
Office of Inspector General

Audit Report

FAA'S CONTRACTING PRACTICES ARE INSUFFICIENT TO EFFECTIVELY MANAGE ITS SYSTEMS ENGINEERING 2020 CONTRACTS

Federal Aviation Administration

Report Number: ZA-2012-082

Date Issued: March 28, 2012





Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** FAA's Contracting Practices Are
Insufficient To Effectively Manage Its Systems
Engineering 2020 Contracts
Report Number ZA-2012-082
Federal Aviation Administration

Date: March 28, 2012

From: Mary Kay Langan-Feirson
Assistant Inspector General
for Acquisition and Procurement Audits

Reply to
Attn. of: JA-60

To: Federal Aviation Administrator

The National Airspace System handles almost 50,000 flights a day and more than 700 million passengers each year. To accommodate the Nation's air traffic, which is expected to triple by 2025, the Federal Aviation Administration (FAA) is developing the Next Generation Air Transportation System (NextGen)—an effort that involves multibillion-dollar investments from both the Government and the airline industry.

To accomplish NextGen and efforts related to maintaining the National Airspace System, FAA awarded seven Systems Engineering 2020 (SE-2020) base contracts between April and October 2010 for technical and professional support services. These contracts have a cumulative maximum value of \$7.3 billion—the largest award in FAA history. As of August 15, 2011, FAA awarded 104 task orders from these base contracts, valued at \$319 million.

Given the magnitude of these contracts and NextGen's technical complexity, the Chairmen of the House Committee on Transportation and Infrastructure and its Aviation Subcommittee requested that we examine FAA's SE-2020 contracts. Specifically, we assessed whether FAA (1) manages its SE-2020 contract costs effectively and (2) uses sound contracting practices to select contractors and oversee their performance. We reviewed FAA's SE-2020 contracts and task orders awarded between April and October 2010 to assess compliance with FAA and Federal best practices and procurement policies. In addition, we administered a survey to FAA's SE-2020 program office oversight staff. We conducted our audit

between April 2010 and October 2011 in accordance with generally accepted Government auditing standards. Exhibit A details our scope and methodology.

RESULTS IN BRIEF

FAA's Acquisition Management System (AMS) establishes a number of requirements for managing FAA's contracts; however, the requirements for ensuring fair and reasonable labor rates are unclear, which has led to unreliable cost baselines. Without a reliable baseline, FAA cannot effectively monitor and control contract costs. For example, AMS lacks clear requirements for addressing significant differences between contractors' proposed contract costs and FAA's estimated contract costs. FAA awarded the SE-2020 contracts using the contractors' proposed labor rates, which cumulatively were 29 percent lower than FAA estimated. FAA also included 18 million more labor hours than needed in the contracts' ceilings to provide more flexibility during contract administration, although the contracts already allow for such flexibility. Consequently, FAA's baseline is overstated as the labor hours included in it exceed FAA's estimate. Further, AMS does not clearly define requirements for Defense Contract Audit Agency (DCAA) audits. As such, FAA did not verify five of seven prime contractors' proposed labor rates, which may have provided a basis for determining a reliable cost baseline. Weaknesses in its monitoring tools and critical acquisition data errors further impede FAA's ability to ensure it does not overpay for professional and technical services. For example, FAA predicted that one of its SE-2020 task orders will experience an overrun of more than \$55 million, but our calculations showed the task order is actually projected to be under budget by about \$10 million.

FAA's contracting practices for selecting SE-2020 contractors and overseeing their performance are not sufficient. AMS requires an assessment of contractor past performance and emphasizes the use of performance-based acquisitions for service contracts to ensure that contractors provide timely, cost-effective, and quality results. However, we found FAA took a narrow approach to evaluating contractors' past performance when awarding the seven base contracts and had not, at the time of the audit, used performance-based acquisition for its SE-2020 task orders. In addition, at the time of our audit, FAA had not taken action to ensure adequate competition for task orders, identify potential conflicts of interest, document task order decisions, or ensure that contract oversight staff have needed skills. For example, FAA approved the organizational conflict of interest mitigation plans for all seven of its SE-2020 prime contractors; yet, FAA's contracting officer was unaware that one contractor's impartiality could potentially be impaired by its performance on a \$1.8 billion NextGen acquisition that may require future SE-2020 services. FAA has recently taken steps to improve its contracting practices, but additional efforts are needed to ensure it

implements promised improvements and follows acquisition best practices. For example, while FAA reported that it may award future SE-2020 task orders competitively when doing so is in the best interest of the Government, it has not yet formalized a process for deciding when competition is in the Government's best interest.

We made recommendations to improve FAA's cost management and contracting practices and help ensure that the Agency can achieve desired outcomes for SE-2020.

BACKGROUND

In 2010, FAA awarded its seven SE-2020 base contracts to provide up to 10 years of technical and professional support services for its NextGen systems, programs, and functions.¹ Prior to contract awards, FAA encouraged contractors to form teams to ensure they had the capabilities to provide required services, which ranged from air traffic management to cost benefit analysis. The final teams consist of 7 prime contractors and 95 subcontractors.

The SE-2020 contracts are cost-plus-fixed-fee contracts. Each contract establishes an estimated total cost for the required work and a cost ceiling that the contractor may not exceed without the Government's approval. FAA reimburses the contractor the incurred costs allowable under the contract, but the contractor accepts the risk for costs that exceed the cost ceiling without approval. Each contract also provides for payment of a negotiated fee to the contractor, which is fixed at the contract's inception. This fee can change as the contract's scope of work changes. SE-2020 contracts require that the contractor provide a specific level of effort, or number of labor hours; therefore, if the specified number of hours is not achieved at the end of the contract, the fixed fee is adjusted downward. The downward adjustment represents the percentage of labor hours not achieved.

Individual task orders define specific requirements that contractors must accomplish within the base contract's statement of work. Each task order has an award value, specifies a period of performance, and establishes the number of labor hours that the contractor will provide.

¹ The 10-year performance period includes a 5-year base with two renewal (option) periods of 3 and 2 years, respectively.

FAA LACKS ADEQUATE CONTROLS TO MANAGE ITS SE-2020 CONTRACT COSTS

While AMS establishes a number of requirements for managing FAA's contracts, some of the requirements are unclear, which has led to FAA establishing unreliable cost baselines and overstated contract values for the SE-2020 contracts. Without a reliable baseline, FAA cannot effectively monitor contract costs. Flawed cost monitoring tools and unreliable acquisition data further impede FAA's ability to ensure it does not overpay for professional and technical services. The weaknesses we found in FAA's contract cost baseline coupled with insufficient cost monitoring tools heighten the risk of FAA not being able to effectively manage contract costs.

FAA's Implementation of Unclear Contract Pricing Policies Has Led to Unreliable SE-2020 Cost Baselines

AMS requires contracting officers to ensure that final contract prices are fair and reasonable. To help determine fair and reasonable prices, FAA developed an Independent Government Cost Estimate (IGCE), an internal estimate that describes how much it could reasonably expect to pay for needed supplies or services. FAA estimated its cost baseline of \$7.1 billion prior to contract award using an IGCE but awarded SE-2020 contracts at contractors' proposed labor rates, which cumulatively were 29 percent lower than those used in the IGCE. AMS specifically requires a written explanation to the Chief Financial Officer (CFO) when IGCEs exceed contractors' proposals by 15 percent or more. However, FAA did not specify a due date for submitting this explanation until October 2010.² Despite changes to AMS, at the time of our audit, the SE-2020 program office had yet to submit the required explanation for these significant differences. As a result, FAA cannot be sure that the contracts' cost baseline is an accurate benchmark for monitoring costs. This is a concern because at the time of our review, the contractors were also billing labor rates that were 16 percent higher than proposed.

In addition, although FAA officials verified that pre-award audits were required on the SE-2020 contracts, FAA did not obtain DCAA audits, which may have provided a basis for determining a realistic cost baseline. We found that AMS guidance on obtaining such audits is not clear.³ Specifically, AMS requires pre-award *or* post-award audits for cost-reimbursement contracts estimated to exceed \$100 million, which allows audits to be conducted after contract award. In addition, AMS does not include guidance on what types of pre-award audits

² In October 2010, FAA revised its AMS to require program offices to submit an explanation to the CFO within 30 days of contract award when IGCEs exceed contractors' proposals by 15 percent or more.

³ AMS T3.2.3 (A)(1)(f), "Cost and Price Methodology, Pre-and Post-award Audits."

should be obtained. As such, FAA did not obtain audits for five of seven contractors' labor rates and two of seven contractors' accounting systems.

FAA Overstated Its SE-2020 Contract Values, Which Increases Cost Management Risk

FAA overstated the contract values by including unneeded labor hours in most of the SE-2020 contracts' ceilings. FAA stated that it needed 40 million labor hours; however, the contracts cumulatively include 58 million hours. FAA stated that it does not intend to use more than 40 million hours and that it chose to include the additional hours to provide flexibility to transfer hours between contractors. However, based on language in the contracts, this flexibility already existed within the original 40 million hours. As a result of including the additional hours at the contractors' proposed rates, the contract values are significantly overstated by as much as \$2 billion (see table 1), which increases the risks to FAA of not effectively managing the SE-2020 contracts' total costs.

Table 1. FAA's Increase to Contract Values Resulting From Inclusion of Extra Labor Hours

	Direct Labor Rates	Direct Labor Hours	Total Estimated Costs plus Fees
Awarded contract values	Contractors' proposed rates were 29 percent lower than IGCE	FAA included 58 million hours for more flexibility	\$7.3 billion
Contract award values using only needed labor hours	Contractors' proposed rates	40 million	\$5.1 billion

Source: FAA data and OIG analysis

Another consequence of FAA including excess labor hours is that it may award higher fixed fees to contractors. Fixed fees are calculated using the contracts' estimated costs. FAA increased the value of the contractors' estimated costs by \$2 billion when it included the 18 million unneeded labor hours. The cumulative \$7.3 billion contract values resulted in \$428 million in fixed fees. If FAA had based its calculation of the fixed fees to be earned on the 40 million needed labor hours, its fixed fees would have totaled \$264 million, which is about \$164 million less.

