting Command (HQ ACC) Procurement Management Review (PMR) of Mi-17 Overhaul Contracting Actions.

2. The following information is required for execution for all contracts associated with the CNTPO programs:

The review and approval levels for all contract actions on the CNTPO programs will be lowered. Current thresholds are too high and result in a lack of oversight. The PMR team recommends the following review and approval levels for contract actions:

- a. Actions valued at less than \$1M remain at the contracting officer level.
- b. Actions valued at more than \$1M – Division chief.
- c. Actions valued at more than \$5M – Director.
- d. Actions valued at more than \$10M – Principal Assistant Responsible for Contracting (PARC).

3. The following information is required for execution for all contracts associated with the Non-Standard Rotary Wing programs:

CCAM-PS

SUBJECT: Headquarters, Army Contracting Command (HQ ACC) Procurement Management Review (PMR) and Recommendations for Corrective Actions

a. Where the requirement exists for obtaining Certified Cost or Pricing Data and a Certificate of Current Cost and Pricing Data (or a waiver there from), or Other than Certified Cost or Pricing Data, the threshold for the Pricing Directorate involvement will be lowered from \$50,000,000 to \$700,000.

b. The review and approval levels for all contract actions on the NSRW programs will be lowered. Current thresholds are too high and result in a lack of oversight. The PMR team recommends the following review and approval levels for contract actions:

- (1) Actions valued at less than \$1M remain at the contracting officer level.
- (2) Actions valued at more than \$1M – Division chief.
- (3) Actions valued at more than \$5M – Director.

(4) Actions valued at more than \$10M – Principal Assistant Responsible for Contracting (PARC).

c. The Price Objective Memorandum (POMs) and Price Negotiation Memorandum (PNMs) will include a review/approval signature block for a member of the Pricing Directorate, when the value of the increase is \$700,000. The ability to waive the PNM requirement, as currently allowed under ACC-RSA Standard Operating Procedure 715-1, is no longer allowable for Mi-17 programs.

4. The point of contact is [redacted] telephone 256-842-[redacted] or e-mail: [redacted]
DoD OIG: (b) (6) DoD OIG: (b) (6)

Encl
Mi-17 PMR Report

MARY C. DICKENS
Executive Director
Army Contracting Command-Redstone

Program Executive Officer, Aviation, Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE PROGRAM EXECUTIVE OFFICER, AVIATION
REDSTONE ARSENAL, AL 35898-5000

SFAE-AV

MEMORANDUM FOR Inspector General, Department of Defense, 400 Army Navy Drive,
Arlington, VA 22202-4704

SUBJECT: PEO Aviation Reply to Department of Defense Inspector General (DoDIG) Draft
Report "Army Needs To Improve Mi-17 Overhaul Management and Contract Administration"
(Project No. D2012-D000AS-0075.000)

1. Reference memorandum, Department of Defense Inspector General, dated 18 Mar 13,
subject: Army Needs To Improve Mi-17 Overhaul Management and Contract Administration
(Project No. D2012-D000AS-0075.000). This performance audit was conducted from
December 2011 through March 2013 in accordance with generally accepted auditing standards.
2. The objective of this audit is to determine if Army officials properly awarded and
administered the Mi-17 overhaul effort under contract W58RGZ-09-D-130-0102 in accordance
with Federal and DoD regulations and policies.
3. The Office of the Program Executive Officer, Aviation concurs with the recommendations
and provides the enclosed comments.
4. Point of contact for this memorandum is ^{DoD} [redacted] ^{OIG: (b)} commercial 256-313-^{DoD} [redacted] ^{OIG: (b)} or
DSN 897-^{DoD} [redacted] ^{OIG: (b)}

^{DoD} [redacted] ^{OIG: (b)}

Encl

WILLIAM T. CROSBY
Major General, USA
Program Executive Officer, Aviation

CF:
AMCOM IRAC (w/encl)

~~FOUO~~

~~(FOUO)~~

SFAE-AV

SUBJECT: PEO Aviation Response To DoDIG Draft Report Army Needs To Improve Mi-17 Overhaul Management and Contract Administration (Project No. D2012-D000AS-0075.000)

RECOMMENDATION B.2.a Perform a review of the Non-Standard Rotary Wing Aircraft Program Management Office officials' actions in establishing an \$8.1 million Mi-17 parts inventory without justification for advance ordering and a technical analysis. As appropriate, initiate administrative action.

