

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



U.S. Census Bureau

***Census 2010: Revised Field Data Collection
Automation Contract Incorporated
OIG Recommendations,
But Concerns Remain Over Fee
Awarded During Negotiations***

Final Report No. CAR 18702 March 2009

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Office of Audit and Evaluation





Report In Brief

U.S. Department of Commerce Office of Inspector General

March 2009



Why We Did this Review

The mounting problems with the Census Bureau's original Field Data Collection Automation (FDCA) contract prompted the April 2008 decision to modify the contract so as to reduce Harris Corporation's role in providing 2010 decennial systems and services. The renegotiations allowed the bureau to revisit the contract type and fee structure and modify them as appropriate.

To aid the bureau's contract restructuring and negotiations, we audited FDCA's original terms to determine whether (1) award fees paid to Harris for the first two performance periods were appropriate, (2) the incentive fee structure was the most effective for motivating excellent performance, and (3) the cost plus award fee contract arrangement is the most suitable for acquiring the needed systems and services.

Background

The FDCA contract was for a mix of relatively high-risk deliverables and standard IT products and services. Complete requirements for both types of deliverables were unknown at the time of contract award and their costs were therefore difficult to predict. Under the Federal Acquisition Regulation, a cost plus award fee contract is appropriate when high-risk deliverables are involved because they represent new, untested concepts for which the government should bear the greater risk.

This report is one of a series responding to then-Secretary Gutierrez's request that OIG review the bureau's 2010 census plans to determine high-risk areas.

U.S. Census Bureau

Census 2010: Revised Field Data Collection Automation Contract Incorporated OIG Recommendations, But Concerns Remain Over Fee Awarded During Negotiations (CAR-18702)

Though the cost plus award fee contract was appropriate for FDCA, the award fee structure was not tied to measurable performance criteria or milestones, and Census did not establish fixed pricing for applicable items. As a result:

- ***Award fees were excessive and not supported by technical assessments of Harris's performance.*** Harris received 93 percent (\$3.2 million) and 91 percent (\$11 million) of available fees for periods 1 and 2, respectively, despite serious performance problems noted by Census's technical reviewers. And the fee determination process lacked key features—such as qualitative measures and mid-point assessments—for ensuring awards were appropriate.
- ***The award fee structure did not effectively promote excellent performance.*** Lacking defined performance criteria, the fee structure contained no quantitative goals that dictated potential fee amounts as an incentive for achievement. Contract provisions further allowed unearned award fees to be rolled over to subsequent periods, giving Harris the opportunity to earn any withheld amounts and minimizing the motivational impact that a fee reduction is intended to have.
- ***Census missed opportunities to control costs and manage risk.*** The FDCA Acquisition Plan identified several elements that would be fixed price, such as mobile computing devices and office furniture. The bureau ultimately awarded the contract for full cost-reimbursement but did not document why.

We briefed Census on our audit findings in August 2008. We made recommendations for improving the FDCA contract by, among other things, establishing measurable criteria for assessing performance and determining fees; modifying the fee structure to promote excellent performance and limit the practice of rolling over fees; and incorporating fixed pricing for deliverables, whenever possible. Census signed the contract modification on November 20, and incorporated a number on our recommendations, including those pertaining to fixed pricing, performance incentives, and fee rollover.

However, Census agreed to a fixed fee amount of 9.5 percent for the contract replan negotiation period that would be invoiced at the time the modification was signed. Although the fixed fee is less than the 13 percent maximum allowed under the original award fee plan, 9.5 percent is a highly questionable amount to guarantee to a contractor the bureau felt was performing poorly.



UNITED STATES DEPARTMENT OF COMMERCE
Office of Inspector General
Washington, D.C. 20230

March 3, 2009

MEMORANDUM FOR: Thomas L. Mesenbourg, Jr.
Acting Director, U.S. Census Bureau

Judith J. Gordon

FROM: Judith J. Gordon
Assistant Inspector General for Audit and Evaluation

SUBJECT: *Census 2010: Revised Field Data Collection Automation
Contract Incorporated OIG Recommendations, But
Concerns Remain Over Fee Awarded During Negotiations
Final OIG Report No. CAR-18702*

This memorandum transmits our final report on our audit of the Field Data Collection Automation (FDCA) contract. The purpose of the audit was to aid the bureau in obtaining the services and products under this contract at the best price and with the lowest risk possible, while ensuring Harris Corporation is appropriately motivated to provide the needed level and quality of support necessary to facilitate a successful 2010 census.