The SE-2020 contracts allow for a downward adjustment of the fixed fees if FAA does not use all of the 58 million labor hours. However, the unneeded labor hours increased the awarded contract values used to calculate fixed fees; consequently, FAA may pay contractors more in fixed fees than it should and may have to recoup these fees at the end of the contracts. For example, if FAA continues to pay at the 16 percent higher labor rates for 40 million labor hours, FAA would require

additional Government resources to recoup up to \$43 million in fixed fees. In addition, these funds could be put to better use for other FAA programs.

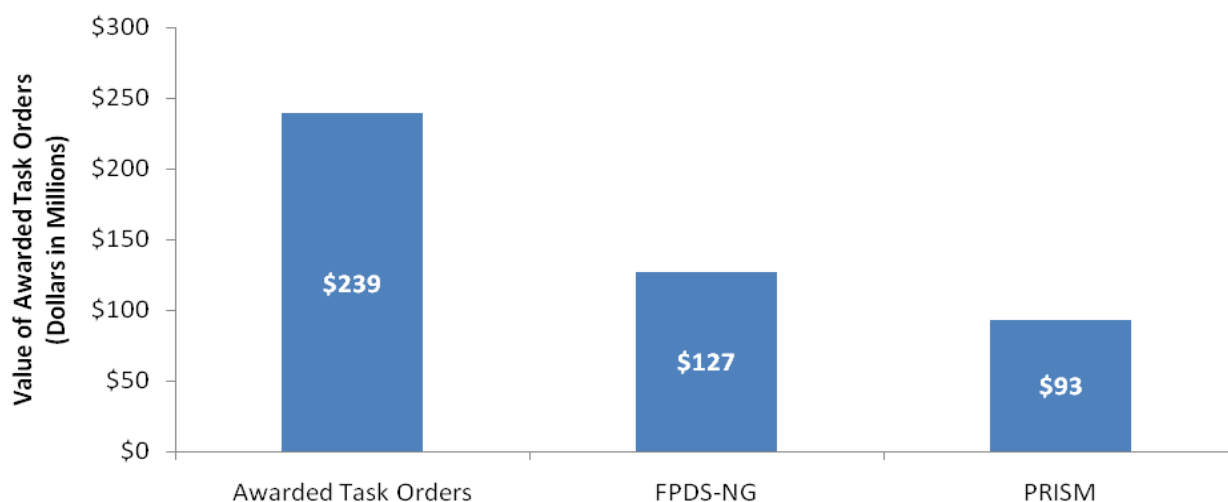
Flawed Cost Monitoring Tools and Unreliable Acquisition Data Impede FAA's Ability To Monitor SE-2020 Contract Costs

AMS states that cost-reimbursable contracts require appropriate surveillance to minimize cost risks to the Government. However, FAA lacks effective cost monitoring tools to identify potential errors. We identified several miscalculations in the cost monitoring spreadsheets that FAA developed and uses to identify and prevent potential cost overruns for SE-2020 task orders. FAA calculated each task order's projected total costs incorrectly, and its miscalculations—such as adding numbers that should have been subtracted—resulted in projecting significant overruns. For example, FAA's calculations predicted that one of its \$38 million task orders would experience an overrun of more than \$55 million. When we recalculated this projection, we found that the task order was actually projected to be under budget by about \$10 million. FAA program officials were unaware of these errors until we brought them to their attention. In response to our concerns, FAA corrected some, but not all, of its errors.

FAA reports inaccurate SE-2020 cost data in the three databases it uses to fund, write, and report its procurements: Federal Procurement Database System-Next Generation (FPDS-NG), the Government's principal repository for acquisition information; PRISM, FAA's contract writing system; and Delphi, FAA's financial management system, which is used for accounting for costs and paying contractors. For example, at the time of our review, FAA had awarded a total of \$239 million in SE-2020 task orders,⁴ but reported only \$93 million in PRISM and \$127 million in FPDS-NG (see figure 1), which understates task order values by about 61 and 47 percent, respectively.

⁴ We verified this cost figure based on an OIG reconciliation of the contracting officer's manual spreadsheets against SE-2020 task orders.

Figure 1. Differences Between Actual SE-2020 Task Order Award Values and Amounts Reported in FAA’s Acquisition Databases



Source: OIG analysis of FAA data

FAA acknowledges that its acquisition data reporting are inaccurate. The SE-2020 program office has implemented a monthly exceptions report to help contracting specialists reconcile differences among its acquisition databases and enable FAA to report its contracting obligations more accurately.

FAA’S CONTRACTING PRACTICES ARE INSUFFICIENT TO ENSURE EFFECTIVE SELECTION AND OVERSIGHT OF SE-2020 CONTRACTORS

AMS requires an assessment of contractor past performance and emphasizes the use of performance-based acquisitions for service contracts to ensure that contractors provide timely, cost-effective, and quality results.⁵ However, FAA has taken a narrow approach to evaluating contractors’ past performance and has not used performance-based acquisition for its SE-2020 contracts. At the same time, FAA has not taken action to ensure adequate competition for task orders, identify potential conflicts of interest, document task order decisions, or ensure that contract oversight staff have needed skills. FAA’s weak processes can result in cost and schedule overruns and increase the risk of receiving services that do not meet the Agency’s needs. Since the inception of our audit, FAA has taken several steps to improve some of its contracting practices; however, further enhancements are needed to ensure that FAA selects and oversees its SE-2020 contractors in the most effective manner possible.

⁵ AMS 3.2.2.2, “Source Selection, Policy,” and AMS 3.8.2.4, “Performance-Based Service Contracts.”

FAA Performed Limited Past Performance Evaluations of SE-2020 Contractors

AMS requires procurement teams to evaluate prospective contractors' past performance but gives teams latitude for the design of evaluation measures.⁶ FAA opted to focus on personnel recruitment and retention and not on quality of work and customer satisfaction for its SE-2020 contractors' past performance evaluations. According to selection officials, FAA focused on recruitment and retention because contractors from prior systems engineering contracts had difficulties hiring and retaining qualified workers. However, this narrow approach to past performance evaluations prevented the Agency from considering problems on prior contracts that contractors' references identified. One reference reported to FAA that a contractor had taken 6 to 8 months to fill vacancies, but FAA did not consider this feedback in its scoring of the contractor and awarded the contractor a \$1.2 billion contract. Ultimately, FAA's past performance evaluation criteria resulted in perfect scores for all contractors, which effectively eliminated past performance as a deciding factor in its SE-2020 base contract awards.

FAA's Source Selection Official acknowledged that FAA needs to develop a more objective way to assess past performance because poor performing contractors continue to win contract awards. For example, FAA had to temporarily stop awarding task orders to one SE-2020 contractor because it repeatedly submitted untimely staffing plans and proposed using unqualified employees despite FAA's objections.

FAA Does Not Effectively Use Performance-Based Acquisition on Its SE-2020 Contracts

In awarding its SE-2020 task orders, FAA also chose not to use performance-based acquisition (PBA)—an approach that Federal regulations, policies, and guidance have encouraged agencies to use for over 2 decades to better ensure that contractors provide quality results. PBA calls for requirements to be described in terms of desired results with measurable outcomes, instead of a general description of how the work will be performed. PBA also stresses the use of financial incentives tied to measurable performance criteria if an acquisition is mission-critical or costly.

In 2002, we recommended that FAA implement performance-based service contracting to reduce contract costs and improve performance.⁷ In response to our recommendation, FAA agreed to use one of its service contracts as a PBA pilot program. However, FAA had problems implementing this approach. For example,

⁶ AMS 3.2.2.2, "Source Selection, Policy."

⁷ OIG Report Number AV-2003-002, "Support Contracts: Cost Controls Over the NAS Implementation Support Contract Need Significant Strengthening," November 15, 2002. OIG reports are available on our Web site: www.oig.dot.gov.

the performance evaluation criteria used in the PBA pilot lacked measurable outcomes.⁸

When we brought this matter to FAA's attention, it responded that some of its SE-2020 task orders do not lend themselves to PBA because they involve research and development. While 1 of the 14 SE-2020 task orders we reviewed involved research and development services, the remaining 13 task orders—for follow-on work such as program management and investment analysis⁹—could benefit from PBA:

- Of the 14 task orders, 12 lacked measurable outcomes and performance criteria. For example, a \$24 million SE-2020 task order stated that FAA would evaluate a contractor's business case analysis and other reports on "quality, accuracy, completeness, cost, and schedule criteria," but it did not specify what criteria FAA would use.
- As of October 2010, FAA had not awarded any task orders with financial incentives, even though the contracts allow for them.
- Thirteen of SE-2020's 93 tasks that we reviewed did not have deliverables,¹⁰ even though AMS requires the Agency to clearly define deliverables in its contracts.¹¹ For example, a \$7.3 million task order did not require deliverables for safety risk studies and assessments and related activities, such as development of appropriate safety documentation to ensure all National Airspace System safety aspects are considered for the Network Enabled Weather Program.

While FAA asserts that it remains committed to PBA and agrees that it should be used when appropriate, at the time of our audit, it still had not effectively used PBA on SE-2020 tasks or determined which tasks could lend themselves to a performance based approach. FAA has recently indicated that it is in the process of determining whether PBA can be used in SE-2020 task orders and will train staff on how to draft and implement PBA task orders. These efforts must be sustained and ultimately implemented to ensure future SE-2020 task orders provide quality results.