Redirected, and
renumbered
Recommendation
B.2.a as
Recommendation B.3

PEO AVIATION Response: Concur. PM NSRWA has reviewed the decision to establish a Mi-17 parts inventory for Pakistan Mi-17 overhauls and has determined that a technical analysis was performed. The Mi-17 parts procured for the Pakistan overhauls by PM NSRWA was based on a larger data set of parts frequently replaced by IAC/OEM facilities during Mi-17 overhauls. This data considered the entire spectrum of Mi-17 overhauls (not just U.S. funded overhauls) and probability of occurrence. Due to the degraded condition of the aircraft NSRWA expected a significant portion of these parts would be utilized in these overhauls.

Added, Page 31

~~(FOUO)~~ [Per FOIA Exemption 5] In the Security Assistance environment in changes in political landscape can lead to an "operational hold" suddenly and the duration of the hold is usually unknown. In this situation, there was no indication that the operational hold would be sustained. PM NSRWA had already entered a contract for the overhaul of the 5 Pakistan Mi-17s when the operational hold was put in place, and delivery schedules were aggressive.

~~(FOUO)~~ [Per FOIA Exemption 5] The decision to buy parts up front was a deliberate programmatic decision in an attempt to absorb the schedule impact resulting from the operational hold on all Pakistan/USG operations. The intent was to supply the overhaul facility with a pool of long lead items/parts that would minimize the impact of the delay. Once the hold was lifted, the aircraft could then be inducted and proceed directly to overhaul. Having sufficient parts on hand to complete the overhauls would allow for the expedited return of the aircraft to Pakistan.

Renumbered
Recommendation
B.2.b as
Recommendation
B.2.a

RECOMMENDATION B.2.b Require that the Non-Standard Rotary Wing Aircraft Program Management Office perform a full inventory review of all Mi-17 parts currently in Department of Defense inventories.

PEO AVIATION Response: Concur. PM NSRWA has current inventory data on Mi-17 parts that are within its purview. PM NSRWA is working to improve the inventory data to track the source of funding, ownership and current location of the parts by country or Foreign Military Sales (FMS) case. Defense Security Cooperation Agency (DSCA) establishes individual accounts or "cases" for each country; funding and other items such as Mi-17 parts are segregated by country or case, and each inventory is not free to use for other cases. PM NSRWA will continue to monitor and verify part quantities and their location to ensure that they are utilized and aligned for ongoing overhaul/repair activities with the customer that funded the parts.

~~(FOUO)~~ [Per FOIA Exemption 5] With respect to the Mi-17 parts identified in Appendix D procured under Task Order 021, previously stored in the Netherlands, a decision was made to utilize those parts to support three other Pakistan Mi-17 aircraft currently (April 2013) being

[2]

~~(FOUO)~~

~~(FOUO)~~

SFAE-AV

SUBJECT: PEO Aviation Response To DoDIG Draft Report Army Needs To Improve Mi-17 Overhaul Management and Contract Administration (Project No. D2012-D000AS-0075.000)

overhauled at Engels on the same contract. The parts were funded through Task Order 021 and it was in the best interest of the government to utilize them on aircraft being overhauled under the

same contract. PM NSRWA will continue to identify and improve Mi-17 parts inventories under their purview, and where appropriate, utilize this inventory prior to the purchase of additional parts on future overhauls.

RECOMMENDATION B.2.c Develop internal controls that require Non-Standard Rotary Wing Aircraft Program Management Office officials to identify long lead items that justify advance ordering to meet delivery schedules.

Renumbered
Recommendation
B.2.c as
Recommendation
B.2.b

PEO AVIATION Response: Concur. PM NSRWA is analyzing historical data from numerous induction/over-and-above reports to determine which parts typically require replacement during Mi-17 overhaul/repair. With this data, PM NSRWA can utilize trend analysis techniques to identify the parts required during the performance of overhauls on Mi-17 aircraft. Once the trend analysis is completed it will be maintained current by adding data for each overhaul conducted to determine the future parts required for overhaul. This data will also be utilized to develop necessary requirements for long lead parts. This data will also be used to justify any advance ordering to expedite an overhaul, to meet mission requirements.

RECOMMENDATION B.2.d Evaluate NSRWA PMO's procedures for conducting technical analyses and implement a standardized process for conducting and documenting technical analysis in accordance with FAR 15.404-1(e).

Renumbered
Recommendation
B.2.d as
Recommendation
B.2.c

PEO AVIATION Response: Concur. NSRWA PMO has reviewed and evaluated its procedures for conducting technical analyses. Immediate changes are being implemented that will standardize the process for conducting and documenting technical analyses. NSRWA PMO will continue to work closely with the Contracting Officer and the AMCOM Pricing Team to ensure that technical analyses are being performed and documented in accordance with FAR 15.

[3]

~~(FOUO)~~

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Inspector General
Department of Defense



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