We briefed your staff regarding our findings and recommendations on August 7, 2008—prior to the FDCA contract modification, which was signed on November 20. In short, we determined:

1. the original award fee plan was ineffective and lacked criteria for motivating excellent performance;
2. the fees Harris Corporation received for the first two performance periods were unwarranted, given the difficulties the company encountered almost from the start.
3. rating officials had no objective measures for evaluating performance and setting appropriate fee amounts; and
4. although the FDCA acquisition plan identified several fixed-price deliverables, none were in the contract, partially because the bureau was uncertain of its own requirements at the time. However, those requirements were more certain during the renegotiation period, so we advised Census to consider including fixed-priced elements in the restructured contract.

We note that the bureau did incorporate some of our recommendations into the modified contract, as detailed in appendix A to our report. Please advise me by March 31, 2009, of any additional actions you plan to take in response to our

findings. If you would like to discuss any of the issues raised in this report, please contact me at (202) 482-2754.

My staff and I wish to thank Census personnel for the assistance and courtesies they extended to us as we conducted our audit.

Attachment

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Introduction

In April 2006, the Census Bureau awarded the Field Data Collection Automation (FDCA) contract to the Harris Corporation for \$595.7 million—a 5-year effort intended to automate and integrate major field operations for the 2010 decennial. A key feature of FDCA was development of approximately 550,000 handheld computers for collecting 2010 census data from people who did not return their questionnaires. The handhelds were intended to replace the millions of paper forms and maps that enumerators had carried in past decennials when going door to door to collect household data (“nonresponse follow-up”).

The scope of the FDCA contract was comprehensive and the time frame aggressive: in addition to the handhelds, the contractor was to furnish all other necessary computer hardware, software applications, network and communications services, and related support for census field offices and staff; provide seamless end-to-end interface among the systems, users, and the bureau’s national and local data processing operations; and ensure all systems met federal IT security requirements. Some deliverables were required for operational testing in time for the decennial dress rehearsal of address canvassing, which was originally scheduled to kick off in April 2007¹—only 1 year after the FDCA contract award.

FDCA is a cost plus award fee incentive contract—which means Harris is reimbursed for the costs it incurs in meeting the contract’s requirements and can receive additional payments (“award fees”) for performance deemed excellent in such areas as quality, timeliness, technical ingenuity, and cost-effective management. Consistent with the Federal Acquisition Regulation (FAR), fees on incentive contracts represent the contractor’s profit, and cost-reimbursement incentive contracts are standard practice for large, complex information technology acquisitions such as FDCA.

For the contract’s first two award fee periods (April to September 2006, and October 2006 to September 2007), Harris received high ratings and a total of nearly \$14.2 million of a possible \$15.3 million—even though development of the handhelds and numerous other contract activities were going poorly.

We had reported numerous problems with Census’s plans for using the handheld devices and related field automation earlier in the decade. Census originally attempted to develop the handhelds in-house and tested prototypes in both 2004 and 2006. The devices had serious problems in both tests. These experiences should have better informed the bureau’s efforts to define requirements for the contractor.

The contract experienced problems almost from the start. Census and the Department did not request enough funding for FDCA, causing a funding shortfall

¹ The bureau later delayed the start of dress rehearsal address canvassing to May 2007.

in performance period 1, which affected baseline planning activities. Due to this funding shortfall, Harris was forced to rebaseline its proposed solution, resulting in a new contract amount of \$623.8 million. Another significant problem Census encountered was the failure of senior Census Bureau managers in place at the time to anticipate the complex IT requirements involved in automating the census. Census changed requirements several times, which caused delays and increased costs, and Harris experienced ongoing problems related to planning, development, testing, and security. Harris was also struggling to provide regional computer and network infrastructure and help-desk operations, all of which needed to be successfully integrated with the handhelds and national data processing operations. As late as January 2008—nearly 2 years after contract award—Census finally delivered a first draft of a complete, user-validated set of requirements for the handhelds and supporting infrastructure. The first live decennial operation—address canvassing—was now just a year away.

