



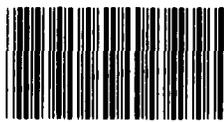
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

~~21284~~
120618

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

MAR 10 1982

Col. A. R. Burke, Commander
DELHD-CO
Harry Diamond Laboratories
2800 Powder Mill Road
Adelphia, Maryland 20783



120618

Dear Colonel Burke:

Subject: Improvements Needed in Evaluation of Cost
Proposals and Technical Administration of
Management Support Services Contracts (PLRD 82-50)

This report summarizes our limited review of the processes used by the Department of Defense (DOD) for assuring the reasonableness of contractor proposals and contract charges for negotiated management support services contracts. We performed this review because of the serious problems we found in a prior review of DOD's controls over the requirements and award phases of management support services contracts. 1/

We examined 11 negotiated, cost plus fixed-fee contracts awarded by your office and three other DOD contracting offices in fiscal year 1979 (see enclosure). Ten of the contracts were sole-source awards. The contracts were selected from among those included in our prior review because they enabled us to make use of valuable data already gained on these contracts. To gain information on how DOD evaluates proposals and administers these contracts, we visited the contracting officers' technical representative (COTR) or the contracting officer in those cases where the COTR was no longer available; the Defense Contract Administration Service (DCAS) contract administration office and the Defense Contract Audit Agency (DCAA) branch office or resident auditor for each of the 11 contracts reviewed. For information on how the proposals were prepared and how costs were charged to the contracts, we visited the contractors who performed the work.

In summary, we found that except for the one competitively awarded contract, there was no documentation in Government files that showed how technical evaluators arrived at their conclusions that labor costs and other direct costs proposed by the contractors

1/ "Controls Over DOD's Management Support Services Contracts Need Tightening" (MASAD-81-19, March 31, 1981).

(950651)

120618
521127

were fair and reasonable. Further, we found technical contract administration generally weak. Neither the contracting officers nor the COTRs were aware of what we believe were apparent violations of contract clauses such as the substitution of personnel and the use of consultants without the prior knowledge and approval of the contracting officer. Each of these points is discussed below.

Need to Improve Evaluations of Contractor Proposals

Defense Acquisition Regulations (DARs) state that some form of price or cost analysis is required in connection with every negotiated procurement action. Price analysis is required to be performed in all cases where cost or pricing data is not required. Cost analysis involves a more detailed review of the offerors proposal than price analysis and is used when the Government has less assurance of a fair and reasonable price. The cost-plus-a-fixed-fee type contract used for management support services contracts places the cost or performance risk on the Government with the contractor receiving a guaranteed fee regardless of the outcome of the contract. Therefore, cost analysis should be used to evaluate proposals for these type contracts.

We found all 11 contracts had some form of cost analysis performed prior to contract award. However, with one exception (for the only competitively awarded contract of the 11) the technical evaluations, required as part of the cost analysis, were not documented and did not allow us to determine how the technical evaluators arrived at their conclusions that the labor hours and other direct costs proposed by the contractors were necessary and reasonable. In addition, in our discussions with technical evaluators, they were unable to support their conclusions that the labor hours were reasonable and necessary.

Without appropriate documentation, it was impossible to determine if the regulations were followed. Therefore, we believe that for management support services contracts, contracting officers should require technical evaluators to document their evaluations of contractor proposals.

Technical Administration Needs to Be Improved

While the contractor has primary responsibility for the timely and satisfactory performance of a contract, the DARs state that the Government has the responsibility to closely monitor outstanding contracts to ensure satisfactory progress and to identify problems that threaten to delay production. DOD monitors the cost and performance of management support services contracts through the use of COTRs. The chief administrative

responsibilities of COTRs are to serve as the contracting officer's technical liaison with the contractor and to monitor the contractor's performance and labor charges. Instructions issued by the services state that in exercising these responsibilities, COTRs are supposed to (1) maintain appropriate surveillance of the contractor's performance to be reasonably assured that the contractor is not using inefficient or wasteful methods; (2) review contractor's vouchers for reimbursement to determine if there has been technical and/or physical progress commensurate with the costs incurred and, (3) advise contracting officers of any unusual problems affecting the progress or cost of the contract.

We interviewed COTRs for 8 of the 11 contracts we examined. COTRs for the remaining three contracts had either retired or been transferred and their files could not be located. COTRs who were available for interview said they had not received instruction in the duties of a COTR and had little understanding of their authority or responsibility in performing technical administration of these contracts. Despite published guidance, these COTRs did not monitor contract performance close enough to be aware of apparent violations of contract clauses such as the substitution of personnel by contractors and the use, without the prior knowledge and approval of contracting officers, of consultants that had not been included in the contract proposal. Neither did the COTRs verify if costs, submitted periodically by contractors for reimbursement, were consistent with the progress of the work.