⁸ OIG Report Number FI-2008-027, "Interim Report on Award-Fee Criteria for the National Airspace System Implementation Support II Contract and Bridge Contract," February 27, 2008, and OIG Report Number FI-2009-002, "Interim Report on Award-Fee Criteria for FAA's System Engineering and Technical Assistance II (SETA-II) Contract," October 7, 2008.

⁹ Investment analysis provides decision makers with information about investment opportunities, such as their risks and value.

¹⁰ We could not calculate the value of the 13 tasks because they were not separately priced.

¹¹ AMS T3.8.2 (A)(1)(b)(1), "Service Contracting, General Requirements."

FAA's Criteria for Competing SE-2020 Task Orders Are Not Fully Developed

FAA's ability to achieve the best value for SE-2020 task orders is also limited by a lack of competition. FAA initially chose not to award any SE-2020 task orders competitively but plans to compete select task orders in the future. Counter to Governmentwide guidance, FAA senior officials eliminated an AMS requirement to compete task orders valued over \$1 million. Therefore, FAA is not required to use competition for such SE-2020 task orders. Officials from FAA's SE-2020 program office also stated that the SE-2020 contract structure provides "inherent competition" by allowing the transfer of labor hours from one contractor to another, a practice that it believes also incentivizes contractor performance. However, this structure does not encourage contractors to improve performance or lower costs beyond the minimum standards necessary to receive additional work. In response to our concerns, FAA reported that it is working on the competitive award of future SE-2020 task orders but states it will only compete tasks when it is in the best interest of the Government. However, it has not yet formalized a process for deciding when competition is in the Government's best interest.

FAA Has Not Developed Adequate Tools and Techniques To Support the Identification of Potential OCIs on Its SE-2020 Contracts and Task Orders

AMS states that FAA contracting officers must avoid awarding contracts to contractors that have unacceptable organizational conflicts of interest (OCI).¹² FAA had approved OCI mitigation plans for all seven of its SE-2020 prime contractors. However, it currently lacks adequate mechanisms to supplement its AMS that would assist contracting officers in detecting potential OCIs when awarding and overseeing task orders. OCIs can arise in various situations, but one common OCI occurs when an agency hires a contractor to evaluate its own work. For example, at the time of our audit, FAA's contracting officer was unaware that one contractor's impartiality could be impaired by its performance on FAA's Automatic Dependent Surveillance-Broadcast system, a \$1.8 billion NextGen acquisition that may require future SE-2020 services. While each organizational conflict of interest scenario must be evaluated on a case by case basis, FAA has not developed adequate tools and techniques to implement its AMS guidance and support the identification of OCIs. For example, FAA lacks a contractor and subcontractor database that would allow FAA to verify whether contractors' past work could potentially impair objectivity.¹³ In response to our concerns, SE-2020 program officials plan to improve their OCI process by developing tools that enhance their awareness of potential OCIs prior to SE-2020 task order awards.

¹² AMS T3.1.7, "Organizational Conflicts of Interest."

¹³ According to AMS T3.1.7, a contractor's objectivity can be impaired when it provides assessment and evaluation findings on itself, a subsidiary, business division, or other entity with which it has a significant financial relationship.

FAA Has Not Adequately Documented Its SE-2020 Task Order Award Decisions

While FAA requires that SE-2020 program managers record important task order award decisions, such as potential contractor OCI cases and justification for contractor selections, FAA does not adequately document its SE-2020 task order award decisions. Sufficient documentation of task order awards¹⁴ provides a history that FAA can use when selecting contractors for future task orders. However, at the time of our audit, SE-2020 program managers did not document 1 or more key decisions for 8 out of 14 of the task orders we reviewed. Despite AMS and Office of Management and Budget (OMB)¹⁵ requirements for sufficient contract documentation, FAA acknowledged that, in its urgency to award task orders by the end of the fiscal year, it did not thoroughly document its award decisions. In response to our concerns, FAA has agreed to develop more complete records of its task order award decisions which may help FAA improve its task order awards in the future.

FAA Lacks Adequate Contract Oversight Mechanisms for Its SE-2020 Task Orders

Federal acquisition policy and regulations emphasize the need for sound oversight principles to ensure that contractors meet cost, schedule, and performance goals. It is critical that FAA train and develop its contract oversight employees because they play an important role in ensuring that SE-2020 contractors provide quality and timely services. However, during the course of our audit, we found that FAA did not require its contract oversight staff to receive training or use oversight plans. Only 4 of 26 oversight employees¹⁶ who responded to our survey maintained oversight plans for their assigned task orders.¹⁷ In addition, we reviewed the four oversight plans that were maintained and found that they did not offer detailed methods for assessing contractors' work results. Instead, the plans consisted mainly of contractor task lists.

In March 2011, FAA began requiring contract oversight staff to complete monthly standard performance monitoring templates for each task order. While OMB's best practices state that oversight plans should focus on desired performance outcomes, FAA's new templates do not include measurable criteria to evaluate desired performance outcomes, such as quality, cost, and schedule.¹⁸ FAA also began requiring all contract oversight staff to be certified Contracting Officers

¹⁴ AMS T3.10.1 (A)(10)(a)(2 and 3), "Contract Administration, Contract Files." AMS does not define "sufficient."

¹⁵ OMB Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004.

¹⁶ We surveyed 85 contract oversight employees assigned to SE-2020 planned and awarded task orders as of October 31, 2010.

¹⁷ One oversight employee responsible for monitoring three task orders, with a cumulative value over \$30 million, did not establish and maintain oversight plans to oversee the task order contractors.

¹⁸ OMB's Office of Federal Procurement Policy (OFPP), "A Guide to Best Practices for Contract Administration," October 1994.

Technical Representatives (COTR) and complete mandatory COTR oversight training in April 2011 after we shared our concerns about their lack of training requirements.

CONCLUSION

Implementing sound procurement practices is critical for FAA to safeguard against wasteful spending and help ensure it acquires the best value in professional and technical services—especially for FAA’s \$7 billion SE-2020 contracts portfolio, which is the largest award in its history. FAA’s ineffective cost management and contracting practices, however, could result in schedule and cost overruns and increase the risk of receiving services that do not meet the Agency’s needs. While FAA has responded to many of our concerns and taken steps to improve its contract management, it has faced challenges in implementing procurement practices that have been proven to prevent wasteful spending and improve quality results, such as PBA. While FAA is in the early stages of using its SE-2020 contracts, it is imperative that it take prompt action to improve its contracting practices and sustain efforts on promised improvements to manage and monitor future SE-2020 performance—especially given the billions of dollars the Agency may yet award. Until FAA takes such actions, it will continue to put FAA’s NextGen and its National Airspace efforts—as well as taxpayer funds—at risk.

RECOMMENDATIONS

We recommend that FAA’s Vice President of Business and Acquisition Services:

1. Require the SE-2020 program office to (a) submit to the CFO a written reconciliation of the difference between its IGCE and the contractors’ proposals and (b) use this reconciliation as a basis to develop a reasonable cost baseline.
2. Revise AMS to require that, when IGCEs exceed contractor proposals by 15 percent or more, program officials submit an explanation and recommended corrective actions to the CFO before contract award.
3. Revise AMS to (a) specifically require pre-award and post-award audits of contracts in excess of \$100 million and (b) define the types of pre-award audits required, including—at a minimum—direct labor rates, indirect rates, and accounting system reviews.
4. Amend SE-2020 awarded contract values using contractors’ proposed rates and FAA’s estimated need for 40 million hours and adjust fixed fees to reflect revised contract costs.

5. Require the SE-2020 program office to (a) develop policies and procedures to ensure timely reconciliations and corrections to acquisition databases and (b) revise its cost monitoring spreadsheets to ensure accurate data for effective cost control of SE-2020 contracts.
6. Revise AMS to establish controls that require more comprehensive evaluations of contractor past performance.
7. Require FAA's contracting and program staff to use performance-based acquisition principles in their SE-2020 task orders and ensure staff is adequately trained to develop and monitor such awards.
8. Require the SE-2020 program office to define criteria that specify when competing task orders are in the Government's best interest.
9. Revise AMS to include guidance on how to identify and mitigate risks of potential OCIs prior to contract or task order award.
10. Require FAA contracting personnel to develop, maintain, and use a record of active prime contractors and subcontractors to identify and mitigate risks of potential OCIs.
11. Require the SE-2020 program office to develop policies and procedures to ensure adequate documentation of task order award decisions.
12. Require the SE-2020 program office to amend the standard performance monitoring templates to include measurable criteria to evaluate desired performance outcomes, such as quality, cost, and schedule.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We sent FAA our draft report on October 31, 2011, for comment, which FAA provided in a letter dated January 20, 2012 (see appendix). In its letter, FAA concurred or partially concurred with 10 of our 12 recommendations and recognized the need to continually seek ways to further strengthen SE-2020 contract oversight and program management. Despite its general concurrence, FAA raised concerns about the presentation of our findings.