By the end of April 2008, contract costs totaled more than \$204 million—roughly \$50 million over what was originally estimated to be spent by this time. The mounting FDCA problems prompted the decision, in April 2008, to abandon use of the handhelds for nonresponse follow-up while keeping them for address canvassing, which reduced the number needed to just 151,000. This change set in motion contract renegotiations between the bureau and Harris, with each party redefining its respective role to minimize cost and schedule risks, reduce Harris's involvement, and reassign to the bureau many of the functions it has performed in past decennials (see appendix A for a summary of major scope changes since contract award). The renegotiations also gave the bureau the opportunity to revisit the contract type and fee structure it originally negotiated, and modify it as appropriate. At the end of September 2008, Census and Harris agreed on a total estimated price of \$797.9 million for the renegotiated contract. (See appendix A.) At that point, over \$300 million of this total had been spent

With this in mind, we conducted an audit to determine whether (1) award fees paid to Harris for periods 1 and 2 were appropriate, (2) the incentive fee structure used in those periods was the most effective for motivating excellent performance, and (3) the cost plus award fee is the best contract arrangement for acquiring the system. (See appendix B for a full discussion of our objectives, scope, and methodology.)

We briefed the bureau on our audit findings and recommendations, reported here, in August 2008. On November 20, Census signed a contract modification with Harris that contained many of our recommended changes. We detail the bureau's responsive changes on page 12.

Findings and Recommendations

I. Award Fees Were Excessive and Not Supported by Technical Assessments of Contractor Performance

A cost plus award fee contract is appropriate when it is difficult to predetermine cost, technical, and schedule performance targets for a project. These contracts are widely used to procure the development of new, complex systems like FDCA. Under this arrangement, the contractor is paid for all allowable costs and offered incentives to make its “best effort” to accomplish the work. These contracts operate on the theory that although the government assumes most of the risk, it controls the contractor’s potential profit: award fees are tied to the government’s evaluation of the contractor’s performance and therefore must be earned. The FAR states that award fee is based on the government’s judgmental evaluation of contractor performance under the criteria stated in the contract; a 2007 Office of Federal Procurement Policy (OFPP) memorandum on the appropriate use of incentive contracts states that evaluation factors should be meaningful and measurable.

The FDCA contract was for a mix of relatively high-risk deliverables and standard IT products and services. The full requirements for both types of deliverables were unknown at the time of contract award and their costs were therefore difficult to predict with a high level of certainty. Under the FAR, a cost plus award fee contract was appropriate for the high-risk deliverables because they represented new, untested concepts for which the bureau should bear the greater risk. The FDCA award fee structure, however, was not tied to any measurable performance criteria or milestones.

Harris had proposed a multiple-incentive approach that included award fee, fixed fee, and incentive fee. Cost-plus-incentive fee is another type of cost-reimbursable incentive contract permitted by the FAR. In contrast to award fees, which allow subjectivity, incentive fees must be tied to objective cost, schedule, and performance targets. The incentive fees proposed by Harris were to be placed in discrete pools solely tied to quantifiable measures for attaining key program milestones including successful support for completion of address canvassing, and completion of nonresponse follow-up during dress rehearsal and decennial operations. The FDCA contracting officer stated this approach was rejected because the bureau

Table 1. Performance Rating Scale and Potential Maximum Award Fees (Periods 1-3)

Performance rating of

- Full Achievement earns 93-100% of available fees
- Substantial Achievement earns 85-92%
- Acceptable Achievement earns 75-84%
- Partial Achievement earns 50-74%

(No fee if rated below 50%)

Maximum payout for Full Achievement equals

- \$3,472,167 in Period 1 (6 months—April 2006 to September 2006)
- \$11,813,746 in Period 2 (12 months—October 2006 to September 2007)
- \$10,708,628 in Period 3 (7 months—October 2007 to April 2008)

Maximum Total for all 3 periods = \$25,994,541

found Harris's proposed metrics and milestones unacceptable. Among other things, Harris's proposal did not include an incentive to control cost as required by the FAR for cost-plus-incentive-fee contracts. Despite efforts during negotiations, Census and Harris could not agree on acceptable metrics and milestones and as a result, Census implemented an award fee plan that provided an award fee of 12 percent of total contract costs spread over 11 evaluation periods. Payment of the fee was not tied to any specific objective criteria.

The plan established four broad performance areas that Harris would be rated on for each period, and the combined score for the four areas would determine the fee amount. The four areas (and corresponding percent of the overall rating) are Business Management (33 percent), Technical Management (34 percent), Project Integration (23 percent), and FDCA/DRIS (Decennial Response Integration System) Integration (10 percent). Table 1 shows the performance rating scale and potential award payouts. Under the terms of the award fee plan, if the contractor receives less than the full amount, the fee determining official has the discretion to roll the remainder into the next period and add it to the potential earnings.

