

**INTERIM REPORT ON AWARD-FEE CRITERIA
FOR THE NATIONAL AIRSPACE SYSTEM
IMPLEMENTATION SUPPORT II CONTRACT
AND BRIDGE CONTRACT**

Federal Aviation Administration

Report Number: FI-2008-027

Date Issued: February 27, 2008



Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** Interim Report on Award-Fee Criteria
for the National Airspace System Implementation
Support II Contract and Bridge Contract
Federal Aviation Administration
Report Number FI-2008-027

Date: February 27, 2008

From: Mark H. Zabarsky *Mark H. Zabarsky*
Assistant Inspector General
for Acquisition and Procurement Audits

Reply to
Attn. of: JA-60

To: Vice President of Acquisition and Business Services,
Federal Aviation Administration

As part of our ongoing audit of the Use of Cost-Plus-Award-Fee (CPAF) contracts within the Department, we are issuing this interim report regarding the recent award of the Federal Aviation Administration's (FAA) follow-on bridge contract for the National Airspace System Implementation Support II Contract (NISC II). The objectives of our audit are to determine whether: (1) award-fee plans established adequate criteria for evaluating contractor performance, and (2) the amount of award fees paid to contractors was adequately supported.¹

Our preliminary conclusions found that the award-fee plan for the current NISC II contract included vague evaluation criteria and did not link the criteria to the acquisition outcomes. We also found that FAA was planning to use the same award-fee plan criteria for the bridge contract that would result in similar, significant deficiencies. Additionally, contracting officials did not justify the cost-effectiveness of selecting a CPAF-type contract for the current contract or follow-on bridge contract. As such, FAA has no assurance that a CPAF-type contract is appropriate and more advantageous to the FAA. We discussed our preliminary conclusions with senior FAA acquisition officials before the bridge contract was awarded. As a result, FAA officials are taking actions to address some issues; however, immediate actions are needed to establish meaningful and measurable

¹ This interim report does not address the second objective, which will be addressed in our Department-wide audit of award fees.

performance criteria that are linked to acquisition outcomes for the bridge contract award.

The ongoing NISC II contract² calls for a broad range of support for transition, integration, and implementation of selected FAA Facilities and Equipment programs identified within the Aviation System Capital Investment Plan. This effort addresses thirteen broad functional areas and the statement of work lists more than 350 examples of work efforts that may be performed. Task orders also are broad or non-specific when identifying actual work requirements. On February 21, 2008, FAA awarded the \$234 million bridge contract, scheduled to begin March 1, 2008, with the NISC II contractor. FAA used a CPAF-type contract with about \$18.2 million for award fees. FAA must provide a copy of the performance evaluation plan³ to the contractor within 30 days after issuance of the first task order.

We performed this audit in accordance with generally accepted government auditing standards as prescribed by the Comptroller General of the United States. The details of our scope and methodology are presented as Exhibit A. The information in this interim report will be included later in a report addressing Department-wide CPAF contracting issues.

AWARD-FEE PLAN CRITERIA WERE TOO VAGUE AND NOT LINKED TO DESIRED ACQUISITION OUTCOMES

FAA did not structure and implement the ongoing NISC II award-fee contract in a way that effectively motivated the contractor to improve performance and achieve acquisition outcomes—defined in terms of program costs, schedule, and performance. Their award-fee plan did not include measurable factors needed to adequately evaluate contractor performance and contained the following vague criteria:

- Employing high quality, motivated personnel
- Providing quality documentation
- Providing high quality technical and administrative products (e.g., program management reviews, briefings, planning charts, financial spreadsheets) and services.

² Contract Number DTFA01-04-C-00012, NISC II calls for purchasing hours of effort in accordance with individual task orders. The original contract called for about 12,000 staff years of effort during 10 years for an amount of more than \$1 billion.

³ The performance evaluation plan is the basis for determining the amount of award fee and includes the award-fee criteria to be considered under each area evaluated; the percentage of award fee, if any, available for each area; and the frequency of evaluation periods.

The contracting officer's rationale for this decision was that services could only be described in general terms due to the variables inherent in the nature of the effort. This resulted in an award-fee plan and criteria that did not address acquisition outcomes, such as meeting cost and schedule goals. Establishing specific criteria based on performance objectives would reduce the risk of unwarranted subjective performance evaluations and ratings.

Evaluation criteria must emphasize the most important aspects of the program to motivate the contractor to improve performance for each evaluation period. Performance monitors cannot provide meaningful comments and evaluations using non-critical or too-broadly-defined criteria. The effect of having evaluation criteria without clearly defined metrics and outcomes could result in inflated contractor performance evaluations and, consequently, inappropriately approved award fees. For the current NISC II contract, FAA paid the contractor nearly the entire available award fee (94 percent), amounting to about \$42.6 million during the last 10 years, without assurance of whether the acquisition outcomes fell short of, met, or exceeded expectations. Without indicating areas of emphasis or desired outcomes, FAA does not have assurances that its contract objectives are being met, nor does the contractor have motivation to perform the best possible job in those areas deemed critical.