FAA concurred with six recommendations and provided acceptable planned corrective actions and implementation dates for three of these recommendations (1, 8, and 12). These three recommendations will remain open pending our verification that planned actions are complete and sufficient. However, additional

actions are needed to ensure FAA meets the intent of the three other recommendations. Specifically:

- To meet the intent of recommendation 5(a), FAA needs to submit a formal implementation plan for its proposed reconciliations of information and data in Delphi, PRISM, and FPDS to ensure they are accurate and consistent. Also, for recommendation 5(b), FAA needs to submit a plan to periodically perform audits of its spreadsheets used to monitor its SE-2020 contracts and task order costs throughout the contracts' entire period of performance.
- To meet the intent of recommendation 7, FAA needs to submit a formal plan to ensure the implementation of performance-based contracting on new task orders that are suitable for PBA. FAA also needs to include COTRs in its PBA training plans for its contracting officers and SE-2020 Program Management Office staff. COTRs who are assigned to task orders are part of the program office acquiring the work and represent first-line oversight of the contractor's performance. Training such officials to monitor and measure the contractor's performance is critical to minimizing risks.
- To meet the intent of recommendation 11, FAA needs to ensure adequate documentation of task order award decisions. While FAA stated that it plans to conduct biannual reviews of the Adjudication Board's records to institutionalize the adjudication process and provide a thorough documentation and evaluation process, these planned actions need to be documented to ensure the reviews consistently provide control over the task order award process.

FAA partially concurred with four recommendations and submitted acceptable planned corrective actions and implementation dates for these recommendations. FAA already completed actions to address one of these recommendations (3), and we consider it closed. The remaining three recommendations (6, 9, and 10) remain open pending our verification that FAA's planned actions are complete and sufficient. To address recommendation 9, we encourage FAA to document the results of its review of the practices developed by its SE-2020 team to avoid and mitigate potential OCIs cited in its response letter. FAA needs to use this information to improve its tools and techniques to implement its existing AMS guidance on OCIs.

FAA did not concur with the remaining two recommendations (2 and 4). First, FAA did not agree that program officials should submit to the CFO before contract award an explanation and recommended corrective actions for contractor proposals that are 15 percent below IGCEs. FAA states that its current policy requiring such submissions to the CFO within 30 days after award is sufficient and that its CFO and FAA Acquisition Policy offices agreed there is no added value to

seeking approval prior to award. While providing an explanation after contract award can help inform future awards and IGCEs, implementing measures to manage contract costs before contract award is critical to ensure FAA does not overpay for professional and technical services. FAA also noted that no additional actions were needed “particularly in light of the state of the economy.” We disagree. A weak economy can incentivize contractors to propose unreasonably low bids, which in turn can lead to significant cost over-runs, poor performance, or both—risks that FAA should not undertake in any economy. We request that FAA reconsider its position and propose a course of action that would meet the intent of our recommendation.

Second, FAA did not concur with our recommendation to amend SE-2020 awarded contract values and adjust fixed fees to reflect revised contract costs. However, it submitted alternative actions that partially meet the intent of the recommendation. Specifically, FAA agreed to (1) reconcile each task order’s total cost and fee at task order close out and (2) complete an analysis of fees paid through the end of calendar year 2011 and provide OIG with the results of the analysis by June 30, 2012. To fully meet the intent of our recommendation, FAA must perform periodic reconciliations of the SE-2020 contracts—which have a potential 10-year performance period—to ensure that it does not pay excess fees to contractors that it would need to recoup at a later date. Consequently, recommendation 4 will remain open until FAA provides OIG a schedule requiring periodic reviews of the fees paid to contractors and finalizes resolution of the June 2012 analysis.

The FAA response letter acknowledged that it is committed to providing meaningful oversight of its SE-2020 contracts, and we cited in our report a number of recent actions FAA noted in its letter. In addition, we also made changes where appropriate to address FAA’s comments. However, we remain concerned that FAA does not always distinguish planned and recently implemented actions from those that have been fully institutionalized. Planning and implementation without enforcement do not constitute strong and effective management controls. For example, FAA revised its AMS policy in October 2010 to require program offices to submit an explanation to the CFO within 30 days of contract award when IGCEs exceed contractors’ proposals by 15 percent or more. However, as of October 31, 2011—when we completed our audit work—FAA had yet to submit to the CFO an explanation as to why the contractors’ proposed labor rates were 29 percent lower than the IGCE’s.

We will continue to work with FAA to better ensure that its management controls minimize contract risks and maximize taxpayer dollars.

ACTIONS REQUIRED

In accordance with Department of Transportation Order 8000.1C, we request that you provide a response to this report within 30 days that clearly indicates how you will resolve recommendations 2, 4, 5, 7, and 11. We request that you provide the following: formal implementation plans for the reconciliations of Delphi, PRISM, and FPDS and the audits of SE-2020 contracts and task order costs, as well as planned action dates for recommendation 5; a plan to ensure that COTRs assigned to performance-based task orders are trained and a planned action date for recommendation 7; documentation of the Adjudication Board record review process and a planned action date for recommendation 11; and a schedule of periodic reconciliations of fees paid to contractors, final resolution of the June 2012 analysis, and a planned action date for recommendation 4. For recommendation 2, we are asking the Agency to reconsider its position.

We appreciate the courtesies and cooperation of FAA representatives during this audit. If you have any questions concerning this report, please contact me at (202) 366-5225; Tony Wysocki, Program Director, at (202) 493-0223; or Dana Short, Project Manager, at (202) 366-2089.

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cc: Martin Gertel, M-1
Pierre McLeod, AAE-100

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted this audit between April 2010 and October 2011 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.

To address our audit objectives, we selected 100 percent of SE-2020 task orders valued at \$5 million or more—a total of 14 task orders valued at \$153 million, or 64 percent of the total universe of awarded task orders. We selected these task orders out of a universe of 77 task orders—valued at \$239 million—awarded from SE-2020’s 7 base contracts as of October 31, 2010. We assessed whether these task orders comply with FAA and Federal best practices and procurement policies. We also reviewed 100 percent of FAA’s SE-2020 contractor invoices received as of November 22, 2010, to identify differences between the contractors’ billed and proposed labor rates.

We assessed FAA’s procurement practices and compliance against criteria and best practices from the following sources:

- FAA’s Acquisition Management System (AMS), including 3.0 Procurement Policy and Guidance, 5.0 Acquisition Career Program, and FAA Pricing Handbook
- Office of Management and Budget (OMB)
 - OMB Circular A-123, “Management’s Responsibility for Internal Control,” dated December 21, 2004
 - OMB Memorandum, “Conducting Acquisition Assessments under OMB Circular A-123,” dated May 21, 2008
 - Office of Federal Procurement Policy (OFPP) guidance, “Seven Steps to Performance-Based Service Acquisition”
- Presidential Memorandum, “Government Contracting,” dated March 4, 2009
- DOT’s OMB Circular A-123 Acquisition Assessment Report, dated November 13, 2008

We assessed whether FAA (1) manages its SE-2020 contract costs effectively; and (2) uses sound contracting practices to select contractors and oversee their

performance. We also interviewed FAA program office, contracting, legal, and other management personnel.

In addition, we administered a survey to 100 percent of the 85 program office oversight staff assigned to SE-2020's planned and awarded task orders as of October 31, 2010, to which 26 responded. We analyzed the survey results to determine if procedures are in place to ensure that task orders are adequately monitored. To assess the reliability of SE-2020 contract data in FAA's acquisition databases, we compared data from the following systems: Federal Procurement Database System-Next Generation (FPDS-NG), the Federal Government's contract reporting system; PRISM, FAA's contract writing system; and Delphi, FAA's accounting system.

EXHIBIT B. MAJOR CONTRIBUTORS TO THIS REPORT

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APPENDIX. AGENCY RESPONSE



Federal Aviation Administration

Memorandum

Date: January 20, 2012

To: Mary Kay Langan-Feirson, Assistant Inspector General for Acquisition and Procurement Audits

From: H. Clayton Foushee, Director, Office of Audit and Evaluation (AAE-1) *H. Clayton Foushee*

Subject: Office of Inspector General Draft Report on FAA's Systems Engineering 2020 Contracts

The System Engineering 2020 Contract Program (SE-2020) currently has strong and effective management controls as well as appropriate oversight in place to ensure that the contracts provide the FAA with a cost efficient means to obtain the services necessary to support Next Generation Air Transportation System (NextGen) initiatives, as well as non-NextGen activities. The SE-2020 support service contracts are a complex and innovative undertaking. From the beginning, the FAA recognized the need to provide meaningful oversight and has continually sought ways to further strengthen our management of the program. As a result of these efforts, FAA has implemented systematic improvements to the program that were not captured in the OIG draft report. As a result it does not convey an accurate representation of the program as it is currently operating. The following are a number of key points that will be more fully developed in the sections to follow. Specifically, FAA:

- Implemented enhanced and systematic oversight based on sound practices and standard operating procedures;
- Established a reasonable cost baseline, and more importantly, is establishing reliable task order cost baselines;
- Used sound contracting principles to select the SE-2020 contractors;
- Committed to full and appropriate use of performance based contracting; and
- Established systems and controls to avoid organizational conflicts of interest.

FAA Enhanced SE-2020 Contract Oversight

The FAA is committed to the sound management of the SE-2020 contracts and has dedicated extensive resources to provide effective contract oversight. In part, this oversight implements process improvements that will enhance the agency's management of the SE-2020 contracts. As a result of FAA's efforts, significant actions have been implemented since the OIG completed the audit work that is the basis for the draft report. Specifically, the FAA has:

Increased Competition for Task Orders - The SE-2020 PMO is currently defining criteria for specifying task order competition. As instructed by Office of Management and Budget (OMB), guidelines for best practices for multiple award task order contracts, and supported by the Government Accountability Office (GAO), it is essential to strike an appropriate balance between the value inherent in open competition for task orders, the cost and delay that competition also creates, and the value of retaining well-performing contractors, particularly to continue or complete work. A process document will be finalized by January 31, 2012 to define requirements that lend themselves to task order competition. Two significant task order competitions are currently being prepared for release with awards planned for February 2012.

Increased Staffing Assigned to Contract Management and Oversight - SE-2020 contracts are overseen by eight fully-dedicated and trained contracting officers and specialists. Eight Contracting Officer's Technical Representatives (COTRs) are assigned along with a specialized Financial and Cost Team that are dedicated to the monitoring and oversight of costs. In total, there are approximately 45 full-time staff dedicated to the management and oversight of the contracts.