The bureau devised a five-step assessment process for determining fee amounts (figure 1):

1. Census technical monitors for FDCA continually track and assess the contractor's technical performance and submit monthly reports to the principal technical monitor. Technical monitors may also submit "individual event" reports describing performance that is exceptional—exceptionally good or bad.
2. Census's principal technical monitor for FDCA reviews the technical monitors' reports and prepares a summary report from them, which is submitted to the contracting officer's technical representative (COTR). The principal technical monitor also

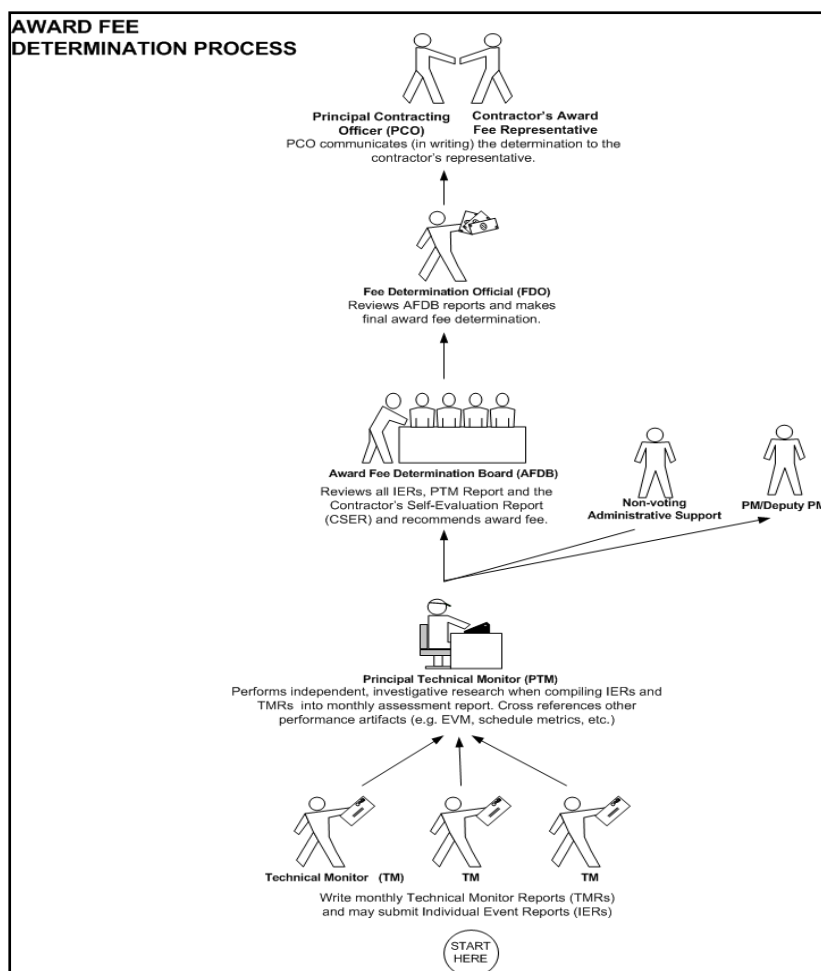


Figure 1: Award Fee Determination Process

Source: Census Bureau, FDCA Contract Award Fee Determination Plan

- prepares a final report at the end of each reporting period that summarizes performance for the entire period.
3. Harris submits a self-assessment covering the performance period, in which it discusses the accomplishments and challenges of the period, and grades its performance using the plan's rating scale.
 4. The COTR presents the Award Fee Determination Board (AFDB) with the technical monitoring reports and the contractor's self-assessment for review. The board meets, arrives at a consensus for each performance area, and recommends a fee amount to the fee determining official (FDO) within 40 calendar days after the end of the evaluation period. The fee determining official is a senior bureau official who is independent of the AFDB and designated to make the final decision as to how much award fee is given to the contractor.
 5. The fee determining official reviews the board's recommendation and sets the final award fee. The contracting officer notifies the contractor of the final decision.