Contracting officers rely on their technical representatives to assure that contractors are not using inefficient or wasteful methods and to review contractors' vouchers to determine if there has been progress commensurate with the costs incurred. Therefore, any lack of monitoring increases the risk that DOD may not be getting the quality of work it contracted for and that the work may not be performed within the time desired.

For example, in an unsolicited proposal, one contractor identified by name five people from its professional staff that it planned to use if awarded a contract. The proposed personnel included a project director, labor grade 10; a statistician, labor grade 5; a technical manager, grade 4; and two literature reviewers, grades 4 and 3, respectively. The bulk of the work was to be done by the grade 4 and grade 3 employees, for whom resumes were provided. However, after the contract was awarded, the contractor actually used only one of the five people named in its proposal, the project director. The work was actually performed mainly by three labor grade 1 staff analysts, the lowest paid professional grade level. Because this was a cost-reimbursement type contract, the Government paid only for the costs of the lower graded personnel actually used by the contractor. However, there is the possibility that when lower graded personnel were substituted without approval for higher graded personnel named in the proposal accepted by the

Government, the quality or timeliness of the work may have suffered.

The contract contained a clause requiring the contractor to notify and obtain written consent from the contracting officer before making any change in personnel identified in the proposal as key individuals. We found no evidence in either the contractor's or DOD's files that the contractor ever complied with this contract clause. The COTR responsible for monitoring this contract told us he was not aware that this substitution of personnel had occurred but said he was not pleased with the contractor's final product and recommended against awarding another contract for similar work that this contractor had proposed. He also said he was new to DOD when he was asked to become COTR for this contract and had never received any guidelines or instructions on the duties or responsibilities of a COTR.

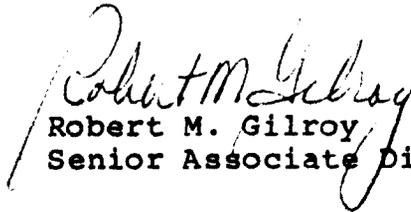
Further, in five of the 11 contracts we examined we found no evidence in either the Government's or the contractor's files that the contracting officers' permission to use consultants not listed in the proposal was obtained prior to their use. This was in violation of contract clauses. When we asked the COTRs for these contracts about the use of consultants they told us they were unaware that consultants had been used. There was no indication in the invoices for reimbursement or progress reports submitted by the contractors that consultants had been used. Consultants' costs were included in the cost element "Other Direct Costs" in contractors' invoices with no explanation given of what these costs included, making consultants' use virtually impossible to detect. It was only when we examined contractors' records of costs charged to these contracts that we found that consultants had been used. However, it was not clear what most of the consultants did. We could find little information in the consultants' invoices to the contractors that explained what work was performed. DCAA is reviewing the use of consultants in their audits of incurred costs for these contracts.

Conclusions

Our analysis was too limited to develop recommendations for corrective action on a large scale basis. Nevertheless, we are bringing our findings to your attention so that you can use the information to improve the technical evaluation of proposals and technical administration of management support services contracts. In summary, we suggest that technical evaluators document their evaluation of contractor proposals so that supervisory personnel can be assured that an adequate evaluation was done. We believe guidance should be disseminated that would enable technical evaluators and contract administrators to vary the depth of their involvement with the dollar value of the contract. Also, COTRs

should be given sufficient training and guidance in their duties so that they can adequately discharge their responsibilities.

Sincerely yours,


Robert M. Gilroy
Senior Associate Director

Enclosure

ENCLOSURE

<u>Contracting Agency/ Contract Number</u>	<u>Requesting Activity</u>	<u>Original Contract Price</u>	<u>Total Contract Price</u>
<u>Defense Supply Service, Washington</u>			
MDA 903-79-C-0208	ASD (MRA&L) (PD)	\$ 45,053	\$ 79,909
MDA 903-79-C-0211	ASD (MRA&L) (PM)	149,500	192,696
MDA 903-79-C-0216	JINTAACS Systems Office	94,090	127,130
MDA 903-79-C-0301	DCS Program Analysis & Evaluation	156,919	445,533
MDA 903-79-C-0482	Defense Security Assistance Agency	245,482	245,482
<u>Harry Diamond Laboratories</u>			
DAAK 21-79-C-0003	DARCOM (DRC BSI)	\$ 131,374	\$ 131,374
DAAK 21-79-C-0014	TRADOC Analysis Directorate	149,359	224,359
DAAK 21-79-C-0106	TRADOC	59,404	59,404
<u>Naval Air Systems Command</u>			
N00019-79-C-0412	AIR30211B	\$ 82,244	\$ 82,244
N00019-79-C-3014	Joint Cruise Missile Project Office	1,198,716	1,635,045
<u>Office of Naval Research</u>			
N00014-79-C-0453	Naval Intelligence Support Center	\$ 74,916	\$ 74,916