Implemented Standard Operating Procedures - In August 2011, FAA implemented standard operating procedures across SE-2020 task orders that include documentation requirements, User Guides, and Work Plans. These procedures were under development for over the past 18 months, and with their implementation, the FAA is using best practices to improve performance measures, cost controls, guidance and training to all SE-2020 team members.

Implemented Formal Metrics - As part of its standard operating procedures, FAA implemented a set of formal metrics to track and evaluate performance on SE-2020 task orders and other internal program metrics. Among other things, these metrics track vendor performance, timeliness of vendor deliverable submissions; and process efficiency in areas including task order awards, task order modifications, resume submissions, and invoice submissions.

Implemented Process Enhancements - SE-2020 task orders award processes have been revised to further ensure that award decisions are sound, thorough, and well-documented. For example, the FAA enhanced the process for identifying and managing Organizational Conflicts of Interest (OCI) that could affect the SE-2020 contracts by implementing additional review procedures to monitor and detect OCIs. These additional review procedures include the incorporation of an OCI/Conflict of Interest (COI) Evaluation section as part of the task order award process, the addition of an OCI certification in the vendor's "technical task plan" response, and enhancement of the SE-2020 "resume review module" to include a required COI section as part of the resume submission. In addition, the FAA has assigned a dedicated technical advisor in the SE-2020

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Program Management Office (PMO) to analyze every SE-2020 task order and assist the SE-2020 Contracting Officer identify and assess potential OCI issues.

These examples demonstrate the FAA's commitment to strengthening its processes and procedures to further reduce program costs, increase program controls, and improve performance management on the SE-2020 contracts. While the FAA recognizes that there are areas for additional improvement in our management of cost and performance on the SE-2020 contracts, we do not believe that the audit findings support the broad conclusion that the FAA is failing to effectively manage costs and performance on these contracts. As a result, we request the OIG revisit its conclusions regarding cost and performance management of SE-2020.

FAA Established a Reasonable Cost Baseline for SE-2020

The Independent Government Cost Estimate (IGCE) developed for the SE-2020 competition is a reasonable and appropriate baseline against which cost overruns should be measured at a global contract level. The SE-2020 contracts provide FAA program offices with access to a wide variety of research and systems engineering support services to help FAA organizations carry out activities related to NextGen and other National Airspace System (NAS) requirements. The IGCE developed for SE-2020 represents the FAA's independent and rigorous estimate of the costs for the support services that are likely to be acquired by the FAA program offices under the SE-2020 contracts. The FAA dedicated extensive resources to develop the IGCE for SE-2020 including: conducting in-depth analysis of costs incurred on a variety of contracts held by the FAA and other Federal agencies; obtaining industry input from two market surveys; analyzing salary data obtained from multiple salary data services; and incorporating lessons learned on other FAA procurement efforts. These efforts are documented in detail in the SE-2020 Business Case which provides a detailed description describing the methodology and assumptions used to create the SE-2020 IGCE.

The SE2020 team will submit data showing the differences between its IGCE and the proposals it received to the FAA Chief Financial Officer (CFO). The CFO will consider whether the overall cost baseline for this program should be revised. Given the nature of this program, however, it is more critical to establish cost control mechanisms at the task order level than it is to determine the precisely accurate baseline for the overall set of contracts, particularly as these contracts have two quite different purposes. The SE-2020 contracts essentially function as an "umbrella" contract mechanism that an FAA program office can use to place orders for services it requires to support a particular mission. Program office "customers" use the SE-2020 contracts to obtain highly technical support services in a wide range of areas such as research and development, systems engineering, and investment analysis. As it is not possible to establish definite performance and schedule parameters at the total SE2020 program level, the cost baseline at the SE-2020 program level is not a significant tool for the agency to use to control costs.¹⁹

The SE-2020 program works with program office customers to develop and issue task orders for the support services the program office needs to support a project or activity. Each task order describes, among other things, the scope of the work to be conducted, the period of performance, and the cost of the work. Before issuing a task order, the SE-2020 team and the program office

¹⁹ The FAA will continue, however, to monitor the SE2020 program at this level as well as at the task order level.

customer work together to analyze the specific work that will be conducted under the task order and develop an IGCE specifically tailored for that work. The FAA then asks the contractor to submit a cost proposal for the task order. When the FAA receives the cost proposal, the SE-2020 team and the program office customer analyze the cost proposal in detail and compare it to the IGCE to ensure that the proposed cost for the task order is fair and reasonable and that the FAA will not overpay for the services. Before issuing a task order, the FAA also negotiates with the contractor to further control the cost for the task order. The FAA will award the task order only if the agency and the contractor agree on a fair and reasonable cost for the service provided. During performance of the task order, the SE-2020 team and the program office customer closely monitor the costs incurred for the task order and use the task order cost baseline to identify any cost overruns for that work.

The FAA is effectively baselining, monitoring, and controlling costs for every SE-2020 task order. Baselining and monitoring costs at the task order level is a rigorous approach that allows the FAA to control costs with a greater degree of precision than could be achieved by solely relying on the SE-2020 program-level cost baseline which was the focus of OIG concern in its draft report. As a result, the OIG draft report paints only a partial picture of cost baseline activities on the SE-2020 program.

There is No Risk FAA will Overpay SE2020 Contractors \$2 billion in the manner described in the draft report

The OIG report incorrectly interprets the estimated labor hours listed in Section B of each SE-2020 contract. The values of each SE-2020 contract simply represent ceiling amounts over the projected ten-year program and do not guarantee that each contractor will receive task orders totaling these ceilings. The use of a higher ceiling than might actually be needed is not unusual across the Executive Branch as a means to assure that contracts with durations of five years or more have sufficient scope to address unanticipated requirements. As many acquisition professionals have observed, the ceilings on the Federal Government’s multiple award service contracts are considerably larger than “any reasonable person” anticipates will be reached.²⁰ Already in the relatively short duration of the SE2020 program, there have been a number of unanticipated changes which might affect the number of hours the agency needs to acquire under these contracts. For example, the Administration has recently selected NextGen as a Presidential infrastructure priority, which when coupled with the variety of potential funding scenarios facing the Federal Government, could increase some of the work needed under the systems engineering contracts.

The SE-2020 contracts provide the FAA with the flexibility to order anywhere from zero labor hours to the maximum number of hours specified in the contracts. Specifically, Section B.5 of the Contract states in part:

“The Contractor is not authorized to expend any hours or incur any costs until the Contractor is in receipt of a fully executed Task Order (TO) or other written direction from the Contracting Officer (CO). The FAA intends to purchase the level of effort required for which funding is

²⁰ See, e.g., <http://washingtontechnology.com/articles/2010/11/15/editors-note-contract-trends.aspx>.

appropriated and available. However, the FAA is not obligated to utilize this contract, or issue any TOs at any minimum level.”

The SE-2020 contracts clearly specify that labor hours can only be ordered or “awarded” by issuing a TO. The contracts themselves do not award or otherwise obligate the FAA to order any labor hours. Moreover, the number of hours listed in Section B only represents an estimate of the number of hours the FAA would require, and the contracts expressly recognize that changes in the FAA’s requirements could cause the number of hours in Section B to increase or decrease. Specifically, Section B.7(d) of the SE-2020 contracts provides:

“The level of effort delineated in Section B is provided as the Government’s best estimate. Changes in programmatic requirements may cause an increase or decrease in the number of man-hours identified in Section B.”

In summary, the provisions of the SE-2020 contracts specify that: the number of labor hours listed in Section B of the contracts is only an estimate; the contracts do not award or otherwise authorize the contractor to expend any labor hours; and the FAA will only award labor hours by issuing task orders. Even if the FAA eventually orders all 58 million labor hours, this would not constitute an overpayment or even a program overrun. Hours will only be ordered if the work is needed. Payment to the SE2020 contractors will be made only for work performed for which costs have been determined to be reasonable, allowable and allocable. As a result, we disagree with the draft report conclusions relating to FAA “awarding” unneeded labor hours and do not see how the existence of these ceilings creates a risk of overpaying the SE2020 contractors..

Furthermore, as the FAA did not award 58 million labor hours, and the SE-2020 contracts do not commit the FAA to ordering 58 million labor hours, the estimate of labor hours does not increase the costs that the FAA will incur to procure services under the contracts. The FAA will only incur costs if it orders labor hours through task orders; and the estimated number of labor hours in Section B of each contract do not commit the FAA to order any hours beyond what the FAA requires. The basis for the OIG’s finding that the award of unneeded hours “increased the cost” of the SE-2020 contracts is not clear. If the concern relates to the amount of fixed fee that the contractors might earn, as the OIG’s draft report recognizes, the contract permits the FAA to reduce the fixed fee to reflect the actual number of hours ordered. We further address this concern in the next section.

FAA Will Ensure that Contractor Fixed Fee Payments are Accurate

The OIG report identified issues regarding the potential need to recoup fixed fees paid to contractors at the end of the contracts. The FAA agrees that it is important to ensure that contractors are only paid the fixed fees they earn. The FAA currently tracks the total cost incurred and fixed fee ceilings at the contract, base period, and task order levels. This tracking helps to ensure that the FAA will not exceed the approved program baseline (or individual task order baseline) and that each vendor earns no greater than the awarded fixed fee on each task order. To further ensure that the Government does not incur fee at a rate higher than the ceiling amount of each task order, the FAA intends to reconcile total cost and fee at task order closeout. The FAA will also reconcile the amount of the fixed fee paid at the end of the base period of the

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contract and at the end of each option (if exercised) consistent with the contract provisions. These actions limit the risk to the Government.