A. Period 1 Rating Reflected Late-Stage Improvements Rather than Consistently Effective Performance

For period 1 (April 1 – September 30, 2006), Harris received a rating of 93 percent (full achievement) and \$3,218,005 of the available fee. According to the award fee plan, full achievement means “the contractor *consistently meets or exceeds* all Census Bureau performance objectives. Management, supervision, performance, response times, and cost control effectiveness are performed *consistently* at a level considered the best any contractor could be expected to achieve, under similar circumstances. Inspections seldom find deficiencies.”

Our analysis showed the payout to be excessive because the supporting documentation indicates that Harris did not meet the stated criteria: the principal technical monitor's report for this period emphasizes several areas where the contractor showed improvement *over time* rather than being consistently effective throughout the period. This report and the supporting technical monitor reports also describe weaknesses in key program areas and list a number of significant unresolved performance problems, such as the following:

- Software design depends on “heroics of individuals.”
- Lack of quality and technical depth in security-related deliverables.
- Poor communications about aspects of FDCA solutions.
- Need for better long-term approach for requirements validation that can be shared with stakeholders.
- Risk management program did not reflect industry best practices.
- Growing concerns that subcontractor was not fully prepared to meet certain infrastructure requirements.

Notwithstanding these negative assessments from the principal technical monitor, the report from the Award Fee Determination Board contains relatively few negative comments and did not reflect the findings of the technical monitor's report.

B. Negative Findings in Period 2 Assessments Do Not Support "Substantial Achievement"

Despite significant problems with the handhelds during address canvassing dress rehearsal, Harris received a "substantial achievement" rating and earned 91 percent (\$10,981,751) of the available fee for period 2 (October 1, 2006 – October 1, 2007), which included the rollover amount of \$254,112 from period 1. Substantial achievement is defined as follows:

The contractor consistently meets all Census Bureau performance objectives. Management, supervision, performance, response times, and cost control effectiveness are performed consistently at a level considered higher than any contractor could be expected to achieve, under similar circumstances. Inspection deficiencies are minor, inconsequential, or easily corrected.

Again, this award fee payment was not supported by the principal technical monitor's report. Although the report for this period contained many positive observations, there were a substantial number of negative remarks in significant areas:

- Lack of clear, consistent software development milestones or operational critical path.
- Lack of adequate long-term software development plans and consistent, documented software life cycle.
- Fixing software defects delayed testing and development of subsequent software increments.
- Delays in readiness of Reston Data Processing Center caused a ripple effect throughout the program.
- Contractor reactive rather than proactive in areas of security and address canvassing software development.
- Contractor staffing not allocated as needed by Census, causing loss of critical schedule time.
- Inadequate planning caused the contractor to repeatedly call on the same stakeholders, making them unable to provide complete information on a consistent basis.
- Several fundamental flaws with performance baseline implementation went uncorrected.
- Continuing issues between contractor and subcontractors were not resolved.
- Help Desk Operations struggled throughout AC [address canvassing] operations in several areas.

The Award Fee Determination Board's own report to the fee determining official did not support its recommended rating of substantial achievement, given the negative comments the report included:

- Master Integrated Program Schedule not used as a management tool or record of authority on project status.
- Contract Data Requirements and invoices needed many revisions.
- Lack of mutually understood, well defined, and accepted project baseline.
- Engineering Change Proposals lacked timeliness, clarity, and accuracy.
- Processes do not "flag" to Harris management that serious problems exist and should be addressed.
- The failure and abandonment of the Help Desk approach.

The FAR allows judgment in award fee determinations, in accordance with terms of the criteria stated in the contract. As noted previously, OFPP states that the criteria should be measurable. In our opinion, the evaluations for periods 1 and 2 did not follow this guidance and were overly subjective, resulting in inflated award fees.

C. Award Determination Process Would Benefit from Quantitative or Qualitative Measures, Consistent Board Membership, and Midpoint Assessments

Other aspects of the determination process also required improvement to ensure fee amounts are appropriate:

1. The principal technical monitor's assessments were narrative only—they did not provide quantitative (e.g., 1 to 4) or qualitative (e.g., high, medium, low) ratings of the evaluation areas. This made it difficult for the Award Fee Determination Board to assess the relative strengths and weaknesses of the contractor's performance within each evaluation area and overall.
2. The award fee plan did not establish a definitive board membership. Rather, in addition to certain standing members, the board consisted of "selected program managers" who could change from one evaluation period to the next. This structure does not promote consistency in the evaluations over time and does not ensure that the board consists of senior officials.
3. The plan did not describe a structured process that ensures the views of individual members are taken into account. Decisions flow from general discussion to general agreement regarding the final rating. It was unclear whether individual members had adequate input and whether their views receive appropriate consideration. (The FDCA contracting officer stated that the process was structured to allow for individual members to have adequate input, including submitting their individual scores. However, the process was not adequately documented in the plan.)