FAA HAS NO ASSURANCE THAT THE CONTRACT TYPE IS APPROPRIATE

For the NISC II contract and the bridge contract, FAA contracting officials did not justify the cost effectiveness of selecting a CPAF-type contract. Performance evaluation on an award-fee contract requires greater effort and more resources than other types of contracts because oversight is required to monitor and document contractor performance. FAA's Acquisition Management System provides that a CPAF-type contract should only be used when the total value of the contract is high enough to justify the additional administrative costs compared to other contract types. Additionally, FAA issued an Award-Fee Contracting Guide in September 2007 stating that before a CPAF contract is selected, a contracting officer should perform a cost-benefit analysis of the expected benefits versus the added administrative costs.

In 1993, and again in 1997, FAA contracting officials awarded a CPAF-type contract to General Electric Aerospace and Lockheed Martin, respectively, for NISC support services.⁴ Contracting officials awarded the bridge contract to this same contractor, who performed the work during the last 15 years, again as a CPAF-type contract. There was little to no indication that contracting officials

⁴ In 1993, Lockheed Martin acquired and held the NISC I contract through a series of company mergers.

explored whether all or part of this work could be suitable for a different contract type more advantageous to the FAA. It is important that contracting officials evaluate prior history data to mitigate the risk to the Government. Because FAA did not perform a cost-benefit analysis and consider past history, we are not convinced that a CPAF-type contract was the most appropriate contract type. Even though the bridge contract was recently awarded and FAA acquisition officials stated it was too late in the evaluation process to change the contract type, we are recommending that FAA justify the use of award-fee contracts for all future NISC contracts.

RECENT ACTIONS TO IMPROVE AWARD-FEE PLAN

There are lessons to be learned from the NISC II contract that FAA should apply to the bridge contract and future NISC contracts. As such, we discussed the problems cited in this report with senior FAA acquisition officials including the Manager, Facility and Technology Services on January 25, 2008, and the Assistant Chief Counsel, Acquisition and Commercial Law Division on February 1, 2008. We also notified FAA's Vice President of Acquisition and Business Services about this issue on January 29, 2008.⁵ As a result, FAA acquisition officials are addressing the following problems:

- The NISC Program Management Office is revising its practices to more closely align with the goal of performance-based contracting.
 - The Program Management Office will define contract goals and objectives that are performance-based.
 - The contractor will be required to present a plan to accomplish those goals and objectives.
 - FAA will include performance metrics in each applicable task order for incorporation into the award-fee process.
 - The performance evaluation plan will have performance-based language incorporated 30 days following contract award.
 - Engineering Technical Officers for the contract will receive training on developing new performance-based objectives and measurements and evaluating performance in April 2008.

As FAA's management actions are ongoing at the time of this report, we cannot evaluate the efficiency of these actions; however, we believe the results of these

⁵ FAA's planned corrective actions were provided via electronic mail, February 11, 2008.

actions will correct problems identified in this report. Implementing the planned corrective actions will put approximately \$18.2 million in expected award fees for the bridge contract to better use by ensuring FAA's contract objectives are being met, and motivating the contractor to perform the best job in those areas deemed critical by the FAA.

RECOMMENDATIONS

We recommend that the Vice President of Acquisition and Business Services, FAA:

1. Direct the NISC Program Office to revise the award-fee plan of the NISC II bridge contract to more clearly identify measurable award-fee criteria for assessing contractor performance and link the criteria to the acquisition outcomes for the work to be accomplished.
2. Require the NISC Contracting Officer to reevaluate the contract type for future NISC procurement contracts and justify the use of an award-fee contract.

ACTIONS REQUIRED

In accordance with Department of Transportation Order 8000.1C, we would appreciate receiving your written comments within 30 calendar days. FAA has proposed planned actions that meet the intent of recommendation 1. We request that you provide us a target date for completing these actions. If you concur with recommendation 2, please indicate the specific action taken or planned and provide the target date for completion. If you do not concur with the finding or recommendations, please provide your rationale. You may provide alternative courses of action that you believe would resolve the issues presented in this report. Also, please comment whether you agree that the estimated \$18.2 million in award fees for the NISC II bridge contract could be put to better use by revising the award-fee plan.

We appreciate the courtesies and cooperation of FAA representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-1496, or Terrence Letko, Program Director, at (202) 366-9917.

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cc: Acting Federal Aviation Administrator
Acting Senior Procurement Executive
Martin Gertel, M-1
Anthony Williams, ABU-100

EXHIBIT A. SCOPE AND METHODOLOGY

This audit is associated with our Department-wide audit of Use of Cost-Plus-Award-Fee Contracts, Project Number 07F3011F000. We conducted this performance audit 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 determine whether the NISC II and bridge contract award-fee plans were adequately designed we reviewed:

- FAA's guidance for award-fee contracts;
- Award-fee plans and criteria;
- Statements of work and deliverables for the contracts and selected task orders; and
- Fifteen performance evaluation reports used to measure the contractor's performance against award-fee criteria.

We reviewed the acquisition plan for the bridge contract to determine whether improvements could be made in the methods used for obtaining the NISC II support services. We also interviewed FAA acquisition and program officials regarding the award-fee plan and process and discussed the results of our findings on NISC II and the bridge procurement with these officials.

EXHIBIT B. MAJOR CONTRIBUTORS TO THIS REPORT**THE FOLLOWING INDIVIDUALS CONTRIBUTED TO THIS REPORT.**

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