In addition, the FAA can easily offset any fee to be recouped against the contractors' invoices under these or other contracts. The FAA continues to explore whether other appropriate measures can be put in place to reduce the likelihood the Government will need to recoup or offset portions of fixed fee payments at the end of the contracts.

FAA Used Sound Practices to Select SE-2020 Contractors

FAA conducted a rigorous competition in order to award the SE-2020 contracts. The record for the SE-2020 acquisition demonstrates that the FAA utilized sophisticated and sound contracting practices to select the SE-2020 contractors. Indeed, the first award decision for the SIR2-FO SE-2020 competition was the subject of a comprehensive bid protest filed by a disappointed bidder. That protest specifically challenged the soundness of the FAA's technical and cost evaluation for this competition. Each of the protester's claims was independently reviewed, considered, and ultimately rejected by the FAA's Office of Dispute Resolution ("ODRA"), which issued a 105-page decision recommending that each of the protest grounds be denied on the merits. *See* FAA Order No. ODRA-11-578, *Protest of Apptis, Inc., Under Solicitation No. DTFAWA-09-R-SE2020-SIR2FO* (Mar. 31, 2011) adopting and incorporating by reference ODRA Findings and Recommendations in *Protest of Apptis, Inc.*, 10-ODRA-00535 (Mar. 25, 2011).

While the OIG has identified a concern with the method the FAA used to evaluate past performance, this evaluation factor played only a limited role among multiple evaluation factors used to select the SE-2020 contractors. For example, offerors participating in the second Source Information Request (SIR 2) Full and Open SE-2020 competition were required to submit the following 12 proposal submissions with the following weights:

PROPOSAL VOLUME	EVALUATION STRUCTURE
Volume I - Core Capabilities	20%
Volume II - Past Performance	15%
Volume III - Technical Capability Technical Scenario #1 Data Communications	25%
Volume III - Technical Capability Technical Scenario #2 Investment Analysis and Business Case Analysis	15%
Volume IV - Task Order #1 (Program Management)	5%
Volume IV - Task Order #2 (NAS Enterprise Architecture)	5%
Volume IV - Task Order #3 (Investment Planning and Analysis)	5%
Volume V - Management Approach	10%
Volume VI - Organizational Conflict of Interest	Acceptable/Unacceptable/Risk
Volume VII - Cost/Price	Considered as part of best value trade off
Volume VIII - Mentor Protégé Program	More Favorable
Volume IX - Small Business Subcontracting Plan	Acceptable/Unacceptable/Risk

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The FAA conducted extensive and rigorous evaluations of the offerors' technical capabilities. For example, for the SIR2 competition the FAA assembled the agency's leading subject matter experts to evaluate a variety of technical discriminators including:

- the offerors' experience in nearly 30 core areas of technical capabilities (Volume I);
- the quality of the offerors' responses to two highly complex technical scenarios (Volume III);
- the strength of the offeror's proposed approach for completing three hypothetical task orders (Volume IV); and
- the strength of the offeror's proposed management approach (Volume V);

With respect to cost proposals, every SIR2 offeror and subcontractor was required to submit cost proposal workbooks and narrative descriptions that substantiated the different cost elements in the offeror Workbook submission. In total, the Excel-based portion of the cost proposals comprised approximately 260 Excel workbooks (totaling approximately 1,050 worksheets) and included a vast number of proposed cost elements. For instance, offerors submitted a total of approximately 4,550 direct labor rates in the cost workbooks. In addition to the Excel-based submissions, approximately 800 Word documents were also submitted as part of the cost proposals.

As documented in the Cost Evaluation report generated by the Cost Evaluation Team ("CET"), the CET analyzed cost submissions by:

- Reviewing in detail the cost narratives for each proposal in order to identify any discrepancies between the cost approach described in the narratives and the cost elements submitted in the corresponding cost workbooks;
- Conducting a detailed review and analysis of the approximately 4,550 labor category position rates submitted in the cost workbook submissions in order to identify rates that required further examination and possible clarification. This included a detailed comparison to the direct labor rates for the corresponding labor categories in the IGCE followed by an additional review of all the direct labor rate submissions to identify any patently unreasonable or unrealistic rates.
- Conducting a series of clarification exchanges with the offerors in order to verify and substantiate the rates submitted. For instance, in one round of clarifications offerors were required to re-confirm the accuracy of the direct labor rates submitted. In another round of clarifications, the CET conducted a targeted sampling of offerors' and subcontractors' direct labor rates and required them to provide additional substantiation for approximately 245 direct labor rates.

In sum, while the OIG believes the FAA used overly narrow criteria to evaluate past performance, the draft report did not disagree with the criteria reflecting 85% of the evaluation. In addition, the one example cited in the draft report to support the opinion that the criteria was overly narrow (feedback that a contractor took an overly long time to fill vacancies), appears instead to support the rationale that the team used for focusing the past performance criteria on the contractor's ability to hire and retain qualified workers. An examination of all of the

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responses the FAA received to evaluate past performance supports the agency's methodology in this area.

The record for this procurement, when taken as a whole, demonstrates that the FAA used sound contracting practices to select the awardees. The limited issue identified with respect to the past performance evaluation does not provide a basis for the broad conclusion in the draft report, as enumerated in the section titles, that the FAA's overall contracting practices are either unsound, or do not produce best value for the taxpayer.

The FAA agrees that past performance is an important factor to be used not only in awarding contracts, but in awarding task orders. As the draft report acknowledges, when one of the contractors submitted untimely staffing plans and insufficiently qualified employees, the FAA stopped placing tasks with that contractor until performance improved.

FAA is Committed to Appropriate Use of Performance Based Acquisition

The OIG draft report includes statements indicating that FAA does not believe the Performance Based Acquisition (PBA) techniques should be used on SE-2020. This is not the case. On May 16, 2011, the FAA provided comments to the OIG stating that PBA may not be appropriate for certain of the research and development work under the SIR1 contract portfolio. Specifically, the FAA comments stated:

“PBA may not be appropriate for certain services to be procured under the SE-2020 contracts. Indeed, the Office of Procurement Policy has recognized that certain “types of services may not lend themselves to outcome-oriented requirements” and, for this reason, excluded Research and Development services contracts from reporting requirements relating to agencies' use of Performance Based Service Acquisition methods. This is particularly pertinent to this acquisition given that the services to be provided under the SIR1 contracts are research and development services.

However, the FAA went on to state:

“The FAA concurs that PBA should be used when appropriate and remains committed to implementing best practices in the administration of the SE-2020 contracts. To that end, the PMO is in the process of engaging a subject matter expert in PBA methods to assist the FAA in evaluating where PBA could be used appropriately in SE-2020 tasking, and devise guidelines to assist the Agency in identifying SE-2020 tasks where PBA should be employed.”

As reflected in the draft report, approximately 86% of the task orders examined by the OIG contained deliverables as required by the FAA's Acquisition Management System. This does not excuse the remainder by any means, but it does mean that the evidence drawn from a sampling of tasks under one program's contracts is inadequate for the

breadth of the draft report's conclusion that the FAA is not using sound contracting practices to award and oversee its contracts.²¹

FAA Avoided Organizational Conflict of Interest on SE-2020 Regarding ADS-B

While an Organizational Conflict of Interest (OCI) can occur when an agency hires a contractor to evaluate its own work, FAA does not agree this has occurred or would ever likely occur in the instance of one of the SE-2020 prime contractors in regard to the ADS-B system. The SE-2020 contracts are divided into two portfolios, each of which corresponds to different portions of the AMS acquisition lifecycle. The SIR1 portfolio covers certain research and development work early in the acquisition lifecycle. To broadly generalize, the SIR1 contracts are used to help the FAA research potential solutions, technologies or concepts early in the acquisition lifecycle. The SIR 2 portfolio covers certain systems engineering and investment analysis work occurring later in the acquisition lifecycle. Further generalizing, SIR2 work is used to evaluate the various possible solutions, technologies or concepts previously researched during the R&D phase of the lifecycle, and help the agency select the best option.

The contractor in question is a SIR1 contractor and as such may be called on by the FAA to conduct certain research and development activities. This work will not place the contractor in the position of evaluating its own work under the ADS-B program. Indeed, when structuring the SE-2020 acquisition, the FAA intentionally split the SE-2020 work into two portfolios, and segregated the research and development work into the SIR1 portfolio. The agency did this, in part, to minimize OCIs and allow full scale development vendors to support the FAA with research work early in the acquisition lifecycle without generating OCIs that would impair their ability to participate in full scale development later in the acquisition lifecycle.

Moreover, even if an impaired objectivity OCI²² could arise due to the contractor's work on both efforts, an OCI would not arise unless the contractor was actually issued a task under SE-2020 and that work generated an OCI. In a situation where a task order statement of work indicates the possibility of such a risk, the FAA could elect to award the task order to one of the other three SIR contractors in order to avoid the OCI, one of the major reasons for the award of multiple contracts.

The FAA is well-aware that OCIs can arise for the systems engineering contractors in a variety of situations given the dynamic nature of contractors' work on other government contracts. However, OCIs must be evaluated on a case-by-case basis after considering the particular facts involved, including a detailed analysis of the scope of work that the contractor is being asked to perform.. *See Axiom Resource Management, Inc. v. United States*, 564 F.3d 1374, 1383 (Fed. Cir. 2009) (“[T]he identification of OCIs and the evaluation of mitigation proposals are fact-

²¹ We also note that the draft report implies that the FAA is at fault for not following “government-wide guidance” to compete task orders over \$1 million. For other agencies, this “guidance” is a legal requirement found in statutes and regulations the FAA is *prohibited* from following. The FAA does generally compete task orders under its multiple award support service contracts, and as addressed elsewhere in this response, is developing guidance for competition of task orders under SE2020. Congress expressly prohibits the FAA, however, from using the statutes in question in order for the FAA to find an appropriate balance among policy factors that will best match the FAA's unique needs.