4. The award fee plan stated that “At the Government’s discretion, the [board] may evaluate the contractor’s in-period performance at the approximate midpoint of the award fee evaluation period.” After receiving scores of 93 percent and 91 percent for performance that did not reflect the defined levels of excellence, Harris earned no award fee for the third period (October 2, 2007 – April 30, 2008), yet Census never formally conveyed dissatisfaction with the firm’s performance as the period progressed via a formal midpoint evaluation.² At the end of the period, Harris graded itself at 93 percent (full achievement) in its self-assessment, indicating it was unaware of any major performance problems. The board rated Harris at [REDACTED] percent (acceptable achievement) and listed areas requiring improvement in all four performance monitoring areas, while also taking into consideration “the effect of overall project characteristics or constraints” that were not within the contractor’s control. The fee determining official, however, determined that Harris’s poor performance far outweighed other considerations, disagreed with the board’s recommendation, and denied Harris any fee.

Recommendations

We recommended that in future performance periods, the Census Bureau take the following actions to ensure fee awards fairly reflect contractor performance:

1. Ensure fee evaluations are consistent with established criteria.
2. Evaluate the contractor based on its performance throughout the period, rather than heavily weighting results at the end of the period.
3. Ensure final reports from the principal technical monitor include a qualitative or quantitative rating for each rated element and the overall report to help the fee board assess positive and negative comments.
4. Establish permanent board membership to provide consistency across periods and ensure the membership is comprised of senior officials who can bring a broader management perspective to the assessment.
5. Adequately document a more structured board deliberation process that records individual members’ evaluation ratings and factors them into the final overall rating.
6. Provide interim feedback to the contractor during every fee period.

² During this period, Census reassessed the use of the handhelds for nonresponse follow-up and the decision to descope the FDCA contract was made.

II. Current Award Fee Structure Did Not Effectively Promote Excellent Performance

According to the FAR, an award fee is a payment that the contractor may earn in whole or in part during performance and that is sufficient to provide motivation for excellence. As mentioned earlier, the FDCA award fee plan contained no specific objective criteria: fees were not tied to the completion of any technical tasks or milestones. To motivate excellence, the award fee plan should be based primarily on technical performance incentives tied to the completion and results of specified project events. For example, Census could have contractor performance provisions such as reconfiguring regional census centers and successful integration testing. Also, cost and schedule performance incentives should be tied to completion of specified milestones, such as on-time start/completion of address canvassing and early local census office/local census office installation.

Table 2. Unearned Award Fees
Rolled Over to Subsequent
Performance Periods

<u>Period 1:</u>	\$254,112 rolled over to period 2.
<u>Period 2:</u>	\$1,086,107 rolled over to period 3.
<u>Period 3:</u>	\$11,794,735 rolled over to period 10.

In addition, the original award fee plan stated that the bureau “reserves the right to roll any unearned award fee from a previous evaluation period into a subsequent award fee evaluation period.” A 2007 contract modification provided for the rollover of unearned fees from period 1 into period 2 and from period 2 into period 3. It also provided for the rollover of unearned fee in periods 3 through 9 into period 10 (table 2). The ability to roll fees into period 10 gave Harris another opportunity to earn all unearned fees at the end of the contract based on final performance ratings. This change was part of the bureau’s negotiation with Harris to extend period 2 from 6 months to 12 months. According to Census, it was necessitated by severe budget constraints in fiscal year 2007 and enabled the bureau to defer what could have been a \$3.4 million award fee payment.

Contract provisions that allow unearned award fees to be rolled over to subsequent evaluation periods give the contractor the opportunity to earn all withheld amounts and minimize the motivational impact on consistent performance that a fee reduction is intended to have. According to the December 2007 OFPP memorandum, the practice should be restricted: “Rolling over fees is not the preferred method for incentivizing the contractor to perform above satisfactorily and should be permitted on a limited basis and require prior approval of the appropriate agency official.”

Recommendations

We recommended that Census revise the FDCA fee plan as follows:

1. Tie incentive fees to the maximum extent practicable to objective cost, schedule, and performance criteria;
2. Limit the award of fees based on subjective criteria (e.g., to no more 3 percent to 5 percent of total fee) and use such criteria only when objective measures for a task are not practical (e.g., overall program management, performance baseline management, risk management); and
3. Permit rollover of unearned fees only on a limited basis and only with prior approval of the appropriate agency official in accordance with the OFPP memorandum.

III. Census Missed Opportunities to Control Costs and Manage Risk

The FDCA Acquisition Plan stated that the bureau intended to award a cost plus award fee contract, but also identified several elements that would be fixed price: office automation equipment, mobile computing devices, help desk calls, and local census office furniture and computing equipment. Because of initial uncertainty about system requirements, Census did not ask for fixed pricing in contract proposals for FDCA. The request for proposal contained a simplified contract line item structure that did not lend itself to different pricing techniques for the different project components. The bureau ultimately awarded the contract for full cost reimbursement for all tasks and deliverables. However, the bureau did not document why fixed-price elements were not included in accordance with the acquisition plan.

At the time of our review, the system development process was far enough along to give the bureau a solid understanding of most system requirements, including those components that lend themselves to fixed pricing.

Recommendations

We recommended that the bureau should take advantage of the contract restructuring and renegotiation to include fixed-price elements as appropriate. Specifically, Census should:

1. set a fixed price for local census office equipment and installation, and for any remaining services as appropriate, and justify decisions against fixed pricing for deliverables that otherwise lend themselves to this option; and
2. use a more detailed contract line item structure showing the different deliverables that will be priced separately.

We also recommend that for tasks removed from the FDCA contract and assigned to a different contractor, Census use fixed-price arrangements whenever possible.

**Conclusion: Revised Contract Incorporates a Number of OIG
Recommendations, but Concerns Remain Over Fee Awarded During
Re-plan Negotiations**

We presented our findings and recommendations to Census officials in an August 2008 meeting, as the bureau's negotiations with Harris to restructure the contract were in process. The contract modification, which was signed on November 20, incorporated a number of features that were based on our recommendations. For example:

1. Fixed pricing was incorporated for leased equipment, handheld computers, and local census office equipment.
2. The practice of rolling over unearned fee amounts was discontinued for all future award fee periods. However, \$11.8 million of rollover fee from period 3 still remains in the contract as part of the technical performance incentive fee that can be earned at the completion of major milestones. Further negotiations with Harris would have been required to remove this fee from the contract.
3. The original award fee structure was discontinued for future performance periods and replaced by one that contains both a cost incentive fee and a technical performance incentive fee for the bulk of the remaining cost reimbursable work.

The cost incentive fee offers Harris a target fee of 9.5 percent of the target cost (i.e., the estimated cost) of the remaining prime contract support (from October 2008 to December 2011). This fee will be increased by 20 cents for every dollar that the total final negotiated allowable cost is less than the target cost or decreased by 20 cents for every dollar that the final negotiated allowable cost is over the target cost. The maximum and minimum cost incentive fees are 11.5 percent and 7.5 percent, respectively.

The technical performance incentive fee pool is 6 percent of the estimated cost of the remaining prime contract support effort, divided into five performance periods that correspond to specific milestones/events. If a defined milestone is not reached, the contractor receives no fee for that event, and the fee is not rolled over.

The total estimated price of the modified contract is \$797.9 million, including \$70.4 million in potential fees (see appendix A). Harris has already received \$22.8 million of this potential fee amount, leaving a remainder of \$47.6 million, including \$11.8 million of rollover fee from period 3 (available from October 2008 to December 2011). Of the \$22.8 million in fees already awarded, \$8.6 million was earned during the contract re-plan negotiations (May 1 to September 30, 2008)

under a cost plus fixed fee arrangement. Under the original contract, this period would have been award fee period 4. According to the bureau, Harris would not continue with the contract re-plan under the existing award fee arrangement because it had earned no award fee for period 3 and felt it would not receive a fair or objective evaluation of its future performance. Census agreed to a fixed fee amount that could be invoiced at the time the modification was signed. Census negotiated a 9.5 percent fee, which the bureau points out is much less than the 13 percent maximum potential fee Harris could have earned under the award fee plan.