²² The draft report uses two of the three types of organizational conflicts of interest interchangeably, although in policy, law and practice, each type is quite distinct. The confusion of terms makes this portion of the report difficult to understand, particularly given the two distinct statements of work involved in SE2020.

specific inquiries that require the exercise of considerable discretion. The exercise of common sense, good judgment, and sound discretion is required in both the decision on whether a significant potential conflict exists and, if it does, the development of an appropriate means for resolving it.")

The FAA has established a system to identify OCIs that could be generated by a given task order, and addressing those OCIs before the task order is awarded. The FAA conducts OCI evaluations prior to the award of each task order. This case-by-case approach is consistent not only with AMS Policy § 3.1.7, and the ODRA's precedent in *Washington Consulting Group*, 97-ODRA-00059, but with the policy and law followed by the entire Federal Government, which permit a case-by-case approach to impaired objectivity OCIs in the context of an IDIQ contract. See *Axiom Res. Mgmt., Inc. v. United States*, 564 F.3d 1374, 1381 (Fed. Cir. 2009); *Protest of Apptis, Inc.*, 10-ODRA-00535 at 99 (Mar. 25, 2010).

The FAA intentionally awarded multiple contracts under the SIR1 and SIR2 contract portfolios, in part, so that the agency could avoid issuing task orders to a contractor if that task order would generate an OCI (having access to multiple contracts allows the FAA to issue the task order to an unconflicted vendor in the portfolio). Section G.7 of the SE-2020 contracts reflects this approach and provides that the FAA will consider OCIs as part of its task order award decision.

The draft report neither provides any details on how the scope of work under the SE-2020 contract in question places the referenced contractor in a position where its impartiality could be compromised, nor does it provide any information on the fact-specific inquiries conducted by the OIG to determine whether the contractor's impartiality could be impaired by its performance on FAA's Automatic Dependent Surveillance-Broadcast (ADS-B) system. If the OIG found that an OCI could hypothetically arise if the FAA were to assign certain work to the contractor under its SE-2020 contract, this finding should take into consideration that the FAA has placed substantial safeguards in place, including requiring technical review by a designated member of the PMO for OCIs and contractor disclosure of potential OCIs. These safeguards are in addition to review by the contracting officer and would allow the FAA to identify the potential OCI before a task order is ever issued and mitigate or avoid the OCI.

SE-2020 Contract Officers/Specialists and COTRs Are Required to Undergo Extensive Training

The draft report states that FAA did not require its SE-2020 "contract oversight staff" to receive training. The FAA does not agree with this finding.

The SE-2020 contracts are overseen by a mix of contracting oversight staff that includes: contracting officers/specialists, COTRs, and Technical Officer Representatives ("TORs"). The FAA requires contracting officers/specialists and COTRs to receive extensive contract oversight training. Of the assigned contracting staff, three team members are Level III certified Contracting Officers, two are Level II certified and two are Level I certified. The remaining team member is contractor support staff.

TORs are assigned by program office customers and assist contracting officers and COTRs with the oversight of the customer's SE-2020 task order. The discussion draft report noted that the FAA did not require TORs to receive contract oversight training, but made no findings with

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respect the other contract oversight staff (contracting/officers and COTRs). We understand that the findings in the report regarding training of contract oversight staff are limited to TORs and do not apply to contracting officers/specialists or COTRs. Accordingly, the OIG's findings do not support the broad statement in the draft report that the FAA did not require any of its SE-2020 "contract oversight staff" to receive training.

In addition, it is important to note that the OIG found that most TORs had in fact received contract oversight training. Indeed, the OIG's discussion draft report noted that, while the FAA did not require TORs to receive contract oversight training, 88% of TORs that responded to the OIG's survey had in fact had received COTR training.

OIG Recommendations and FAA Responses

OIG Recommendation 1: Require the SE-2020 Program Office to (a) submit to the CFO a written reconciliation of the difference between its IGCE and the contractors' proposals, and (b) use this reconciliation as a basis to develop a reasonable cost baseline.

FAA Response: Concur. The SE-2020 PMO will provide the CFO with a written explanation of the differences between the approved SE-2020 IGCE direct labor rates and the vendor cost proposals' direct labor rates by January 20, 2012. The CFO will determine whether the SE2020 program baseline should be revised by February 29, 2012.

OIG Recommendation 2: Revise AMS to require that when IGCEs exceed contractor proposals by 15 percent or more, program officials should submit an explanation and recommended corrective actions to the CFO before contract award.

FAA Response: Non-Concur. AMS Guidance T3.2.1.4 states that if the contractor proposal exceeds the IGCE by greater than 15%, a revised estimate and an explanation for the changes must be submitted to the CFO for approval. It further states that if the contractor proposal is 15% below the IGCE, the program office must submit to the CFO an explanation of why the initial estimate was overstated, within 30 days of award.

We do not concur, particularly in light of the state of the economy during this period, that receiving prices below the IGCE requires taking corrective action. Proposed costs or prices below the Government estimate could improve the business case for the procurement; however we need to ensure that lower proposal costs do not increase the FAA's performance or budgeted cost risk. The estimates need to be looked at on a case by case basis and assessed based on the individual circumstances of the procurement. A discussion was held with the CFO office and the FAA Acquisition Policy office on January 3, 2012 to review the AMS Guidance referenced above. All offices agree that no change to the AMS is required. In the case where an award would result that is 15% above the approved baseline, the CFO must approve the deviation prior to contract award. In the converse, where the proposed award is 15% below the CFO approved amount, the FAA believes there is no added value to seeking approval prior to award. The AMS provision which requires notification and explanation within 30 days after award is sufficient.

OIG Recommendation 3: Revise AMS to (a) specifically require pre-award “and” post-award audits of contracts in excess of \$100 million; and (b) define the types of pre-award audits required, including, at a minimum, direct labor rates, indirect rates, and accounting system reviews.

FAA Response: Partially concur. The AMS provisions for determining whether contractors’ proposed prices are fair and reasonable are sufficiently defined. AMS policy 3.2.3.3 states “The CO *must* request audits on all cost reimbursement contracts exceeding \$100 million.” AMS guidance also includes the following:

“Field Pricing Support - The CO may request field pricing support when such support is deemed necessary before negotiating any contracts or modifications. Methods of field pricing support may include the following: (a) rate verifications; (b) third party audits; (c) estimating system audits; and (d) proposal analysis.”

In addition, the FAA Pricing Handbook, located within the Procurement Toolbox, is an extensive reference source for conducting an analysis of contractor’s proposed prices/costs. The tools and sources described above are available to the CO when evaluating proposals. The CO is required to use good business judgment consistent with AMS when determining price reasonableness. If an audit is not obtained, the CO must have a rational basis and must document the decision for not requiring an audit, as well as a sufficient alternative means for assuring that the prices or costs proposed are fair and reasonable.

We concur that one sentence in the AMS, “the CO must request pre-award or post-award Defense Contract Audit Agency (DCAA) audits as appropriate on all cost reimbursement contracts estimated to exceed \$100 million.” should be clarified to reflect that pre-award and post-award audits should be obtained as appropriate.

To date we have received some assistance from DCAA in conducting audits. Some examples include:

- 1) General Dynamics - In June 2010, DCAA assisted with a billing audit under the General Dynamics contract. DCAA reviewed five invoices under three task orders and all rates were determined acceptable.
- 2) Boeing - DCAA provided a July 2011 disclosure statement review of Boeing Aerospace Operations. The report further noted that an accounting system audit will be conducted in 2012.
- 3) CSSI - DCAA completed an accounting system review in 2010 to assess their system for accumulating and billing costs. The system was deemed adequate.

We also attempted, unsuccessfully, to obtain other DCAA assistance, but due to limited resources and the priority of its DOD work, DCAA is often unable to assist the agency. The FAA has contracted with a private auditing firm to provide audits when DCAA is unable to do so. The SE-2020 contracting team continues to work with the FAA’s Acquisition Pricing Branch to obtain current invoice reviews on all prime contractors, to obtain reviews of each contractor’s provisional billing rates and to obtain cost incurred reviews. The SE-2020 team will continue to obtain audits in accordance with AMS prescriptions.

Appendix. Agency Comments

The AMS provision on pre-award and post-award audits will be clarified by March 31, 2012.

OIG Recommendation 4: Amend SE-2020 awarded contract values using contractors' proposed rates and FAA's estimated need for 40 million hours, and adjust fixed fees to reflect revised contract costs.

FAA Response: Non-Concur. The SE-2020 Program baseline, as approved by the CFO, is not to exceed \$7.1B and 40 million hours. The individual vendor contracts, in aggregate, are structured to ensure that the total cost of SE-2020 work will not exceed this amount. As noted in the discussion portion of this response, the FAA has not "awarded" the referenced labor hours.

Unilaterally amending each vendor's contract to downwardly adjust its contract value, estimated hours, and fixed fees when there has not been a change to the FAA's requirements reflecting less need for this work than existed at the time the contracts were awarded, could expose the FAA to contract claims and could entitle the contractors to additional compensation. This is distinct from the situation contemplated by the contract terms, under which if at the end of the contract it turns out the FAA did not order all of the hours on which the fee is based, the fee will be proportionately reduced.