Although the fixed fee was less than the maximum allowed under the award fee plan, 9.5 percent was a highly questionable amount to guarantee to a contractor the bureau felt was performing poorly. The fixed fee also eliminated the bureau's ability to actually grade Harris's performance during the re-plan period and make an award commensurate with the contractor's performance. The bureau, however, was in a weakened bargaining position. It had to negotiate the contract in a sole source environment without the benefit of competition to moderate prices, and it bore considerable responsibility for the FDCA problems. Census had not requested adequate funding for the program at the outset, and as the former Census Bureau director stated in testimony in April 2008, "We did not effectively convey to the contractor the complexity of census operations, and the detailed requirements that needed to be fulfilled in order to complete the operations that FDCA covers."

Given the history of this contract and the substantial amount of potential fee remaining, Census should implement the fee evaluation process in the most rigorous way possible to ensure that fee awards are truly earned, and that Harris is incentivized to effectively support the 2010 decennial census and maximize value for the taxpayer.

Appendix A: FDCA Re-plan Fact Sheet

A. Changes in FDCA contract value since contract award

	FDCA Contract, April 2006	FDCA Rebaseline, September 2006	FDCA Re-plan, October 2008
Contract Type	Cost plus award fee	Cost plus award fee	Cost plus incentive fee: \$226.0 million Firm fixed price: \$170.8 million Cost plus fixed fee: ^a \$ 70.5 million Cost plus fixed fee ^b \$ 99.5
Total Estimated Cost/Price	\$595.7 million	\$623.8 million	\$797.9 million ^c
Total Potential Fee	\$71.5 million	\$74.8 million	\$70.4 million

^aCovers certain infrastructure material (e.g., Microsoft software licenses, VoIP hardware for data processing and operations centers), work for which Harris now has a support role as opposed to primary responsibility, and need for rapid response to small revisions in requirements while still adhering to critical schedule milestones.

^bFor activity between May 1, 2008 – September 30, 2008, when re-plan negotiation was taking place.

^cIncludes \$219.4 million of cost and fee prior to re-plan and \$11.8 million in fee rolled over from period 3.

B. Scope changes reflected in the October 2008 FDCA re-plan

- Removed handheld computers for nonresponse operations and census coverage measurement
- Transferred control systems for paper-based operations, including nonresponse operations, to Census
- Transferred regional census center (RCC) telecommunications to Census
- Transferred most of the help desk effort to Census
- Transferred RCC support effort to Census
- Transferred Decennial Applicant, Personnel and Payroll System (DAPPS) hosting to Census
- Transferred leadership of security management effort to Census

Appendix B: Objectives, Scope, and Methodology

The severe problems with the acquisition of the Field Data Collection Automation (FDCA) system have contributed to a cost increase for the 2010 decennial census of billions of dollars and introduced enormous schedule and performance risks. At the time of our audit, the FDCA contract was being renegotiated and substantially reduced in scope. In this audit we assessed whether the Census Bureau (1) used the most effective contract type to acquire the Field Data Collection Automation system, and (2) paid appropriate award fees to Harris Corporation. We also sought to determine whether an alternative contract structure would be more effective for the FDCA procurement.

To meet our objectives we did the following:

- Reviewed and analyzed FDCA pre- and post-award contract documents and other related documentation generated between October 2003 and July 2008, available from the U.S. Census Bureau's Acquisition and FDCA program management offices, and the Decennial Management, Financial Management and Field Divisions. This included, among other things, contract status and award fee evaluation reports regarding Harris, prepared between April 2006 and March 2008. We also reviewed documents from Harris and The MITRE Corporation, a Federally Funded Research and Development Center (FFRDC) hired by the bureau to support census operations.
- Interviewed Census acquisition and program officials, including the bureau's chief of acquisitions; the contracting officer, FDCA project manager, and business manager for the FDCA contract; the assistant chief of the bureau's Financial Management Division; and the assistant chief of the Decennial Management Division. We also interviewed officials at Harris and The MITRE Corporation.
- After the contract modification was signed on November 20, 2008, we reviewed the revised cost and fee structure.

Internal Control Review: We limited our review of management controls to those directly related to the areas of contract type and award fee for FDCA.

We conducted our fieldwork from April 2008 through November 2008 at Census headquarters in Suitland, Maryland, and Commerce headquarters in Washington, DC. We performed our work in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States, and under authority of the IG Act of 1978, as amended, and Department Organizational Order 10-13, dated August 31, 2006.