The FAA currently tracks the total cost and fixed fee ceilings at the contract, base period, and task order levels. This tracking helps ensure that the FAA will not exceed the approved program baseline and that each vendor earns no greater than the awarded fixed fee on each task order. To further ensure that the Government does not pay fee in excess of the ceiling amount of each task order, the FAA will reconcile total cost and fee at task order closeout. By March 31, 2012 the FAA will complete an analysis of all work ordered and invoices paid through the end of calendar year 2011. If we find that adjustments to the method that the FAA uses to pay out the fixed fee as the contract is performed is warranted, the FAA will address this subject with the SE2020 contractors to revise the method in which fee is paid. We will share the results of this analysis with the OIG by June 30, 2012.

OIG Recommendation 5: Require the SE-2020 program office to (a) develop policies and procedures to ensure timely reconciliations and corrections to acquisition databases, and (b) revise its cost monitoring spreadsheets to ensure accurate data for effective cost control of SE-2020 contracts.

FAA Response: Concur. The FAA will develop a verification procedure to ensure that information is properly populated in the Federal Procurement Database System (FPDS) and that the data in PRISM, Delphi and FPDS are consistent and accurate. This process will include a quarterly reconciliation and correction process and will begin no later than January 31, 2012.

By February 29, 2012, the SE-2020 Program team will complete an audit of all cuff records to ensure that all data is current, that spreadsheet formulas are correct, and that data is consistent between PRISM, Delphi, FPDS and the task order tracking cuff records. All inconsistencies will be resolved by March 31, 2012.

OIG Recommendation 6: Revise AMS to establish controls that require more comprehensive evaluations of contractor past performance.

Appendix. Agency Comments

FAA Response: Partial-Concur. The AMS includes comprehensive guidance for evaluating contractor past performance and allows the FAA to tailor its approach for evaluating past performance to the particular circumstances of each procurement. The FAA disagrees that the tailoring of past performance for this one procurement could have been better worded and we believe this is not an adequate basis for the OIG's conclusion that the FAA does not use sound contracting practices to select its contractors. The FAA concurs, however, that past performance evaluations should include, at a minimum, a thorough analysis of the quality of the contractors' past performance. The FAA will amend the AMS by February 29, 2012 to add this requirement.

OIG Recommendation 7: Require FAA's contracting and program staff to use performance-based acquisition principles in their SE-2020 task orders, and ensure staff is adequately trained to develop and monitor such awards.

FAA Response: Concur. The AMS stipulates that performance-based contracting is the preferred method for describing work-in-service contracts and should be used when appropriate. We concur that the FAA must ensure that PBA principles are used on SE-2020 task orders where appropriate. We also concur that SE-2020 contracting and PMO staff should be adequately trained to develop, apply and monitor these types of awards.

The FAA has begun analyzing new SE-2020 task order request packages to identify task orders that are appropriate for performance based contracting principles. The FAA plans to implement performance based contracting on new task orders that are suitable for PBA. This will include using a Quality Assurance Surveillance Plan (QASP) and will include standard templates to assess technical compliance of deliverables, quality of services, cost control and other criteria. Results of this surveillance will be used as past performance inputs for new task order award decisions.

The FAA has also begun to train SE-2020 staff to ensure that they are adequately trained to develop, apply and monitor these types of awards. Two of the SE-2020 contracting officers received training on performance based contracting within the past year, and another contract specialist is scheduled for training during the first quarter of FY12. The FAA also plans to train 17 of the SE-2020 PMO staff in two phases: ten PMO team members will complete training in FY12; and an additional seven PMO team members will complete training in FY13.

In the interim, while awaiting formal classroom training of SE-2020 team members, the PMO will conduct a mandatory training session by January 31, 2012 to provide awareness and an overview of performance based contracting.

OIG Recommendation 8: Require the SE-2020 program office to define criteria that specifies when competing task orders are in the government's best interests.

FAA Response: Concur. The SE-2020 PMO is currently defining criteria for specifying task order competition. These criteria will be used to identify requirements that lend themselves to task order competition and will be finalized by January 31, 2012.

OIG Recommendation 9: Include guidance in AMS on how to identify and mitigate risks of potential OCIs prior to contract or task order award.

FAA Response: Partially Concur. The FAA believes that the AMS, as currently published, contains appropriate guidance on how to identify and mitigate the risks of potential OCIs. Specifically, the AMS: outlines how to identify and mitigate an OCI; describes scenarios that may lead to an OCI; requires offerors to disclose potential OCIs; and provides instruction on appropriate remedies should an offeror or contractor refuse to disclose or misrepresent any information about a potential OCI. In addition, the AMS instructs Contracting Officers to obtain assistance from legal counsel and appropriate technical specialists when evaluating potential OCIs.

The FAA will review the practices developed by the SE2020 team to avoid and mitigate OCIs, including the database that will be created and used by the program, to determine best practices that should be incorporated into the AMS. The FAA will conduct this review one year after implementation of the SE2020 database (expected to be in place June 2012 so the review is expected to be done June 2013). Best practices identified as a result of this review will be incorporated into the AMS three months after completion of this review, or by September 30, 2013.

OIG Recommendation 10: Require FAA contracting personnel to develop, maintain, and use a record of active prime contractors and subcontractors to identify and mitigate risks of potential OCIs.

FAA Response: Partially Concur. It is neither practical nor desirable for FAA contracting personnel to maintain a database of all active prime contractors and subcontractors performing work for the FAA. The agency employs such a large, and ever-changing, number of prime contractors and subcontractors that the compilation and maintenance of an accurate database would neither be practical, nor cost-effective. Although FPDS captures basic award information, such as contractor names, location, general product/service line of business, and a short description of work, it does not include a detailed description of tasks to be performed by the prime contractor nor information about subcontractors. To be useful for OCI purposes, the FAA would need to create and maintain a separate database of all contracts and subcontracts, to include detailed, task-level descriptions of work. Building and maintaining a new database would involve a significant investment in time and scarce funding, and this investment would not be justified by the benefits—the FAA’s current processes are already efficient at detecting OCIs, and the OIG’s audit does not provide any basis to conclude that the FAA is failing to detect or mitigate actual OCIs, or that an OCI database would materially increase the number of OCIs likely to be detected by the FAA..

The AMS requires that each contractor performing work for the FAA disclose any potential OCIs to the Government before accepting work. Thus, each contractor is required to monitor, identify and disclose potential OCIs and this reduces the risk of OCIs. The AMS also requires Contracting Officers to analyze planned acquisitions in order to identify OCIs and avoid, neutralize, or mitigate potential conflicts before contract award. On task order contracts, such as the SE-2020 contracts, the AMS allows Contracting Officers to address OCIs prior to the award of each task order. This case-by-case approach is consistent with AMS Policy § 3.1.7, and legal precedent. As observed by the Government Accountability Office, contracting officers may properly defer evaluating OCIs until the facts are ripe for review. *See Axiom Resource Management, Inc. v. United States*, 564 F.3d 1374 (Fed. Cir. 2009) *citing Axiom*, No. B-

298870.3, 2007 U.S. Comp. Gen. LEXIS 123, 2007 WL 2141694, at *5 (holding that OCIs that could arise if a contractor is awarded certain other work could properly be analyzed as part of those subsequent award decisions).

Prior to awarding a task order under the SE-2020 contracts, the FAA analyzes the task order to identify potential OCIs, and the contractor conducts its own review to identify potential OCIs. In order to further reduce the risk of OCIs, the FAA has implemented additional review procedures to oversee all of the SE-2020 contractors' work and detect OCIs. These additional review procedures include the incorporation of the OCI/COI Evaluation section as part of the Adjudication Board meeting and record, the addition of the OCI statement in the vendor's "technical task plan" response, and enhancement of the "resume review module" to include a required COI section as part of the resume submission. In addition, the FAA has designated a dedicated point of contact within the PMO responsible for assisting the CO to identify and assess potential OCI issues.

The PMO is also in the process of developing an active prime/subcontractor contract database for SE-2020 task orders awarded. This database will allow us to track all potential OCIs that have been disclosed and/or mitigated under the SE-2020 contracts for ongoing monitoring and mitigation. The database is targeted for completion by June 2012. The PMO will use the experience gained with this database to aid in developing a methodology to assist the FAA's contracting personnel in identifying potential undisclosed OCIs.

OIG Recommendation 11: Require the SE-2020 Program Office to develop policies and procedures to ensure adequate documentation of task order award decisions.

FAA Response: Concur. In February, 2011, the PMO applied the OIG's recommendations and made updates to the existing Adjudication Board record to incorporate the feedback. Since that time, there have been three additional revisions as a result of further analyses and a desire to continuously improve the evaluation process and decision tracking. Another review of the Adjudication Board record is scheduled for January 2012 and the FAA plans to conduct reviews on a bi-annual basis thereafter to ensure institutionalization of the adjudication process and a thorough documentation and evaluation process. Thus, the FAA requests that this recommendation be closed.

OIG Recommendation 12: Require the SE-2020 Program Office to amend the standard performance monitoring templates to include measurable criteria to evaluate desired performance outcomes, such as quality, cost, and schedule.

FAA Response: Concur. The FAA took action in March 2011 to require that contract oversight staff complete monthly standard performance monitoring reports for each task order. This was part of an effort by the FAA to implement a formal metrics tracking system to track and evaluate task order performance.

The FAA will ensure that appropriate updates are made to SE-2020 task order performance monitoring reports reflecting the use of measurable performance outcomes. To this end, the SE-2020 PMO is in the process of reviewing the standard performance monitoring template to

identify necessary and desirable revisions and include performance measurement criteria such as quality, cost, and schedule that may provide a more quantifiable measurement of the performance assessment. The review will be completed by April 1, 2012. The FAA also plans to use Quality Assurance Surveillance Plans to monitor performance on task orders that incorporate performance based acquisition principles.

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The FAA remains committed to working with the OIG to address any remaining questions or concerns that it may have regarding the SE-2020 contracts. Should you have any questions regarding the foregoing, please feel free to contact me at 202-267-9440.